

**Deloitte.**

*An open book*  
Deloitte &  
Touche LLP  
Audit  
Transparency  
Report 2008



**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 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 & Touche LLP (Deloitte) is not yet required to prepare a transparency report, but has elected to do so early on a voluntary basis. This Transparency Report is in respect of the year ended 31 May 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 incorporates the elements set out in the Framework.



# Introduction

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## A conversation with Vince Niblett, Managing Director, Audit

**Under the Statutory Auditors (Transparency) Instrument 2008, Deloitte does not need to produce a report until the middle of next year. So what is the reasoning behind the firm producing this report now?**

I am pleased to be publishing this transparency report for Deloitte a year ahead of schedule. In so doing, we 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.

**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 to meet these demands is vital if 'UK plc' is to sustain effective capital markets and ensure continued economic success.

**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 capital markets 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.

**Where do you see the future of our profession?  
Is greater transparency 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. Accounting, auditing and ethical standards all continue to become more complex and onerous, as regulators and other market participants seek to continue the drive for quality in all aspects of our clients' businesses and our own. We welcome the increased openness of approach and also support the Financial Reporting Council in its efforts to find ways of reducing the complexity in financial reporting.



**Vince Niblett**  
Managing Director, Audit  
Deloitte & Touche LLP



# Leadership and governance

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Deloitte's leadership is taken from our partner group: their commitment to quality and integrity allows us to deliver excellence to our clients.

The relentless pursuit of the highest quality in our professional work remains one of the cornerstones of our firm's continuing success. 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 & Touche 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**, Managing Director, Global, **Aidan Birkett**, Managing Director, Corporate Finance, **Richard Buck**, Senior Client Service Partner, **Stuart Counsell**, Deputy to the Senior Partner and Chief Executive, **Cahal Dowds**, Managing Partner, Regions, **Martin Eadon**, Managing Director, Clients & Industries, **Margaret Ewing**, Senior Client Service Partner, **Sharon Fraser**, Managing Partner, Talent, **John Kerr**, Managing Partner, Innovation, **Vassi Naidoo**, Managing Partner, Quality, **Vince Niblett**, Managing Director, Audit, **David Owen**, Managing Director, Consulting, **Gerry Paisley**, Managing Partner, Practice Protection, **Richard Punt**, Managing Partner, Strategy & Planning, **Graham Richardson**, London Senior Partner, **David Sproul**, Managing Director, Tax, **Bob Warburton**, Managing Partner, 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, most recently in July 2008 in London.

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 this separate role, John is able to help enhance quality throughout the network of member firms, and to share within the network the collective expertise and experience of client service, talent development and quality and risk management. The international network has a separate Chief Executive Officer, Jim Quigley.

### Audit Executive

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

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

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

# Leadership and governance

## 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 ten 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 ten elected board members in addition to the Chairman must not be members of the Executive Group. As a result, two thirds 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:

**Penny Avis, Sabri Challah, Bruce Gordon, Stephen Griggs, Heather Hancock, Tony McClenaghan, Gerry Murphy, Ian Steele, Stephen Ward, and Lionel Young**

5 Executive Group members:

**Steve Almond, Martin Eadon, Vince Niblett, David Owen and David Sproul**

## Corporate Governance

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

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

### **Audit Committee**

The Audit Committee takes responsibility for monitoring the reporting, accounting, financial and control aspects of the executive management's activities. It receives reports from our internal audit team and our external auditors, reports on its activities and findings at each meeting of the Board and plays a key role in our risk management process.

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. It receives regular assurance reports from management and others on the operational effectiveness of matters related to risk and control and monitors the timeliness and effectiveness of corrective action taken by management.

### **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.

# Quality

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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. These processes are in place not only where required by regulation, but across our business.

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. We review regularly the effectiveness of our internal quality control systems and believe them to be robust and operating effectively. We guard against complacency and continually seek to improve all aspects of our business, aiming to be the standard of excellence.

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 show a very high level of satisfaction among our clients.

#### **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.

AS/2 has a particular focus on gaining a deep understanding of our clients' businesses and key transaction flows. AS/2 includes DTT's International Audit Approach, (IAA) common documentation, and enabling software technology. The IAA 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 IAA on a worldwide basis and promote effectiveness and efficiency. The IAA 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.

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 were able to roll out new requirements in rapid response to the credit crunch 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 practitioners who are individually authorised by the appropriate regulatory body. For example, all partners and senior employees who act as 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.

## 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 annual accounting and auditing technical training during the summer months, as well as specific learning modules where new developments require additional understanding.

Our approach allows us to develop our people not only through structured learning but also by appropriate on-the-job training, appraisal, mentoring 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.

## Quality control

We have in place rigorous processes, systems and tools to promote high quality standards throughout an engagement. These include PSR, Engagement Quality Assurance Reviews (EQAR) and annual practice reviews of completed engagements.

The EQAR role is separate from that of the Independent Review Partner (IRP) required under auditing standards, 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 is subject to oversight by an independent partner from elsewhere within the DTT network. This partner is responsible for the completion of this annual review, which covers each of our audit partners in a three year cycle. 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 IAA 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 Director, Audit and to the Senior Partner and Chief Executive, as well as to DTT. The practice review is an objective and robust exercise with an investment of well over 500 man days of time and significant senior partner resource and leadership.

The Audit Inspection Unit (AIU) of the Financial Reporting Council's Professional Oversight Board conducts an annual review of our whole-firm procedures and our audits of public interest entities. The most recently completed review concluded on 10 July 2008. The AIU has advised us that it will issue a public report on the firm in December 2008.

### 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 Director, Audit as well as to the Managing Partner, Practice Protection, who in turn reports 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 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 the US Public Company Accounting Oversight Board. AQRM 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 produces 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 population 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 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 of the ICAEW and of the Consultative Committee of Accountancy Bodies Ethics Group and Presidency of the Institute of Chartered Accountants of Scotland.

Our clients and people need swift, consistent and borderless responses to IFRS technical queries. Deloitte has 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 assist engagement partners and their clients with complex or contentious accounting issues. The leaders of these centres comprise the Deloitte Global IFRS Leadership Team and consult with each other regarding views reached on any 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.

## Reporting

We recognise that there is considerable value to our clients and to our wider stakeholders in providing reports of the highest quality. Our audit reports comply with auditing standards and legislation and, within that prescribed format, convey our opinion clearly. Our communications with audit committees and our clients' boards of directors cover the scope of our audit, our independence considerations, 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.

### **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**

PPG also leads our approach to information security, 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 new document management system to refine our working practices.

### **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 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.

# Independence, conflicts of interest and ethics

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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. The release of revised ethical standards this year has added to the complexity of these considerations, requiring a constant balance between the straightforward approach outlined in the Deloitte Code and the increasing levels of regulation and professional requirements in this area.

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 practical guide 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;

**Accountability and decision making** – we lead by example using our shared values as our foundation.

## 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.

### Tools and technology

Our engagement take-on, compliance and client database systems are all internally developed and comprise 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 real-life examples to translate independence and ethical questions into practical actions. 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 public interest audit client are also rotated after five years.

### Whistle-blowing

PPG provides a whistle-blowing function 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 made 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.

### Monitoring

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 independence policies. The results of these internal reviews are included in a report to the DTT Chief Executive Officer and DTT's Board of Directors, and significant issues are discussed in regional meetings of the independence network and considered as further guidance and learning materials are developed.

# Legal structure and network

Deloitte & Touche 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 & Touche 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.

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.

# 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.

The following criteria are used for assessing the performance and contribution of each partner:

- **Quality:** Each partner must be a role model for quality in their professional work.
- **Talent:** Contribution to mentoring, leading, recruitment, engagement, development and training of our people.

A strong contribution in the quality and talent areas is an absolute expectation from all partners, notwithstanding the level of their contribution in other areas.

- **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.

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.

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 is tasked with overseeing 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 & Touche 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 on account 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.

# 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".

Detailed and consistent guidance has not yet been provided to audit firms as to what information and format is required; in the meantime we have extracted the following financial information:

## 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:

	<i>Audit</i>	<i>Tax</i>	<i>Consulting</i>	<i>Corporate</i>	<i>Unallocated</i>	<i>Total</i>
	<i>2008</i>	<i>2008</i>	<i>2008</i>	<i>Finance</i>	<i>2008</i>	<i>2008</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>2008</i>	<i>£m</i>	<i>£m</i>
				<i>£m</i>		
Revenue	619	567	469	355	-	<b>2,010</b>
Expenses and disbursements	(89)	(76)	(75)	(45)	-	<b>(285)</b>
Net revenue	<u>530</u>	<u>491</u>	<u>394</u>	<u>310</u>	-	<b>1,725</b>
Profit from operations	177	185	123	136	-	<b>621</b>
Finance income					68	<b>68</b>
Finance cost					(35)	<b>(35)</b>
Profit before tax						<b>654</b>
Tax					(2)	<b>(2)</b>
Profit for the year						<b>652</b>
Total assets	139	200	86	102	469	<b>996</b>
Total liabilities & equity	6	3	3	3	981	<b>996</b>

The group has four reportable operating segments: Audit, Tax, Consulting and Corporate Finance. 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 methodology.

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 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 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:**

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

# Appendix

## Public interest entities

A list of our public interest entity audit clients in respect of which an audit report was signed by Deloitte & Touche LLP in the year ended 31 May 2008 is provided on our website at the following link:  
<http://annualreport.deloitte.co.uk/publicinterestentities>

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.

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