

Johnson's

Accounts | Tax | Wealth

2023

Transparency
Report

2023

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J. Stuart Thomson
Group Managing Director

The year 2023 was another year of significant growth in the firm's history supported by increases in the number of clients in audit, accounts and tax services.

We are pleased to present our Firm's Transparency Report covering the year to 31 December 2023. It is prepared to comply with Article 13 of Regulation No 537/2014 of the European Parliament as retained in UK law.

We have continued to expand and grow across our 3 offices in the UK market. We have made significant strides to grow in all areas with key recruits ensuring not just technical proficiency in key industry sectors but also across different service lines. We are proud of the impact our enlarged team is making in the industry. We are delighted that the market seems to value the "Johnsons Way!"

As part of our renewed strategic decisions in audit, management has been identified significant growth opportunities in the Public Interest Entities ("PIE") market and secured some successful client wins in this space during 2023. From 4 full time audit employees at the start of 2022 to 18 employees by the end of 2023, audit team is the largest it has ever been and we continue to invest in people to ensure that we bolster our capacity ahead of time and focus on delivering quality audits.

Our core focus is on providing comprehensive audit solutions that ensure transparency, accuracy, and reliability. We recognize the critical importance of audit quality in fostering trust and confidence among stakeholders. As we continue to expand, we are committed to enhancing our expertise in PIE audits and broadening our audit services to meet the evolving needs of our clients. Johnsons strives to be a leader in the accounting industry, driven by our passion for excellence and our dedication to supporting the financial health and success of the organizations we serve.

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:

- We have continued to develop our audit methodology in response to changes to our client base.
- We have continued to invest in people with particular emphasis on staff upskilling through training and development. 50% of our audit team is now comprised of ex-Big 5 senior managers and staff.
- We continued our work with the Financial Reporting Council ("FRC") through constructive engagement and attendance at regular training events which are focused on improving Audit Quality.
- We have invested significant financial resources in technology to enhance both quality and efficiency in the firm's processes.



Edmund Cartwright
Audit Compliance Principal (“ACP”)

The firms audit business represents around c.40% of the firms revenue and is centered 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 . 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 developed expertise in providing audit services to PIE companies during 2023 and this has continued into 2024. During 2023, we performed the audits of 2 PIE companies. During 2024, we have appointed to auditor to a further 3 PIE’s. In addition there are a number of clients in our portfolio which are listed outside the UK. Being a PIE registered auditor with the FRC, it is our utmost priority to ensure that our audits meet the quality expectations set by the FRC. We are also collaboratively working with the FRC through constructive engagement to further enhance the internal policies and procedures.

We have successfully implemented International Standard on Quality Management (“ISQM (UK) 1”) last year. This was our first period of subsequent monitoring and reporting. We are pleased to report that our annual evaluation of the system of quality management provided an except for conclusion showing that the objectives of quality management are being achieved. We will continue to monitor and implement further enhancements where necessary.

Technology including cloud and data solutions is essential for efficient and effective audits. We believe digital transformation positively impacts consistent quality and with this we are continuing to find new ways of utilising data driven solutions for project management and risk assessment.

We have invested heavily in our audit team during 2023. Over 50% of our senior managers and staff have experience at Big 5 firms. The high quality and depth of our team has enabled us to respond quickly to requests for tenders from prospects, with successful results in many cases.



Edmund Cartwright
Audit Compliance Principal (“ACP”)

As a firm, we are committed to serving the public interest. In doing so, we recognised the existing PIE market capacity constraints and plan our recruitment ahead of time to respond positively to market demand.

Finally, this is the second year that we are in scope of the Audit Firm Governance Code. We will continue to evolve our governance processes as appropriate.

I confirm, on behalf of the Management Board, that:

- our internal quality control systems are effective;
- our independence practices are appropriate; and
- we have policies and procedures in place to ensure that the continuing education of the audit team is as required by relevant law, regulation and professional standards.

For and on behalf of the firm:

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

Edmund Cartwright
Audit Compliance Principal

OUR GOALS FOR 2024

The management board has agreed the following goals for the audit department in 2024:

- Increase in the number of RI's to at least 3;
- Increase revenue from audit services by atleast 20% through new client relationships in PIE and non-PIE market;
- Improving audit methodologies and in particular on audit sampling;
- Focus on growing market share from other assurance services including CASS audits and Due Diligence services;
- Improving audit efficiency through implementation of new technologies for project management and data analysis; and
- Increasing full time equivalents team members in the audit department by at least 20%.



LEGAL STRUCTURE AND OWNERSHIP OF THE FIRM

Legal Structure and Ownership

Johnsons Financial Management Limited (“Company”, “firm” or “Johnsons”) is a company limited by shares and is incorporated in the United Kingdom. The ultimate beneficial ownership of the Company is with one family, control rests 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 responsibility for leading the audit function and ensuring that policies and procedures governing the audit practice are in accordance with regulatory requirements.

Management Board

The sole director has delegated management of the company to a management board with responsibility for 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 reputation of Johnsons for providing high-quality professional audit services independently, objectively and ethically is fundamental to its success as independent auditors. We continue to invest in initiatives to promote enhanced objectivity, independence, and professional scepticism. These are fundamental attributes of a high-quality audit. Designing, implementing and operating an effective System of Quality Management is essential to these efforts. The firm promotes strict adherence to the quality control policies and procedures as set out in the ISQM (UK) 1. The Audit Partner is also the firm’s ACP.

Johnsons System of Quality Management is governed by a Management Board consisting of the ACP and Group Managing Director with the responsibility for ensuring that firm is in compliance with the requirements of ISQM (UK) 1. Management Board’s responsibility includes reviewing the results of monitoring activities and root cause analysis, recommending changes to the existing quality practices and reviewing the results of annual evaluation of firm’s compliance with ISQM (UK) 1.

The firm’s quality procedures govern the audit work that will be performed by the team. Training of employees (the team) is carried out through training sessions and on the job training. On a number of occasions, the firm has invited another firm of chartered accountants to facilitate these training sessions with the aim of bringing deeper expertise and 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 firm’s Ethics Partner and has the responsibility to oversee the development and implementation of ethical policies. Any ethical issues or matters that put the firm at risk that arise on engagements are referred to the Ethics Partner for further consideration. Final decisions by the Ethics Partner are in line with the requirements of FRC Ethical Standard and Institute of Chartered Accountants in England and Wales (“ICAEW”) 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, stakeholder pressure and technology infrastructure to assess the risks relevant to the entity. As part of our risk assessment process we reassess any new information identified during the course of the audit engagement and the impact it has on the level of risk for the entity. All team members provide updates to the Audit Partner and audit managers during the course of the audit to ensure timely resolution of identified issues. All files are reviewed by the Audit Partner after review matters arising in the detailed review by the audit manager have been cleared and prior to audit sign off.

Acceptance and continuance procedures

The acceptance and continuance procedures also includes review of firm's competencies, independence, risk profile of client followed by Anti-money laundering ("AML") procedures. The entity is only engaged upon obtaining satisfactory results from these acceptance procedures.

We follow a robust onboarding process where the entity, the beneficial owners and its directors are reviewed for compliance with AML procedures and other high risk criteria including entities or organisations defined by the UK Government from time to time which are subject to sanctions. Where higher risk issues are identified, the Money Laundering Reporting Officer ("MLRO") is required to approve the appointment and may require additional pre-appointment information.

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

Human resources

Recruitment and development of employees is under the strict control of the management board and is a fundamental part of the firm in ensuring that people with the right skills and experience across different levels are recruited and developed to maintain quality. The directive for recruitment is confirmed by the heads of the individual department(s) after assessing numbers required to maintain high quality standards across the all service lines. At least two people of manager grade or above must be involved in any recruitment decision of a new staff member.

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

As the firm grows in size and number of employees, there are on-going areas where potential improvements may be made to the firm's practices and procedures. These matters are subject to regular review and on-going monitoring by the Management Board.

We have successfully implemented ISQM (UK) 1 last year. This was our first period of subsequent monitoring and reporting. We are pleased to report that our annual evaluation of the system of quality management provided an except for conclusion showing that the objectives of quality management are being achieved. We will continue to monitor and implement further enhancements where necessary. Management Board is satisfied that the firm's system of quality management is effective in all material respects.



CONTINUOUS EDUCATION AND TRAINING

Staff Development

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. In addition to this, with effect from 1 November 2023, the firm implemented an updated policy to comply with ICAEW CPD requirements.

Training and CPD takes many forms including in-house training, audit workshops, technical research, webinars, feedback and external courses. The external courses are generally run by external training providers and other firms of chartered accountants. In addition to this, we attend round tables and technical briefings conducted by FRC. This learning is focused on key audit areas with ethics and professional scepticism training being most relevant for the audit teams to appropriately challenge management on judgments and assumptions on significant risk areas. Additional bespoke training is provided 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 relevant findings are addressed. Given the size of our team, managers and assistant managers communicate the details of revised processes and policies to junior audit staff through formal training and on the 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 2021. During this visit, ICAEW awarded a grade C rating and highlighted issues relating to inconsistency in use of audit software for documentation and recommended improved documentation of sampling methodology and conclusions on areas relating to going concern, subsequent events, stock and property ownership. Since this inspection, the firm has fully implemented “MyWorkpapers” audit software and new audit procedures. We are of the view that the issues raised in the last QAD visit have been fully addressed. ICAEW is scheduled for another visit during July 2024 as part of their 3 year cycle.

Internal monitoring - Public interest entities

Our internal policy which is aligned with ISQM1 requires the appointment of Engagement Quality Reviewer (“EQR”) in relation to PIE audits and for this purpose we have engaged another firm of chartered accountants with necessary experience, competence and capability. The EQR performs a hot file review prior to our signing of the audit reports for public interest entities. The firm has regular dialogue with the FRC on various matters in relation to PIE audits.

External monitoring - Public interest entities

The audit of public interest entities comes under FRC’s Audit Quality Review (“AQR”) regime. The firm has not yet been subject to an 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 February 2024, Mercia group reviewed three audit files and provided Grades A, C and D ratings. The grade A rating related to one of the PIE audits completed in 2023. The rating D is primarily due to a missing disclosure in the financial statements as per requirements of Companies (Revision of Defective Accounts and Reports) Regulations 2008. Although there are recommended findings firm need to address on future audits, the audit files reviewed were in general of a good standard in relation to audit quality. As part of this review, Mercia Group suggested improvements relating to documentation of going concern considerations, completeness of Revenue, the entity’s compliance with laws and regulations. The recommendations provided by Mercia have been discussed internally and appropriate policies and procedures are being put in place for enhancing audit quality.



PUBLIC INTEREST ENTITIES

PIE Audit Portfolio

The firm during 2023 has completed the audit of Electric Guitar Plc and the audit of Polyus Finance Plc was signed shortly after the year-end. As of the date of this report, firm is now appointed as auditor to five PIE's and is looking to expand its audit portfolio of PIE clients.

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 for 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. A review of independence compliance for the year 2023 has been completed.

The firm's Ethics Partner 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 the Audit Partner and employees involved in delivering audits to identify any threats to the firm's independence. The audit team is advised to inform the Audit Partner or Ethics Partner immediately on any changes to circumstances which may impact the firm's independence.

Before acceptance of any audit assignment, the firm's on-boarding processes will identify if there are any threats or risks to the firm's independence. At the planning and completion stages, we consider and confirm with all employees of the firm if they are aware of any risks to independence. If there is any risk identified then the firm's Ethics Partner is required to identify acceptable processes 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 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 on 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 rotation off the engagement may be increased by an additional 2 years if the Audit Committee of an entity decides to extend the period to maintain audit quality. In such a scenario, the firm ensures its compliance with the Ethical standard.

REMUNERATION OF PARTNERS

Remuneration

The Audit Partner is currently paid fixed salary with additional remuneration based on performance of business development responsibilities. The amount of revenue derived from non-audit services do not form part of his performance evaluation.

The sole director is paid a nominal fixed yearly salary and dividends.

The firm during the year implemented policies and procedures for remunerating audit staff to audit quality.

FINANCIAL INFORMATION

The firm's revenue for the year-ended 31 December 2023 can be analysed as follows:

Particulars	Revenue (£'000)
Revenue from statutory audit work relating to public interest entities	232
Revenue from statutory audit work	1,793
Revenue from non-audit services provided to other entities that are audited by firm	429
Revenue from non-audit services to other entities	2,716
Total revenues	5,170

Johnsons

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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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