

## **Internal control**

### **Responsibility**

The firm is committed to the principles of good corporate governance (including The Audit Firm Governance Code) and applies these taking into account the partnership structure of the firm. The firm's Board is ultimately responsible for the firm's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatements, losses, fraud or breaches of laws or regulations.

The Board sets appropriate policies on risk management and internal control and seeks regular assurance that will enable it to satisfy itself on the effectiveness of risk management and internal control processes.

### **Principal features**

#### *The Executive Group*

The firm'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 relation to risk management and internal control, the Board has delegated responsibility to the Executive Group for the effective functioning of the risk management and internal control systems. In discharging its responsibilities, the Executive Group is responsible for:

- establishing a sound system of risk management and internal control;
- identifying and managing the firm's principal risks including changes to the risk profile; and
- reporting to the Board on the status of principal risks.

#### *Chief Risk Officer (CRO)*

The CRO is appointed by the Senior Partner and Chief Executive and is responsible for the effectiveness of the risk management process. In addition the CRO:

- assists the Board and Executive Group in fulfilling their respective risk management and control responsibilities;
- assists management with effective implementation of the risk management process by collating risk information (including risk indicators) and compiling risk reports for the Risk Owners, Executive Group and Board;
- facilitates communication between the Board, Audit Committee, Executive Group, the firm's Assurance Function and other parties engaged in risk management activities; and
- reports regularly on risk issues to the Board and Executive Group.

### *Risk Owners*

The Senior Partner and Chief Executive assigns a Risk Owner to each of the firm's principal risks. In relation to each risk assigned, the Risk Owner is responsible for:

- determining effective risk mitigations and contingencies, and appropriate risk indicators;
- assessing how well the risk is being managed, based on the risk mitigations and risk indicator results, and determining what further actions (if any) are required to manage the risk;
- monitoring progress on the implementation of agreed risk management action plans;
- receiving reports from assurance providers on the management of the risk; and
- reporting on the risk to the CROs and Executive Group including progress on risk management action plans and indicators, and any risk events that have taken place.

### *Service Line Risk Teams*

Each service line has a partner in charge of Quality and Risk Management (QRM) who is a member of the service line's leadership. The QRM partners are responsible for the oversight of the service line's management of risk and compliance with the firm's risk and quality processes. They are supported by a team whose core activities include quality control, regulatory liaison, engagement support, and learning and guidance.

In addition to reporting to the service line managing partner, the QRM partners also report to the Managing Partner, Practice Protection.

### *The Practice Protection Group*

The firm's Practice Protection Group is responsible for the oversight of the firm's ethics, compliance, security and risk management processes and in particular for:

- establishing and promulgating firm-wide quality, risk management and compliance strategy and policy;
- driving compliance with regulatory requirements in relation to all of the firm's business activities;
- developing and maintaining processes, training and awareness, and helplines to support all employees and partners in complying with the policies and regulatory requirements; and
- managing claims and insurance.

The Managing Partner, Practice Protection, is a member of the Executive Group and reports to the group on the management of quality and risk in relation to these areas. The Managing Partner, Practice Protection also reports to the Board.

### *The Assurance Group*

The firm's Assurance Group is a key element of the continuous review of the effectiveness of the firm's systems of internal control. The Director of Assurance reports to the Managing Partner, Practice Protection and to the Chairman of the Audit Committee.

The Group is responsible for:

- maintaining the firm's overall assurance plan;
- coordinating the assurance provided by the various assurance providers; and
- reviewing the effectiveness of the other assurance processes and providing or obtaining additional independent assurance where required.

The Group carries out independent internal audits and monitors projects on the effectiveness of risk management and internal control based on an annual plan agreed with the Audit Committee.

The detailed results of these projects are reported to the appropriate operating managers and Executive Group member with an executive summary to the Managing Partner Practice Protection, CRO, Chief Executive and Audit Committee.

The Group also monitors findings from previous projects to determine the status of implementation of actions agreed: the results of which are reported to management and, in summary, to the Executive Group and Audit Committee.

### *The Audit Committee*

The Audit Committee (the Committee) is a sub-committee of the Board and is responsible for approving the firm's assurance plan and receives reports from the firm's Assurance Group and other assurance providers (including the external auditors) on the effectiveness of matters related to risk and control and monitors the timeliness and effectiveness of corrective action taken by management. It reports on the results of its meetings to the Board.

In addition to its specific responsibilities in relation to financial reporting and the external auditors, the Committee is responsible for:

- considering communications from the external auditors on audit planning and findings and on material weaknesses in accounting and internal control systems that came to the auditors' attention;
- reviewing:
  - the policies and overall process for identifying and assessing business risks and managing their impact on the firm;
  - regular assurance reports from management, the firm's Assurance Group, external audit and others matters related to risk and control;
  - reports on the effectiveness and timeliness of corrective action taken; and
  - reviewing any disclosure in the annual report, transparency report and related disclosures about processes applied by the Board in relation to internal control;
- with regard to the firm's Assurance Group:
  - considering the appointment, resignation or dismissal of the Director of Assurance;
  - reviewing and discussing with the Director of Assurance the scope of work of the function, its plans, the issues identified as a result of its work and how management is addressing these issues;
  - ensuring that the Assurance Group is adequately resourced and has appropriate authority and standing within the firm;
  - reviewing co-ordination between the Assurance Group and external auditors, and
  - periodically reviewing the terms of reference of the Assurance Group and its effectiveness;
- considering the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct and management's response (in the absence of management where necessary); and
- carrying out an annual assessment of the firm's internal control system and reporting the results to the Board.

### *The Board of Partners (the Board)*

The Board is responsible for the promotion and protection of partner interests and for the oversight of management. It approves the firm's long term strategies and has specific oversight of risk.

In relation to its oversight of risk the Board is responsible for:

- setting the tone and influencing the culture of risk management within the firm:
  - reviewing the nature and extent of, and changes to, the risks which are significant to the firm and management responses thereto;
  - receiving reports from the service line Managing Partners and Quality & Risk Partners on quality, risk and regulation;
  - receiving reports from the Managing Partner Practice Protection on the management of reputational risk including any circumstances and claims;
- receiving reports from the Chief Risk Officer on the management of the principal risks; and
- receiving reports from the Committee on the ongoing process for identifying, evaluating and managing the firm's significant risks and that it accords with the Turnbull Guidance.

### *External Audit*

The objectives of the firm's external auditors are to:

- audit the financial statements of Deloitte LLP and its subsidiaries;
- produce a concise and constructive report of key issues to the Committee; and
- draw the Committee's attention to material weaknesses, if any, in internal control that come to their attention during their audit work.

Should any material weaknesses be identified by the external auditors these would be considered by the Committee and followed up by the firm's management and Assurance Group as appropriate.

### **Review of the effectiveness of the firm's system of internal control**

In addition to receiving regular reports throughout the year on internal control matters, at its June 2011 meeting the Committee conducted a review of the effectiveness of the firm's system of internal control using the Financial Reporting Council's Internal Control Revised Guidance for Directors on the Combined Code (the Turnbull Guidance) as the framework for the review.

This involved discussion by the Committee including appropriate enquires of the Executive Group and reviews of:

- a report from the Chief Risk Officer setting out the executives' assessment of the firm's business risks, (including a risk readiness rating and further actions needed to manage them, if any);
- signoffs from the service line managing directors confirming:
  - the review of risk in their portfolio of engagements;
  - the appropriate design of systems in relation to support engagement acceptance;
  - the service offering risk analysis has been updated and approved;
  - the acceptability of the portfolio of engagement risk and actions taken to protect the Deloitte brand;
- signoffs from the service line managing directors confirming:
  - the effectiveness of the systems of internal financial control and compliance with the Financial Controls Memorandum;
  - the service line accounts are in accordance with the firm's accounting policies and fairly reflect the operations and balance sheet;
  - they are not aware of any material post-balance sheet events which have not been accounted for;
  - compliance with client money regulations;
- A report from the firm's security partner covering any instances of breaches of security and other incidents.
- A report from the Director of Assurance summarising the results of the internal audit and monitoring projects carried out in the year including an opinion on the extent of compliance with the Code's risk management principles and provisions;
- A report from the Ethics Partner summarising any whistle-blowing matters which it considers should be brought to its attention or that there are no such matters;
- A report from the external auditors including a summary of misstatements, if any, identified by the audit and commentary on the design effectiveness of internal controls and adherence to risk management procedures.

The Committee is of the view that:

- there is an ongoing process for identifying, evaluating and managing the firm's significant risks;
- the process has been in place for the year ended 31 May 2011 and up to the date of approval of the annual report and accounts;
- the process is regularly reviewed by the Committee and accords with the Turnbull Guidance; and
- the results of the review were reported to and considered by the Board.