

Johnson's

Accounts | Tax | Wealth

2022

Transparency
Report (updated)

2022

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J. Stuart Thomson
Group Managing Director

The world of business is constantly changing. Businesses that are resilient, flexible, and transformative will succeed in the years to come.

In the past three years, businesses have faced unprecedented challenges with the COVID-19 pandemic, supply chain challenges and energy price rises. However, many businesses have shown resilience and adapted to the new realities. Businesses that have been successful are those that have adapted quickly to change, invested in new technology and processes, and adapted to the changing customer demands.

The businesses that are able to adapt to the changing world will be the ones who succeed in the years to come. Those who are not able to adapt will be left behind.

The year 2022 was considered a year of significant growth in the firm's history supported by increase in number of clients in audit, accounts and tax services. We successfully completed the integration of two firms acquired in 2021 expanding our reach in the UK market. As part of our renewed strategic choices, management is focusing on the growth opportunities available in the PIE market.

We are realistic about where we are and where we want to be. Our audit profession continues to be under significant regulatory scrutiny and as a Tier 3 firm we recognise the need for continuous improvement in audit quality. Recognising this, we undertook several initiatives and made significant investments to create a launch pad to support aspirations:

- Embarked on a review of the current audit methodology in light of the changing customer mix. This also include reviewing the existing quality controls in line with the revised ISQM 1 requirements.
- Invested in people and continued to emphasis on staff upskilling through training and development.
- Continued our engagement with FRC through constructive engagement process for improving the audit quality.
- Investing in the technology to obtain efficiency in the firm process.

We see these developments as necessary and significant steps for the firm as we evolve and to position ourselves in the current market. We are not complacent and there is always more to do, with continuous investment to support our audit business and wider firm.

J. Stuart Thomson

J. Stuart Thomson
Group Managing Director



Edmund Cartwright
Audit Compliance Principal (ACP)

The firm's audit business represents around c.40% of the firm's revenue and is centred on the following key markets: public and privately held companies, listed businesses, limited liability partnerships, private equity backed organisations and charities.

Audit has a huge part to play in providing confidence and trust to investors, regulators and various other stakeholders. We recognise the value of audit and the public interest element of the work we do in providing trust and confidence within the economy and that is important to the SME sector as well as the capital markets. Our audit approach involves ensuring the senior people relevant to the specific industry are involved in the audit and that risk assessment is performed on obtaining through knowledge of the environment in which the entity operates and understanding the risks that each of these entities might be facing.

We have successfully completed our first PIE audit during the year ended 31 December 2022. We have won two other PIE audits during financial year 2023 in addition to the number of clients in our portfolio which are listed outside the UK. Being a PIE registered auditor with FRC, it is our utmost priority to ensure that our audits meet the quality expectations set by FRC. We are also collaboratively working with FRC through constructive engagement to further enhance the internal policies and procedures.

The International Audit and Assurance Standards Board has introduced new Quality Management Standards effective from December 2022 to improve confidence in audit quality. To implement these standards, we have internal training and resources to set quality objectives, identify risks, and plan responses.

Technology, including cloud and data solutions, is essential for efficient and effective audits. We believe digital transformation positively impacts consistent quality and cross-border services, as demonstrated during the COVID-19 pandemic. Our goal remains to provide excellent service delivery to our clients.

A handwritten signature in black ink, appearing to read 'Edmund Cartwright'.

Edmund Cartwright
Audit Compliance Principal

LEGAL STRUCTURE AND OWNERSHIP OF THE FIRM

Johnsons Financial Management Limited ("Company" or "firm") is a company limited by shares and is incorporated in the United Kingdom. The ultimate beneficial ownership of the Company is with one family but control rest solely with one member who is involved in the day-to-day management of the company as the company's sole director.

The firm currently has one Audit Partner with the responsibility of heading the audit function and ensuring that the policies and procedures governing the audit practice are in line with the regulatory requirements.

Management Board

The sole director has delegated management of the company to a management board with a responsibility of governing the audit practice and day-to-day operations of the firm. The Audit Partner and sole director of the Company, have equal voting power in relation to the decisions made by the management board on the policies and procedures. This board is also responsible for reviewing and updating these policies to ensure compliance with the applicable laws and regulations.

During the year, a number of formal and informal meetings of the management board took place and the members of the management board have attended all these meetings.

Network of firms

The firm is neither a member of an international network nor an international association of audit and accountancy firms. The management board continue to monitor this position as the firm grows.

INTERNAL QUALITY CONTROL SYSTEMS

Culture and leadership

The firm promotes a strict adherence to the quality control policies and procedures as set out in the International Standard on Quality Management (UK) 1 (ISQM1). The Audit Partner has ultimate responsibility for the quality control and systems of the firm.

The firm's quality procedures govern the audit work to be carried out and training of employees (the team) is carried out through training sessions and on job training. On a number of occasions, firm has invited another firm of chartered accountants to facilitate these training sessions with a view to bring wider perspective to the audit team.

The firm's leadership has set out strategic priorities and goals for the firm and facilitates a firm-wide culture to achieve these priorities and goals.

Ethical considerations

Stuart Thomson is the firms Ethics Partner and has the responsibility to oversee the development and implementation of ethical policies. Any issues that arise are referred to the Ethics Partner for further consideration and it is ensured that the final decisions are in line with the requirements of FRC Ethical Standard and ICAEW's code of Ethics.

The Ethics Partner is responsible for managing the ethical policies and procedures of the firm, including reviewing these policies periodically to ensure compliance with the FRC's Ethical Standards and the ICAEW's Code of Ethics.

This is monitored on an ongoing basis to ensure the firm adapts quickly to changes in the guidance issued under the Code of Ethics.



INTERNAL QUALITY CONTROL SYSTEMS

Audit methodology and performance

Policies and procedures relating to audit methodology and performance comply with the requirements of ISQM1.

The firm's audit software used during the year was MyWorkpapers and it is based on the Mercia audit methodology.

Our audit approach starts with obtaining a detailed understanding of the business and the environment in which the client operates. This is followed by discussions with management to understand the control environment, accounting practices, management structure, remuneration policies and technology infrastructure to assess the risks relevant to the entity. As part of our risk assessment process we reassess any new information that was identified during the course of audit and the impact it has on the perceived level of risk for the entity. All team members update Audit Partner and audit managers during the course of the audit to ensure timely resolution of the identified issues. All files are reviewed by the Audit Partner after a completed satisfactory review by the audit manager and prior to sign off the audit.

Acceptance and continuance procedures

We follow a robust onboarding process where the entity, the beneficial owners and its directors are reviewed for compliance with Anti money laundering (AML) procedures and other high risk criteria including sanctions and proscribed organisations as defined by the Government of UK from time to time. Where higher risk issues are identified the MRLO is required to approve the appointment and may require additional pre-appointment information. The client is engaged upon obtaining satisfactory results from these acceptance procedures.

We will update our Know Your Client records during the subsequent years, if we note any significant changes in the entity's ownership structure, nature of business and directors. This may trigger further AML work.

Human resources

Recruitment and development of employees is under the strict control of management board and is a fundamental part of the firm in ensuring that people with right skills and experience across different levels are recruited to maintain the audit quality. The directive for recruitment will be confirmed by the heads of individual department after consideration for requirements to achieve the firm's expected growth levels. At least two people need to be involved in any recruitment decision of a new staff member.

Statement on the effectiveness of the firm's internal quality control system

The Management Board identified that there were a few areas that required improvement to continue to meet the FRC's quality standards and are implementing planned improvements. On an overall basis, the Management Board is satisfied that the firm's system of quality management is effective in all material respects.



CONTINUING EDUCATION AND TRAINING

Being part of the industry of providing professional services to clients, the Management Board has recognised the need for all staff members to continue to upskill their knowledge for the ever changing regulations. All staff members are required to comply with the continuing professional development (CPD) requirements of their respective professional body. In addition to this, the firm is currently implementing an updated policy to be in compliance with the requirements of the ICAEW CPD requirements effective from 1 November 2023. The ACP of the firm has accepted responsibility for implementing the policies and procedures to ensure compliance with the ICAEW CPD requirements by this date.

Training and CPD takes many forms including in-house training, audit workshops, technical research, webinars and external courses. The external courses are generally run by external training providers, another firm of chartered accountants and our regulators being the FRC and the ICAEW. This learning is focused on key audit areas with ethics and professional skepticism training being extremely appropriate for the audit teams such as challenging management judgments and assumptions, Going Concern and various other aspects of International Auditing Standards. There is additional training needs for those involved with PIE audits.

We are implementing policies to increase the frequency of reviews of staff's compliance with their relevant CPD requirements. Each staff member is responsible for their own CPD planning and development profile.

QUALITY MONITORING

Audit culture and behaviours

The firm is committed to the highest standards of audit quality. The audit findings from external and internal reviews are discussed by the Management Board and then with audit managers and assistant managers in detail. During these discussions, we agree on the changes required to the existing policies and procedures to ensure that the relevant findings are addressed. Given the size of our team, managers and assistant managers will inform the details of revised process and policies to the junior audit staff either through formal training or on-job training. Upon implementing the agreed changes, the Management Board performs a review to ensure that the relevant findings are addressed to its satisfaction.

Regulatory inspections

As with all firms regulated by the ICAEW, the firm is subject to periodic Quality Assurance Directorate visits by the ICAEW. The latest review took place in Q3 2018. During this visit, ICAEW has suggested a number of minor improvements which the firm has implemented.

Internal monitoring - Public interest entities

The firm currently has three public interest entities for which audit of 2 entities are completed prior to the publication of this report. Our internal policy which is aligned with ISQM 1 requires the appointment of Engagement Quality Control Review (EQCR) in relation to PIE audits and for this purpose we have engaged another firm of chartered accountants. EQCR performs a hot file review prior to our signing of the audit reports for public interest entities. FRC has not formally performed any review of these audits to date.

External monitoring - Public interest entities

The audit of public interest entities comes under FRC's Audit Quality Review (AQR) regime. The firm has not been subject to FRC AQR review.

Internal monitoring – Private companies

The firm outsources the internal monitoring of private limited company audit files to an independent third-party Mercia group. During April 2022, Mercia group have reviewed one audit file and have provided Grade B rating which means that the quality of the audit files are in general of a good quality. We note that as part of this review, Mercia group has identified few areas of improvement which are discussed internally and appropriate policies and procedures are put in place for enhancing the audit quality.



PUBLIC INTEREST ENTITIES

During the year 2022, the firm completed the audit of one public interest entity. The firm during the financial year 2023 was appointed as the statutory auditor of 2 additional public interest entities and expects to engage many more.

INDEPENDENCE POLICIES AND PROCEDURES

Independence Policies and Procedures

Independence as an Auditor is a fundamental principal of the firm and strict policies and procedures have been developed to ensure this is the case in all audits undertaken by the firm. The policies and procedures ensure that the firm comply with the requirements of the ICAEW’s Code of Ethics and the FRC’s Ethical Standard.

Stuart Thomson is the firms Ethics Partner and is responsible for ensuring all employees achieve the ethical objectives identified under the Code of Ethics and procedures. The firm obtains an annual update of the involvements of Audit Partner and employees involved in delivering audits to identify any threats to the firm’s independence. Audit team is advised to inform Audit Partner immediately on any changes to the circumstances which impacts firms independence.

Before acceptance of any audit assignment the firms on-boarding processes will identify if there are any threats or risks to the firm’s independence. At the planning and completion stages, we confirm and consider with all employees of the firm if they are aware of any risks to our independence. If there is any risk identified then the firm’s Ethics Partner is required to identify process and procedures to enable the firm to continue the audit or the firm will resign from the audit.

The assessment of independence during each audit assignment includes consideration of potential conflicts resulting in various types of threats. Key to this is the threat to the firm’s independence arising from the provision of non-audit services to audit clients. Appropriate safeguards are implemented and discussed with those charged with governance where non-audit services are provided. The firm does not provide non-audit services to any public interest entities.

KEY AUDIT PARTNER AND EMPLOYEE ROTATION

We have implemented the key audit partner and employee rotation requirements in accordance with the requirements of FRC Ethical Standard and ICAEW. The policy adopted by the firm is as follows:

Maximum period of rotation/applicable to	Engagement partner	Engagement quality control reviewer (EQCR)	Other partners and staff in senior positions
Public Interest Entity (PIE)	5 on / 5 off	7 on / 5 off	Apply threats and safeguards approach, specifically in respect of personnel who have been in the engagement for more than 7 years
Other listed	5 on / 5 off	7 on / 5 off	
Non PIE/Listed	For period in excess of 10 years, general requirements as defined in ICAEW technical advisory guidance is applied	N/A	For period in excess of 10 years, general requirements as defined in ICAEW technical advisory guidance is applied

In the case of public interest entities audits, the period of 5 years may be increased by additional 2 years if the Audit Committee of an entity decides to extend the period to maintain audit quality. In such scenario, firm ensure that the relevant guidance as per the Ethical standard is complied.



REMUNERATION OF PARTNERS

The Audit Partner is currently paid fixed salary with additional remuneration based on performance of business development responsibilities.

The firm is currently in the process of designing new policies and procedures in place for the audit staff linking remuneration to audit quality.

FINANCIAL INFORMATION

The firms revenue for the year-ended 31 December 2022 can be analysed as follows:

Particulars	Revenue (£'000)
Revenue from statutory audit work relating to public interest entities	425
Revenue from statutory audit work	942
Revenue from non-audit services provided to other entities that are audited by firm	160
Revenue from non-audit services to other entities	3,214
Total revenues	4,741



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About Johnsons:

We are a fast growing full service accounting firm with 3 offices and 75+ staff.

Our team has exceptional knowledge of business, local laws and a wide range of industries. We draw upon this knowledge to give our clients incredible service and insight.

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