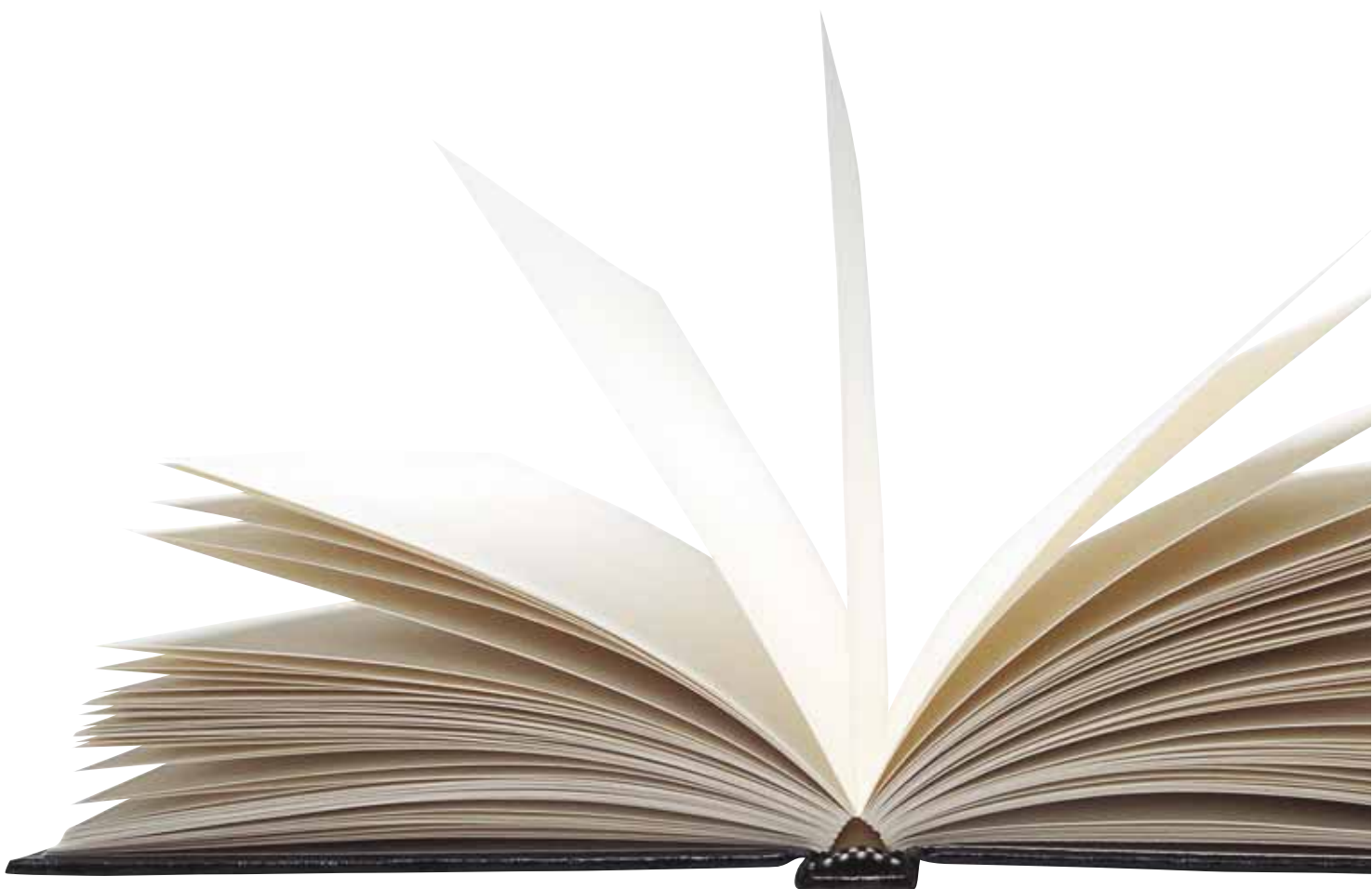


Deloitte.

An open book

Deloitte LLP

Audit Transparency Report
for the year ended 31 May 2009



Regulatory context

This Transparency Report has been prepared in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the Instrument), made by the Professional Oversight Board (POB) of the Financial Reporting Council (FRC) on 3 April 2008. The Instrument came into force on 6 April 2008 and requires the publication of certain information by transparency reporting auditors, defined as statutory auditors that have made an audit report on the annual accounts of one or more public interest entities during the financial year of that statutory auditor. The Instrument applies in respect of any financial year of a transparency reporting auditor commencing on or after 6 April 2008; as such, Deloitte LLP (Deloitte) is now required to prepare a transparency report, having previously elected to do so on a voluntary basis. This Transparency Report is in respect of the year ended 31 May 2009.

Deloitte & Touche LLP changed its name to Deloitte LLP on 1 December 2008.

In addition to the requirements of the Instrument, the POB issued the 'Audit Quality Framework' (the Framework) in February 2008 and has indicated that Transparency Reports may represent a useful opportunity for audit firms to set out the steps that they are taking to achieve audit quality by reference to the Framework. This Transparency Report addresses all of the elements set out in the Framework. A reconciliation of this Transparency Report to the Framework has been supplied to the POB.

Contents

1. Introduction	2
2. Leadership and governance	4
3. Quality	7
4. Independence, conflicts of interest and ethics	13
5. Legal structure and network	15
6. Partner remuneration	16
7. Financial information	17
Appendix – Public interest entities	20

1. Introduction

A conversation with Vince Niblett, Managing Partner, UK Audit



I am pleased to be publishing our second transparency report for Deloitte. In so doing, we continue to demonstrate the open and straightforward nature that underpins our values at Deloitte, and our commitment not only to delivering quality, but also to cooperation and openness.

What do you think of the role of auditors in the current economic climate?

The quality of auditing in the UK has been confirmed by the principal regulator as being fundamentally sound, and Parliamentary and other enquiries support this position.

Going forward, it is clear to me that the role of auditors is a critical one in underpinning confidence and security in the capital markets, and this has been recognised by the comments made by the authorities, regulators and other commentators.

We welcome the ongoing dialogue with regulators and stakeholders as we work together to refine and evolve the roles played by all market participants. Throughout this process, a focus on transparency and consistency will allow us all to interact productively and to the benefit of all parties.

Auditing is a regulated business, what do your regulators think?

In December 2008, the AIU¹ issued their first public reports on their individual inspections of the larger audit firms. The AIU's overall conclusion was that they consider the quality of auditing in the UK to be "fundamentally sound".

The AIU report on Deloitte identified our commitment to quality and continuous improvement in the conduct of statutory work. The AIU observed that this was further evidenced by the open and candid manner in which Deloitte has consistently dealt with them. We have implemented fully the improvements recommended by the AIU in their report.

We consider that the AIU's report provides a balanced view of the results of their inspection, and we have therefore recorded our agreement with their overall conclusions and findings. In our assessment, the AIU public report demonstrates that Deloitte has high quality policies and procedures.

¹ The Audit Inspection Unit is part of the Financial Reporting Council, the UK's independent regulator responsible for promoting confidence in corporate reporting and governance. The AIU itself is responsible for monitoring the audits of all listed and other public interest entities. The public reports are here: <http://www.frc.org.uk/pob/audit/firmreports.cfm>

Deloitte is not just an audit practice; what about your wider role?

Across our wider business, Deloitte is committed to helping clients not only to survive the current challenging markets but to emerge as winners in the medium term. We believe that this environment creates conditions in which companies can distinguish themselves from competitors if they are confident, determined and prepared to take bold action.

How do you value the importance of transparency, both for Deloitte, and in the broader business context?

By providing our stakeholders with a clear view of how Deloitte works, we are delivering on a vital element of our business: making proactive efforts to sustain our stakeholders' high levels of trust. But the issues of trust and openness in business extend beyond the concerns of our firm. The complexity of the capital markets and the challenges posed by the current economic climate have provided an even greater need for transparency as a basis for demonstrating audit quality.

Robust corporate governance is key for maintaining confidence in the markets by investors and consumers. Heightened scrutiny and accountability place board members under ever greater pressure to deliver effective governance, reporting and shareholder value. Navigating a course in these challenging markets is vital if 'UK plc' is to sustain effective capital markets and ensure continued economic success.

What changes do you anticipate to the governance and transparency in place at Deloitte?

We welcome the second consultation paper recently published by the independent Audit Firm Governance Working Group.² By formalising the components of good governance, the proposals will allow better comparability of audit firms, as well as establishing benchmarks for those firms wishing to audit companies of public interest.

Deloitte's governance structures are robust and we believe that they address the vast majority of the proposals and considerations in the paper. The proposed introduction of independent non-executives to our governance model raises general considerations regarding independence, conflicts of interest and liability. We are confident that, if these potential obstacles can be overcome, well-chosen individuals with appropriate experience could bring value and strength to our business and enhance the transparency and openness to which we are committed.

Besides the production of this report, what is Deloitte doing to promote transparency in the marketplace?

We take seriously the contribution we make to the profession and to business more widely by, for example, participating in public policy formulation. We continue to build our audit services upon our reputation and our ability to deliver high quality services to complex clients and markets. Our robust policies, procedures and methodology are then complemented by strong quality control, a challenging programme of review and risk monitoring, as well as our primary asset: the quality of our people. As a firm, we are only as strong as our people and processes allow, and the more we can do to demonstrate the ethics of openness and accountability that underpin our firm, the stronger we will be.

This report is a good example; not only does it comply with the requirements of the applicable statutory instrument, but it also follows the recommendations of the Audit Quality Framework, issued by the FRC as an aid to audit committees and other stakeholders in assessing audit quality.

Where do you see the future of our profession? Is increased regulation inevitable, or desirable?

Auditing today is as complex and important as ever. The changes introduced by the Companies Act 2006, ranging from auditor liability reform to the introduction of a new offence for reckless reporting, coupled with the challenging capital market conditions, have wide-ranging implications. The current economic climate has inevitably prompted consideration of increased regulation in all areas of accounting, auditing and ethical standards. In my view, the challenge is to identify those areas where better regulation would enhance the business environment most effectively. We continue to support the Financial Reporting Council in its efforts to find ways of reducing the complexity in financial reporting.



Vince Niblett
Managing Director, Audit
Deloitte LLP

² Audit Firm Governance Second Consultation Paper, published by the Institute of Chartered Accountants in England and Wales and the FRC: http://www.icaew.com/index.cfm/route/166515/icaew_ga/en/Home/Press_and_policy/Press_releases/Draft_code_of_governance_for_audit_firms_to_be_published

2. Leadership and governance

The relentless pursuit of the highest quality and integrity in our professional work remains one of the cornerstones of our firm's continuing success, allowing us to deliver excellence to our clients.

Deloitte's leadership is taken from our partner group and our focus on quality encompasses the values of all our people. We do not take for granted the trust placed in Deloitte by clients and the wider business community, and sustaining this trust rests with every individual – at every level – within our firm.

Organisational structure

The principal activities of Deloitte LLP are the provision of audit, tax, consulting and corporate finance services in the United Kingdom. In addition, professional services are provided in Switzerland by a subsidiary entity.

Deloitte operates an integrated business model: each of the four service lines operates a common set of procedures and policies where possible and appropriate. Each of the service lines then develops additional policies and guidance to reflect the specific requirements of their business offerings. For the purposes of transparency reporting under the Statutory Auditors (Transparency) Instrument 2008, this report contains information about Deloitte which is relevant to all of the service lines, as well as specific matters relevant to our audit business.

Executive group

Deloitte's activities are managed by the Senior Partner and Chief Executive, and the Executive Group, which is appointed by the Senior Partner and Chief Executive. In keeping with our client service focus, members of the Executive Group are also actively engaged with our clients.

The members of the Executive Group for the year under review were:

John Connolly, Senior Partner and Chief Executive, **Steve Almond**, Global, **Aidan Birkett**, Corporate Finance, **Sabri Challah**, Corporate Development, **Stuart Counsell**, Deputy to the Chief Executive, **Cahal Dowds**, Regions, **Martin Eadon**, Clients & Industries, **Margaret Ewing**, Vice Chairman, **Heather Hancock**, Brand & Innovation, **John Kerr**, Talent, **Vassi Naidoo**, Quality, **Vince Niblett**, Audit, **David Owen**, Consulting, **Gerry Paisley**, Practice Protection, **Graham Richardson**, London Senior Partner, **David Sproul**, Tax and **Bob Warburton**, Finance & Legal.

Senior Partner and Chief Executive

John Connolly, the Senior Partner and Chief Executive, has full executive authority for the management of Deloitte. The Senior Partner and Chief Executive is nominated by the Board of Partners and elected by the partners for four year terms of office. John Connolly began his third term as Senior Partner and Chief Executive on 1 June 2007. The responsibilities of the Senior Partner and Chief Executive fall under five principal headings:

- the business of Deloitte, including the development and management of professional services at the highest level of quality and compliance with all regulations;
- the development of policies and strategic direction;
- financial performance;
- partners, including our talent goals; and
- international, representing the UK firm in its association with Deloitte Touche Tohmatsu.

The Senior Partner and Chief Executive communicates regularly with the partner group and with all of our people, in person and by a series of webcasts, voicemails and regular email alerts. The partner group also meet at least annually, with the next meeting arranged for September 2009 in London.

UK Presence on the Board of Deloitte Touche Tohmatsu

John Connolly is also the Chairman of the Board of Directors of Deloitte Touche Tohmatsu (DTT), the international organisation of which we are a member. In that capacity, John works within DTT to help member firms to share their collective expertise and experience of client service, talent development and quality and risk management processes which, inter alia, will allow them to enhance quality throughout the network. The international network has a separate Chief Executive Officer, Jim Quigley. In addition, the following UK partners serve on the DTT Global Board: Sabri Challah, David Cruickshank and Sharon Fraser.

Audit Executive

The Managing Partner, Audit and the Audit Executive group are responsible for the delivery of Deloitte's business objectives within the UK audit service line.

The members of the Audit Executive group for the year under review were:

Vince Niblett, Managing Partner, Audit, **David Barnes**, Head of London Audit – Financial groups, **Sharon Fraser**, Head of Regional Audit, **Stephen Griggs**, Audit Talent Partner, **Panos Kakoullis**, Head of London Audit – Corporate groups, **Simon Letts**, Audit Quality & Risk Management Partner, and **Richard Norton**, National Leader – Enterprise Risk Services.

Board of Partners

The Board of Partners is responsible for the promotion and protection of partner interests and for the oversight of management. It approves Deloitte's long-term strategies and has specific oversight of risk. The Board is composed of the Chairman, the Senior Partner and Chief Executive, both of whom are elected by the partners, a further 10 elected partners, five Executive Group partners proposed by the Senior Partner and Chief Executive and affirmed by the partners, and up to two co-opted members.

Like the Senior Partner and Chief Executive, the Chairman is nominated by the Board and elected by the partners and serves for a four year term of office. David Cruickshank commenced his first term of office as Chairman on 1 June 2007. The separation of the roles of Chairman and Chief Executive provides a strong measure of accountability for the executive team.

Deloitte's partnership agreement stipulates that the 10 elected board members and the Chairman must not be members of the Executive Group. As a result, the majority of the Board membership is independent of the Executive Group. The Board meets monthly except for August.

The Board during the year under review comprised:

David Cruickshank, Chairman
John Connolly, Senior Partner and Chief Executive

10 elected members:
John Cullinane, **Sharon Fraser**, **Stephen Griggs**,
Ian McNeil, **Richard Norton**, **Ellie Patsalos**, **Ian Steele**,
Geoff Taylor, **Denis Woulfe** and **Lionel Young**.

Five Executive Group members:
Steve Almond, **Martin Eadon**, **Vince Niblett**,
David Owen and **David Sproul**.

Board secretary:
Bob Warburton

Corporate Governance

The Board's oversight of management and the establishment and operation of audit, remuneration and nomination committees ensure that Deloitte adheres fully to corporate governance and risk management requirements.

The membership of each of these committees is made up of elected members of the Board who are independent from the Executive Group.

Deloitte's partnership agreement stipulates that the 10 elected board members and the Chairman must not be members of the Executive Group. As a result, the majority of the Board membership is independent of the Executive Group.



Audit Committee

The Audit Committee plays a key role in our risk management process, taking responsibility for monitoring the reporting, accounting, financial and control aspects of the executive management's activities. The Audit Committee liaises closely with the external auditors regarding the results of the audit and is actively involved in the selection of the external auditors. The Audit Committee receives regular assurance reports from our internal audit team, management and others on the operational effectiveness of matters related to risk and control, as well as monitoring the timeliness and effectiveness of corrective action taken by management. The Audit Committee's activities and findings are reported upon at each meeting of the Board.

Remuneration Committee

The Remuneration Committee monitors the objectives and reviews the performance of the Chairman and of the Senior Partner and Chief Executive and makes recommendations to the Board on profit sharing.

Nomination Committee

The Nomination Committee produces a candidate list for elections to the Board to achieve the representation and diversity required.

Internal audit

Deloitte's internal audit team is a key element of our continuous review of the effectiveness of our systems of internal control. Reporting to the Managing Partner, Practice Protection, the internal audit team is a combination of permanent staff and client-serving secondees from our internal audit service line. The team reviews both financial and non-financial processes and works closely with our external auditors, reporting on a formal basis to the Audit Committee.

3. Quality

These processes are in place not only where required by regulation, but are a cornerstone of our business. One of our principal regulators, the AIU, has publicly commented upon our commitment to quality and continuous improvement.

Within the audit business, the internal quality control systems include our dedicated professional standards review team (PSR) which provides a 'hot' review before any audit or other opinion is signed, together with engagement quality assurance reviews and annual practice reviews of a selection of completed engagements.

These systems allow us to deliver technical excellence, underpinned by objectivity and integrity, at all stages of the client engagement. To measure our performance against the high standards we set ourselves, our client service assessment process undertakes independent and formal evaluations of the level of satisfaction of our clients. The latest results continue to show a very high level of satisfaction among our clients.

Statement on the effectiveness of the functioning of the internal quality control system

We are satisfied our internal quality control systems are robust, operating effectively and allow us to readily identify any areas of potential improvement or refinement. We guard against complacency and continually seek to improve all aspects of our business, aiming to be the standard of excellence.

Quality and risk management framework

Our quality and risk management framework is embedded in all parts of our business. The framework brings a rigorous approach across all of our service offerings in areas such as client and engagement acceptance, partner portfolios, engagement risk, and assessment of existing and new service offerings. Its primary purpose is to underpin our commitment to quality, integrity and ethical behaviour throughout our business, whilst establishing that the responsibility for quality sits with those who deliver service to our clients.

Audit process

Our audit process and methodology encourage and foster professional scepticism and a robust challenge, recognising this as a valuable component of the audit process for our clients. Our audit technology and tools, AuditSystem/2 (AS/2) provide a comprehensive framework for the planning, performance, documentation and review of our work in accordance with auditing standards and applicable professional, regulatory and legal obligations.

Our delivery of quality is achieved through effective internal quality control systems and a focus on leadership, communication, infrastructure and performance management. We have rigorous processes, systems and tools supported by a consultative culture which promotes the merits of consultation on difficult issues and supports partners in the exercise of their personal judgement.

AS/2 has a particular focus on gaining a deep understanding of our clients' businesses and key transaction flows. AS/2 includes DTT's Audit Approach Manual (AAM), common documentation and enabling software technology. The AAM is the methodology Deloitte member firms apply in providing professional services relating to the audit of financial statements. The common documentation and the enabling software technology are tools that enhance the consistent implementation of the AAM on a worldwide basis and promote effectiveness and efficiency. The AAM provides the flexibility to serve the unique circumstances and complexities of our clients. This audit approach goes beyond testing transactions and balances, to providing insights to directors and audit committees. The AIU public report noted the flexibility and responsiveness of our audit methodology and technology as a particular strength.

The AAM and AS/2 are well structured and require the active involvement of partners and managers in audit planning, as well as providing a framework and procedures to obtain sufficient appropriate audit evidence effectively and efficiently and to capture that evidence in appropriate audit documentation. This allows compliance with auditing, ethical and other applicable standards combined with technology and a structure that facilitates an effective and properly evidenced comprehensive review of the audit work. This approach and our overarching quality framework provide confidence in our integrity, objectivity and independence.

We operate on the basis of a strong culture of adaptability; this and the way in which AS/2 has been developed, allow us to introduce rapid but considered changes and enhancements to methodology and documentation within 24 hours. As a result, we have been able to continue to roll out new requirements in rapid response to the current economic climate and related challenges to the markets and to our clients. Given the huge volume of audit, accounting, legal and regulatory material generated each year, we consider our flexibility and supporting technology to be a great benefit to our clients and to our people.

Partner-led approach

Engagement partners remain fully responsible for the services they provide and for understanding their clients' businesses. Their involvement is required from the very outset of any client relationship and engagement, with partner-led audit planning key to our audit approach.

Where the professional services we provide are subject to external regulation, they are led by persons who are individually authorised by the appropriate regulatory body. For example, all partners and senior employees who act as audit engagement partner for statutory audits have been granted Responsible Individual status by the Institute of Chartered Accountants in England & Wales (ICAEW) under the ICAEW's Audit Regulations.

Our audit business is structured into specialist industry groups, led by senior partners with great depth of experience and expertise. These groups collaborate in order to share their understanding of market developments, risk assessments and emerging trends. This is particularly important at times of market turbulence and change. Our partners and people are continuously building their understanding of their clients' businesses, helping us better to conduct our audits in a way most beneficial to all stakeholders.

These steps ensure that our partners and staff understand their clients' business and adhere to the principles underlying auditing and ethical standards. We are confident that our partners and staff exhibit professional scepticism in their work and are robust in dealing with issues identified during the audit.

People development

Our approach to continuing education is based around targeted learning programmes, including regular audit and industry specific training that keeps our people at the forefront of new developments and regulations. These processes and systems are designed so that all our work is of the highest quality, that we comply with regulations and that we do not accept any assignments that would compromise our integrity or independence.

All of our partners and people are supported in their quality, compliance, risk management and anti-money laundering obligations by appropriate technical and other learning programmes as well as supervision by more senior team members and our partner-led audit process. Over and above a comprehensive mandatory audit learning and development syllabus for all grades of staff, we run monthly technical briefings and updates which are presented live and are also available online for subsequent download. In addition, the firm provides mandatory annual accounting and auditing technical training during the summer months, as well as specific learning modules where new developments require additional understanding.

We continue to provide our people with extensive and timely information regarding the current economic climate and its implications. From early on, we recognised this as a global issue and our IFRS centre of excellence played a leading role in developing our response. Our aim is to heighten the level of awareness, rather than change established procedures.

Our approach allows us to develop our people not only through structured learning but also by appropriate mentoring, on-the-job training, appraisal and other support activities. Partner leadership of these programmes is an important aspect of their value and success. Individual appraisals set considerable store by feedback provided on specific engagements. Our increasing use of web-enabled technology to capture 360 degree feedback from peers as well as team members and partners allows us to obtain a rounded view of individuals' performance and development needs.

We are confident that these actions, led by our partners, create an environment where achieving high quality is valued, invested in and rewarded and that our appraisal and reward systems for partners and our people promote the characteristics essential to quality auditing. In addition, these steps ensure that staff performing detailed 'on-site' audit work have appropriate capabilities, experience and competence, are appropriately supervised by partners and managers and that sufficient training is given to audit personnel in audit, accounting and industry specialist issues.

Quality control

We have in place rigorous processes, systems and tools to promote high quality standards throughout an engagement. These include PSR, regulatory assurance reviews, engagement quality assurance reviews (EQAR), independent partner reviews and annual practice reviews of completed engagements. Our audit methodology and tools ensure that our audit quality control procedures are effective, understood and applied.

The EQAR role is separate from that of the Independent Review Partner (IRP) required under auditing standards,³ with the former providing second partner review, consultation and client service support and the IRP acting as a third partner review, including an objective evaluation of the significant judgements made and conclusions reached.

The practice review, which covers each of our audit partners in a three year cycle, is subject to oversight by an independent partner from elsewhere within the DTT network. Engagements are selected across our audit business portfolio, with the files then subject to independent inspection by other members of our professional staff from separate offices or groups. The practice review determines whether we have complied, in all material respects, with the professional standards and the policies contained in the Deloitte Policies Manual and the Audit Approach Manual, the applicable professional standards and applicable regulatory and legal requirements. Our overall risk management procedures are also evaluated.

The results of the practice review are communicated to the Managing Partner, Audit and to the Senior Partner and Chief Executive, as well as to DTT. The AIU public report considered our practice review to be well planned and executed, with appropriate steps taken on its results. The practice review is an objective and robust exercise with an investment of well over 500 days of time and significant senior partner resource and leadership.

The UK practice review and the inspection programmes of the AIU and other regulators facilitate our focus on continuous improvement, allowing audit quality to be monitored within our firm and for appropriate refinements and improvements to be made.

Regulation

The AIU conducts a review each year of our whole-firm procedures insofar as they relate to our audit business and of a number of completed audit engagements of public interest clients. The AIU's July 2008 report on its inspection of the firm for the year to 31 March 2008 was addressed to the Audit Registration Committee of the ICAEW with whom the firm is registered for audit services. The AIU's report recommended that the firm's registration to conduct audit work should be continued.

In December 2008, the AIU issued their public report on their inspection of Deloitte and the six other largest audit firms for the year ended 31 March 2008 conducted during 2007/8. The AIU's overall conclusion is that they consider "the quality of auditing in the UK to be fundamentally sound." Their report on Deloitte identified our commitment to quality and continuous improvement in the conduct of statutory work.

³ Within Deloitte, the Engagement Quality Control Review required under auditing standards is referred to as an Independent Review Partner to emphasise the need for that review partner to be independent of the audit team

The AIU observed that this was further evidenced by the open and candid manner in which Deloitte has consistently dealt with them. We have fully implemented the improvements recommended by the AIU in their report. We consider that the AIU's report provides a balanced view of the results of their inspection, and we have therefore recorded our agreement with their overall conclusions and findings. In our assessment, the AIU public report demonstrates that Deloitte has high quality policies and procedures.

Audit Quality & Risk Management

Audit partners are supported by the Audit Quality & Risk Management team (AQRM), led by a senior audit partner reporting jointly to the Managing Partner, Audit as well as to the Managing Partner, Practice Protection, who in turn report to the Senior Partner and Chief Executive. The partner in charge of AQRM leads a group of professionals, who have also retained client-facing responsibilities, in the following core activities:

- **Quality control:** the firm's PSR professionals report to AQRM and are operationally independent of the business units they are reviewing. In conjunction with independent oversight from DTT, AQRM also conducts the practice review and other monitoring at the engagement, partner and business unit level. The AQRM partner or his delegate meets with every audit partner annually to conduct a full review of that partner's portfolio through a series of client risk assessment meetings (CRAMs). The CRAMs process covers the agreement of the quality and risk management considerations, audit risks identified and overall risk assessment of the audit, and the continuance decision as auditor for each of the clients.
- **Regulators:** AQRM is responsible for the firm's liaison with the regulators' monitoring teams throughout their extensive visits. During the year, the firm was subject to monitoring visits from the AIU, the Quality Assurance Directorate of the ICAEW and, in the prior year, the US Public Company Accounting Oversight Board. AQRM, in conjunction with Practice Protection, also handles those very few instances where matters are being investigated by regulators in relation to complaints, or where claims have been made or threatened. We are proud of our reputation and the fact that such claims, complaints and disputes are rare.

- **Engagement support:** AQRM works with a team of over 30 client-serving professionals who are fully integrated and embedded within our audit business's groups, offices and industry teams. These Quality Leaders provide first-line support to our engagement partners and teams, whilst also gathering feedback and questions for AQRM and promulgating key messages within their parts of the business. This allows our communication strategy to reflect the needs of the differing parts of our audit service line.

- **Learning and guidance:** AQRM supplement our core materials with additional guidance and learning materials in order to help embed quality and risk management skills, values and knowledge in all of our practitioners. An outsourced approach to quality is neither responsive nor effective; our engagement partners are responsible for all aspects of service delivery.

- **Internal strategic contribution:** the AQRM partner is a member of the Audit Executive and contributes actively to the firm's strategic and commercial direction. This influence allows quality and risk management considerations to be addressed as an integrated part of our business strategy. During the year, AQRM contributed to initiatives covering not just quality and risk management considerations, but also operational effectiveness, efficiency and talent management.

- **External influence:** members of AQRM, our National Accounting and Audit group (NAA) and our client-facing people contribute actively to the regulatory, legislative and professional agenda. This allows us to make a valuable contribution to the environment within which our business operates, reflecting the needs of our clients and other market participants.

Accounting and auditing expertise

Engagement partners benefit from expert and strong technical support on accounting, auditing and regulatory matters as they affect our audit clients and the audit work itself. Our technical expertise is leading edge and our approach responsive and consultative, both externally and internally. In NAA we have dedicated teams to support on UK auditing and accounting matters, International Financial Reporting Standards (IFRS) and our audit methodology.

Expertise is also available from DTT and other member firms; our audit policies and methodology are developed and implemented globally to help deliver consistency and quality within the international network. On US accounting and auditing issues, the expertise of the Global IFRS & Offerings Services (GIOS) network is available to support our client-facing professionals. Both NAA and GIOS are key components of our client service proposition, comprising highly respected partners and staff with outstanding reputations within the profession as well as internally.

NAA develops and maintains numerous publications and databases to support quality and adherence to relevant requirements. The partners within NAA contribute to regulatory and professional developments. During the year this included, for example, membership of the CBI Companies Committee, UK Accounting Standards Board, the International Financial Reporting Interpretations Committee and the International Committee of the Auditing Practices Board, chairmanship of the Financial Reporting Faculty and Ethics Standards Committee of the ICAEW and of the Consultative Committee of Accountancy Bodies Ethics Group. During the year, one of the partners within NAA, Isobel Sharp, was awarded the CBE and made a visiting professor at Edinburgh University.

Our clients and people need swift, consistent and borderless responses to IFRS technical queries. Deloitte member firms have established a network of eight IFRS Centres of Excellence around the globe (including one in the UK) manned by experts with day-to-day, first-hand experience of the issues of practical application of IFRS in different regulatory, legal and local accounting environments around the world. Designated experts drawn from this network are available to advise engagement partners dealing with complex or contentious accounting issues. The leaders of these centres consult with each other with a view to reaching consensus on complex technical accounting matters.

Members of NAA also support the Deloitte Academy and engage with bodies representing the corporate sector and investors to respond to their needs. The Academy is a response to the increasing demands on directors of UK public companies and provides access to a comprehensive programme of technical training, support and guidance across a wide range of management and governance issues relevant to business leaders. The Academy curriculum is customised to the specific needs of directors based on their role and company profile and is delivered in a dedicated purpose-built facility.

These resources and our partner-led audit approach ensure that our partners and staff have sufficient time and resources to deal with difficult issues as they arise and that high quality technical expertise is available when the audit team requires it or encounters an unfamiliar situation.

Reporting

We recognise that there is considerable value to our clients and to our wider stakeholders in providing clear and unambiguous reports of the highest quality in the context of applicable laws and regulations. Our audit reports comply with auditing standards and legislation and, within that prescribed format, convey our opinion clearly with a proper conclusion as to the truth and fairness of the financial statements. Our communications with audit committees and our clients' boards of directors cover the scope of our audit, our consideration of any threats to our independence or objectivity, our risk assessment and the judgements made as well as providing value-added commentary around more qualitative aspects of financial reporting and management of clients' businesses.

A fair fee

In setting our fee structures, we acknowledge the importance of our role and the need to demonstrate a high-quality and value-added service that is efficient, fair and competitively priced. Our audit approach and, in particular, our focus on early engagement with our clients on key audit issues, ensures that the collection of sufficient audit evidence is not constrained by financial pressures. In agreeing timetables, fees and responsibilities, we ensure that the reporting deadlines allow us the opportunity to carry out an audit without undue reliance on work performed before the end of the reporting period.

Practice Protection Group

Supporting our client-serving professionals is the firm's Practice Protection Group (PPG), which is responsible for the oversight of the firm's ethics, compliance and risk management processes. PPG comprises regulatory compliance, risk management, anti-money laundering, information security and internal audit specialists providing an all-round function to support the management of quality and risk.

PPG provides practical support and advice to client-serving professionals, particularly in connection with clients or engagements which span more than one service line.

In addition, it establishes and promulgates firm wide quality, risk management and compliance strategy and policy; manages claims and insurance; and drives compliance with regulatory requirements in relation to all of the firm's business activities.

Information security

Information security is a topical issue and one that we have been alert to for many years. The importance of maintaining confidentiality around client and other confidential information is continually emphasised and our approach to encryption, ethical walls, clear desk policy and secure storage devices underpins this commitment. Our policies require all confidential information held on the firm's laptops to be encrypted, and our people are expected to take the utmost care with such information, whether in hard copy or electronic form. We have supported this by significant investment in a document management system to refine our working practices and the adoption of encryption software to protect the security of information in our possession. We undertake regular security inspections, including laptops, to confirm that individual users are complying with our information security policies.

Business risk appraisal

The business environment remains complex and regular evaluation of emerging, existing and changing risks is essential. We have a process in place to identify and manage challenges through our business risk framework. This focuses on the key risks which could have a material impact on the realisation of our strategy and these are evaluated in the light of their potential impact on our people, our infrastructure and our markets. Each identified risk is owned by a senior partner responsible for co-ordinating mitigating activities and monitoring warning indicators.

External factors

We are active participants in the audit regulatory environment, and support the FRC in its efforts to find ways of reducing the complexity in financial reporting. In addition to our responsibilities as auditors, we also recognise the importance of proactive engagement with clients, shareholders and other market participants through the Deloitte Academy, industry initiatives and our contribution to relevant debates. We have raised the subject of auditor liability limitation agreements with our key clients and continue to monitor this important aspect of market reform. We engage in discussion and debate with key commentators and stakeholders, including responding to the various consultation documents issued by regulatory and other bodies.

We encourage our clients to take an approach to corporate governance that attaches importance to corporate and financial reporting and to the audit process, and audit committees to be active, professional and robust in dealing with issues identified during the audit. We agree with the FRC that the support of shareholders, where appropriate, increases the likelihood that directors and management will comply with their obligations in relation to the preparation of reliable financial statements.



4. Independence, conflicts of interest and ethics

We take these requirements seriously and adopt an approach that wholeheartedly embraces the spirit as well as the letter of regulation. We are confident that they are demonstrated through the tone set by the leaders of our practice and the behaviour and actions of our people.

Deloitte Code

This sets out our ethical framework and codifies our ethical principles:

- **honesty and integrity** – we act with honesty and integrity;
- **professional behaviour** – we operate within the letter and the spirit of applicable laws;
- **competence** – we bring appropriate skills and capabilities to every client assignment;
- **objectivity** – we are objective in forming our professional opinions and the advice we give;
- **confidentiality** – we respect the confidentiality of information;
- **fair business practice** – we are committed to fair business practices;
- **responsibility to society** – we recognise and respect the impact we have on the world around us;
- **respect and fair treatment** – we treat all our colleagues with respect, courtesy and fairness; and
- **accountability and decision making** – we lead by example using our shared values as our foundation.

We see ‘doing the right thing’ as being a principle that is fundamental not just to the public interest, but also to the reputation of our firm, partners and people.

Independence and conflicts of interest

We have invested in best-in-class systems to enable us to maintain our independence and avoid conflicts of interest in client assignments. Our firm has a dedicated Compliance, Independence and Ethics Partner, as well as a team of professionals to support our people with their compliance obligations. The Compliance, Independence and Ethics Partner works directly with the Senior Partner and Chief Executive and the Board to set the strategy and priorities for ethics and compliance, and has operational responsibility for our independence, ethics and compliance programme.

We have well-established systems and procedures to help safeguard the objectivity of our people and the firm, to avoid conflicts of interest and to comply with ethical and other applicable standards. We continue to balance carefully the straightforward approach outlined in the Deloitte Code and the increasing levels of regulation and professional requirements in this area.

Tools and technology

Our engagement take-on, continuance, compliance and client database systems are all internally developed and comprise robust, cutting-edge solutions to the complexity of regulatory requirements; the tools are designed to be intuitive to use whilst facilitating compliance, reporting and monitoring. We assess whether potential new engagements are consistent with maintaining independence and managing any potential conflicts of interest, and we monitor partner and staff investments to ensure that we safeguard the independence and objectivity of Deloitte, our people and our engagement teams.

Learning

Our online independence and ethics learning programme is undertaken by everyone in the firm, using examples to translate independence and ethical questions into practical actions. This year we have rolled out a Personal Independence online learning programme to all of our client-facing people of manager grade and above. In addition, our helplines allow our people to request information, ask questions or report issues confidentially to senior members of PPG.

Partner rotation

We apply audit partner rotation policies such that audit engagement partners and other key partners involved in audits of our listed public interest clients serve in these roles only for a period of five years and seven years respectively. IRPs for each listed public interest audit client are rotated after five years.

Whistle-blowing

PPG provides a whistle-blowing facility for all of our people. This policy is fundamental to our professional integrity and reinforces the value that we place on our people being honest and respected members of their individual professions. The policy has the following fundamental elements:

- 1. Protection** – all of our people are protected from victimisation, harassment or disciplinary action as a result of any disclosure made in good faith and not maliciously or for personal gain.
- 2. Anonymity** – normally our people make disclosures internally and their identity is protected at all stages in any internal matter.
- 3. Encouragement** – the firm encourages those who suspect wrongdoing to report it.

Confirmation of review of independence practices and monitoring

Based on the following actions, we are able to confirm that an internal review of our independence practices has been properly conducted in the year. Our internal practice review and other monitoring processes provide us with assurance that these policies are appropriately observed. In addition, the practice review includes an assessment of compliance with DTT and UK independence policies. The results of these internal reviews are reported to UK Leadership and DTT's Chief Executive Officer and Board of Directors. Significant issues are discussed in regional DTT meetings of the independence network and considered as further guidance and learning materials are developed.

Our online independence and ethics learning programme is undertaken by everyone in the firm, using examples to translate independence and ethical questions into practical actions.

5. Legal structure and network

Deloitte LLP is a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000 and is wholly owned by its members (normally referred to as partners). Deloitte LLP changed its name from Deloitte & Touche LLP on 1 December 2008.

Deloitte LLP operates from 20 locations in the UK and also operates in Guernsey, Jersey and the Isle of Man. Deloitte LLP's subsidiaries also operate from five locations in Switzerland. Deloitte LLP employs over 12,000 staff, with nearly 700 partners.

Deloitte LLP is the UK member firm of Deloitte Touche Tohmatsu (DTT), a Swiss Verein whose member firms are a network of legally separate and independent entities. Each member firm provides services in a particular geographic area and is subject to the laws and professional regulations of the particular country or countries in which it operates. DTT does not provide services to clients, or direct, manage or control its member firms. Neither DTT nor any of its member firms are liable for each other's acts or omissions.

With member firms in 140 countries, the international network of DTT brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. The 165,000 professionals in DTT member firms are committed to becoming the standard of excellence. Aggregate revenue of DTT member firms for the year ended 31 May 2008 was US\$27.4 billion.

DTT member firms are owned locally and managed by their respective national management. This structure allows the DTT organisation to establish policies; member firms apply these policies in quality assurance processes that comply with local regulatory, legislative and professional requirements.

6. Partner remuneration

Partners' profit sharing

Partners share profits based upon a comprehensive evaluation of their individual contribution to the achievement of the firm's strategic objectives.

Partners are assigned to an equity group, which is reviewed annually and which describes the skills, attributes and broad performance expected of them. Each equity group carries a wide band of profit sharing units so that relative contributions can be recognised.

In assessing the performance of partners, a strong contribution in the following areas is an absolute expectation from all partners, notwithstanding the level of their contribution in other areas:

- **Quality:** A role model for quality in professional work.
- **Talent:** Contribution to mentoring, leading, recruitment, engagement, development and training of our people.

In addition, the following criteria are also used for assessing the performance and contribution of each partner:

- **Clients:** Client portfolio managed and roles carried.
- **Brand and eminence:** Market related activity including stakeholder relations, thought leadership, innovation and brand protection roles.
- **Revenue generation, growth and business building:** Contribution to business development and relationship building.
- **Financial success:** Overall contribution to the financial success of Deloitte.
- **Leadership and management:** Contribution to the firm's broad success through leadership and management roles.

The AIU public report endorsed our strong linkage between audit quality and partner remuneration and thorough partner selection process.

Partners who provide audit services are expected to be responsive to their clients' needs, but they are not evaluated or remunerated on the selling of other services to their audit clients.

We are confident that this approach precludes financial considerations from driving actions and decisions having a negative effect on audit quality.

In 2008, we introduced a partner Audit Quality Dashboard to assist in the appraisal process. The Audit Quality Dashboard identifies objective metrics of quality and measures partner performance against those metrics. The results are considered alongside other sources of evidence in assessing partner contribution to quality and when setting objectives for the forthcoming year.

Partner performance is evaluated in all of the competencies, beginning with the Board's approval of the profit sharing strategy proposed by the Senior Partner and Chief Executive and concluding with the Board's review of the recommended profit allocation and equity group for each individual partner, the conclusions of which are disclosed in full to all partners. A committee of partners oversees the management process to ensure consistent and equitable treatment.

Partners' drawings and the subscription and repayment of partners' capital

All partners are equity partners and share in the profits and subscribe the entire capital of Deloitte LLP. Each partner's capital subscription is linked to his or her share of profit and is repaid in full on ceasing to be a partner. The rate of capital subscription is determined from time to time depending on the financing requirements of the business.

Partners draw a proportion of their profit share in twelve monthly instalments during the year in which the profit is made, with the balance of their profit, net of a tax deduction, paid in instalments in the subsequent year. All payments are made subject to the cash requirements of the business. Tax retentions are paid to HM Revenue & Customs on behalf of partners with any excess being released to partners as appropriate.

7. Financial information

The Statutory Auditors (Transparency) Instrument 2008 requires transparency reporting auditors to provide financial information for the firm's financial year, including "showing the importance of the auditor's statutory audit work".

We have extracted the following financial information from Deloitte's annual accounts and financial records for the year ended 31 May 2009.

Year ended 31 May 2009

1. From Deloitte's annual accounts for the year ended 31 May 2009, showing the relative importance of the Audit service line to our business as a whole:

	Audit	Tax	Consulting	Corporate Finance	Unallocated	Total
	£m	£m	£m	£m	£m	£m
Revenue	647	523	478	321	–	1,969
Expenses and disbursements	(80)	(64)	(72)	(38)	–	(254)
Net revenue	567	459	406	283	–	1,715
Profit from operations	188	160	127	106	–	581
Finance income					41	41
Finance cost					(58)	(58)
Profit before tax						564
Tax					(2)	(2)
Profit for the year						562
Total assets	144	190	97	95	368	894
Total liabilities and equity	8	3	2	8	873	894

The group has four reportable operating segments: Audit, Tax, Consulting and Corporate Finance. The audit segment provides audit, internal audit, regulatory, risk & control and accounting & financial reporting services. The tax segment provides business tax, employer and personal tax services. The consulting segment provides strategy, operations, human capital, enterprise application and technology integration services as well as actuarial & insurance solutions. The corporate finance segment provides transaction support, reorganisation services, forensics & dispute services and advisory services.

The reportable segments reflect the group's principal management and internal reporting structures and are strategic business units that offer different services. They are managed separately because each business requires different skills and methodologies.

The accounting policies of the operating segments are the same as those described in the summary of accounting policies shown in the annual report. The group evaluates the performance of the segments on the basis of net revenue and profit or loss from operations before finance income, finance cost and tax expense.

Performance assessment of the segments includes a review of certain assets such as client receivables, amounts to be billed to clients and prepayments, segment liabilities reviewed include accruals and specific staff liabilities. All other assets and liabilities, including non-current assets, balances with partners, cash, provisions and retirement benefit balances are controlled centrally and are not allocated across service lines.

Inter-segment revenue is not material as revenue is shared proportionately by those service lines delivering services to clients.

2. From financial information extracted from Deloitte’s financial records showing the relative importance of audit work within the Audit business:

	Audit clients £m	Non-audit clients £m	Total £m	<i>Percentage</i> %
Revenue				
Statutory audit work	420	–	420	65%
Non-audit work	59	168	227	35%
Total	<u>479</u>	<u>168</u>	<u>647</u>	<u>100%</u>
<i>Percentage</i>	<u>74%</u>	<u>26%</u>	<u>100%</u>	

Year ended 31 May 2008

1. From Deloitte's annual accounts for the year ended 31 May 2008, showing the relative importance of the Audit service line to our business as a whole:

	Audit £m	Tax £m	Consulting £m	Corporate Finance £m	Unallocated £m	Total £m
Revenue	619	567	469	355	–	2,010
Expenses and disbursements	(89)	(76)	(75)	(45)	–	(285)
Net revenue	530	491	394	310	–	1,725
Profit from operations	177	185	123	136	–	621
Finance income					68	68
Finance cost					(35)	(35)
Profit before tax						654
Tax					(2)	(2)
Profit for the year						652
Total assets	139	200	86	102	469	996
Total liabilities and equity	6	3	3	3	981	996

2. From financial information provided to the Professional Oversight Board as part of data submitted under the 'Key facts and trends in the accountancy profession' protocol showing the relative importance of audit work within the Audit business:

	Audit clients £m	Non-audit clients £m	Total £m	Percentage %
Revenue				
Statutory audit work	363	–	363	59%
Non-audit work	108	148	256	41%
Total	471	148	619	100%
Percentage	76%	24%	100%	

Appendix

– Public interest entities

A list of our public interest entity audit clients in respect of which an audit report was signed by Deloitte LLP in the year ended 31 May 2009 is provided on our website at the following link:
<http://annualreport.deloitte.co.uk/audit-transparency-2009/AT-PIE-list-2009.pdf>

Under the provisions of the Statutory Auditors (Transparency) Instrument 2008, made by the Professional Oversight Board of the Financial Reporting Council, “public interest entity” means an issuer whose transferable securities are admitted to trading on a regulated market and the audit of which is a statutory audit within the meaning of section 1210 of the Companies Act 2006.

Deloitte refers to one or more of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTT and its member firms.

Deloitte LLP is the United Kingdom member firm of DTT.

© 2009 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. 32361

Member of Deloitte Touche Tohmatsu