

TRANSPARENCY REPORT

Regulations

This Transparency Report has been prepared in accordance with the requirements of Article 13 of Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 (the EU Audit Regulation) as retained in United Kingdom Law.

This Report covers the year ended 30 April 2023 and explains our legal structure and ownership, governance structures and the quality control systems and practices to maintain our independence and ensure that we deliver high quality services and comply with all applicable audit and ethical standards.

About Hazlewoods LLP

Hazlewoods LLP (“the Firm”) is a Limited Liability Partnership incorporated in England and Wales and is owned by its members. At 30 April 2023, there were 34 members (hereinafter referred to as “Partners”) a further four Partners were appointed on 1 May 2023 and one on 10 May 2023 to bring the total number of Partners to 39. The Firm has five offices, three based in the county of Gloucestershire and two small satellite offices based in Swindon and Bristol.

Hazlewoods was formed in 1919 and has over 490 employees. Our audit practice forms a significant and important element of the services offered by the Firm. A significant ongoing investment is made in ensuring that the quality of this service is of the highest level.

The Firm is registered to carry on audit work in the United Kingdom by the Institute of Chartered Accountants in England & Wales.

As indicated below, in the year ended 30 April 2023 the Firm audited only seven Public Interest Entities all of which are closed ended investment trust companies listed on the London Stock Exchange. Since 30 April 2023 a decision has been taken by the Firm to disengage from the audits of all Public Interest Entities, so that it can focus its investment in audit quality in providing audit services to other entities. The additional expenditure on regulatory matters, training and monitoring for such a small part of the Firm’s audit and overall activities has made it uneconomic to continue to provide audit services to such entities. This will also free up Partner and staff resource to continue to develop our audit practice and quality processes outside the Public Interest Entity arena.

Network

Hazlewoods LLP is a member of HLB International. HLB International is a world-wide organisation of professional accounting firms and business advisers, each of which is a separate and independent legal entity and as such has no liability for the acts and omissions of any other member. HLB International Limited is an English company limited by guarantee which co-ordinates the international activities of the HLB International organisation but provides no professional services to clients. Accordingly, HLB International Limited has no liability for the acts and omissions of any member of the HLB International organisation, and vice versa. The following is a link to the transparency report of HLB International: https://www.hlb.global/wp-content/uploads/2023/04/HLB-Global-Transparency-Report-2022_Final.pdf.

The definition of a network for the purposes of compliance with the FRC Ethical Standard (2019). A network is defined as:

Any entity which is part of a larger structure that is aimed at co-operation, and which is:

- controlled by the firm; or
- under common control, ownership, or management; or
- part of a larger structure that is clearly aimed at profit or cost sharing; or
- otherwise affiliated or associated with the audit firm through common quality control policies and procedures, common business strategy, the use of a common name or through the sharing of significant common professional resources.

The Firm does not consider HLB International to be a network for this purpose as none of the above apply.

HLB International has a global quality assurance programme to promote and maintain audit quality. The level of monitoring by HLB itself varies depending on the results of a firm's initial quality review by HLB on joining, the results of any external ongoing reviews and the level of scrutiny undertaken by regulators in the relevant jurisdiction. In the UK, firms are not subject to specific review by HLB but are required to submit the results of their internal and external audit reviews to an HLB representative for central monitoring. Where any instances of non-compliance are considered significant, the network undertakes an appropriate level of review to ensure any weaknesses are addressed.

Whilst HLB specifies that its member Firms must comply with relevant standards and makes available an audit methodology and procedures, member firms are free to adopt their own procedures and methodologies, provided that they meet the required standards. The Firm does not use a methodology or procedures developed by HLB International and has adopted alternative methodologies and developed its own policies and procedures to ensure compliance with relevant Auditing and Ethical standards. Audit quality control and monitoring procedures are carried out by the Firm itself and using a third-party consultant, in addition to external monitoring carried out by the Financial Reporting Council and the Institute of Chartered Accountants in England & Wales as discussed further below.

Governance Structure

The Constitution document of the Firm is its membership agreement to which all members of the Limited Liability Partnership are bound.

The Firm's 22 designated members are its Equity Partners owning the capital interests and all voting rights. A majority of the voting rights in the Firm are held by individuals with a professional audit qualification and a simple majority of voting rights is required to pass resolutions relating to the overall policies of the Firm. Approval for the appointment of new designated members is given by way of a simple majority of voting rights held by senior designated members with nominations for election being made by any designated member based primarily on an evaluation of technical abilities, management and commercial skills. Designated member appointments are not made on a fixed term basis.

The designated members meet nine times per year to review the performance of the Firm and consider business matters and matters relevant to the quality control objectives and performance of the Firm. All designated members are entitled to attend all meetings and actively encouraged to do so.

The other Partners meet with the Firm's managing partner following each meeting of the designated members where they are able to participate in key issues relating to quality control and operational issues relating to the practice. They also actively participate in developmental matters including those relating to strategies relating to quality control and partner and employee training and development.

Basis of Remuneration of the Partners in the Firm

Profits are shared among all Partners (who are the members of the Limited Liability Partnership) under a framework set out in the LLP members' agreement. Each Partner is entitled to a fixed monthly payment and each Equity Partner is entitled to a further share of profits by way of a points system. A committee of senior Partners meet annually to invite Partners to acquire additional points taking into account their contribution to the Firm as a whole and the assessment will cover seniority, experience, management performance, technical skills, the range of responsibilities undertaken and commercial and financial performance. Audit quality is factored into any decision to award points to audit partners, they are not remunerated on the basis of selling non-audit services to audited entities.

Financial Information

The financial statements of the Firm for the year ended 30 April 2023 have not yet been finalised. The Firm's turnover for the year ended 30 April 2023 however comprised:

| | |
|---|---------------|
| | £ 000 |
| Audit fees: Public Interest Entities (see list in Appendix) | 150 |
| Audit fees: Other audited entities | 6,687 |
| Total audit fees | 6,837 |
| Non-audit fees on audited entities | 3,581 |
| Total fees on audited entities | 10,418 |
| Non audit fees on non-audit clients | 30,078 |
| Total fees | 40,496 |

Internal Quality Control

The culture within the Firm

The Firm emphasises quality throughout all of its service lines. This is emphasised through its internal documentation and through staff appraisal and training processes.

Professional scepticism and a willingness to challenge management assertions in relation to audit matters is embedded into the culture within the Firm and our audit approach. Our audit methodology requires a brainstorming meeting is held at the planning stage of an audit to consider fraud risk factors and the opportunity for fraud. As indicated below, courses are held to consider lessons from regulatory findings and settled legal cases where auditor negligence has been alleged, where a lack of audit scepticism is often a core element.

The Firm has its own ethical procedures manual which establishes procedures and gives further guidance on the application of the Ethical Standard (2019) issued by the Financial Reporting Council and the Code of Ethics issued by the Institute of Chartered Accountants in England & Wales which is based on the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board for Accountants.

The Firm has appointed its senior technical partner as the partner responsible for ethics. The Firm's ethical requirements are communicated through internal documentation and reinforced by its audit methodology. This includes internal reporting and approval requirements relating to the giving and receiving of gifts and hospitality in relation to audit clients.

Compliance with Ethical Standards is monitored as part of the Firm's Annual Compliance Review process. All Partners and staff have been trained in the relevant requirements which emphasise that at all times the Firm acts in the public interest in relation to public reporting roles.

Staff requirements are monitored at all levels of the organisation and are reported both at individual office and service line levels and at regular meetings of the Partners in the Firm. The Firm has a human resources team made up of nine employees and headed by the Firm's Director of human resources who attends meetings of the designated members to provide leadership on all matters relating to staff resources.

Our ethical procedures ensure that financial considerations do not drive decisions which could have a negative effect on the quality of our audit work.

The Partners who lead each of the Firm's service lines have high levels of technical expertise and the Firm has an established consultation programme to help and support Partners and senior members of the teams in addressing difficult and complex issues.

We have robust client acceptance and consultation procedures where all decisions on client acceptance are clearly documented to ensure that the Firm has adequately identified each client before acceptance and has also assessed its ability to provide the services required by that client.

All staff are appraised on a six-monthly basis and the quality of their work is the principal driver in evaluating their success.

Challenges and risks to audit quality

The Partners recognise that all audit firms face a number of business and economic risks that could impact audit quality and make every effort to ensure that the impact of these risks is minimised. A summary of important key risks and our response to these is set out below:

| Risk to Audit Quality | Explanation and Mitigating Actions |
|---|--|
| Scarcity of skilled staff resources | <p>There is a general recognition in the market that there is a shortage of skilled employees. We have addressed this issue by a number of initiatives:</p> <ul style="list-style-type: none"> • A focus on motivation and training of our skilled audit staff base. • Recruitment of a high number of new apprentices and an investment in training and development to embed Hazlewoods culture and practices. • We have invested in the growth of our human resources team, with dedicated members of the team focussed on recruiting high quality staff to join our team. • We recruit a small number of quality staff based overseas to fill identified resource and skills gaps. • We closely manage staff resources against commitments. • Where appropriate we decline new audit appointments where we do not have adequate capacity. |
| Ongoing increases in levels of complexity in financial reporting requirements and business practices | <p>Audit failures could arise if the audit team does not have adequate knowledge of reporting requirements or of the business sector of the audited entity. We invest heavily in training to ensure that our audit teams are abreast of new developments. Audit teams are also supported by a technical committee who maintain a high level of technical competence and support teams as necessary through both formal and ad hoc consultation. The Firm has also established an audit acceptance committee, chaired by the Firm's managing partner to consider whether the risk profile and complexity of potential new audit appointments match the skill sets held within the Firm, before an appointment is accepted.</p> |
| Evolving audit practices | <p>The Firm uses a third party supplied audit software tool and methodology, which is adapted as relevant to reflect culture and processes adopted by the Firm. We monitor evolving practices to ensure that our audit approach remains relevant, effective and efficient. We are currently monitoring and exploring the possibility to increase the use of data analytics tools available in the market, whilst also recruiting a team of data analytics specialists. This evolution is seen as an opportunity to improve audit quality as well as mitigating any threat.</p> |
| Failure to communicate and maintain a quality culture | <p>A failure by partners and staff to understand the values of the Firm and apply our policies and audit processes could lead directly or indirectly to audit failure. The Firm invests heavily in maintaining a quality and ethical culture by regular training, documentation and technical and ethical support to partners and audit teams. The Firm is small enough to ensure that direct access to appropriate support is available from senior specialists within the Firm and is easy to obtain.</p> |
| Lack of professional scepticism | <p>A failure to challenge and exercise scepticism is seen as a key audit risk. A need for scepticism is instilled in the audit culture, methodology and training and our response is considered further below.</p> |

Quality procedures

We have developed standard working practices for each of our service lines. IT systems are used extensively to control both progress and quality of our work. This includes the use of a paperless audit system for the design and documentation of all audit work and IT based systems are used to control and monitor tax compliance services.

The Firm has adopted the principles set out in the International Standard on Quality Control (UK) issued by the Financial Reporting Council in respect of its audit practice and has developed its own quality control manual and procedures to ensure that we continue to comply with this standard. The Firm has strong systems of review and control not only in our audit procedures but in all areas of our work. The Firm has mapped its system to International Standards of Quality Management (ISQM) 1 and 2, which became effective in December 2022 and is satisfied that it meets the requirements of those standards. An external consultant with extensive experience of audit quality monitoring with a professional accountancy body is used to perform annual 'cold file reviews', with verbal and written feedback given to partners and audit team members on any points arising. This review includes a separate review and feedback session in respect of matters relevant to the audit of public interest entities. An overall Firm review is also undertaken by either the external consultant or the Firm's technical partner. The reviews were most recently completed in March 2023.

Quality monitoring

A detailed quality control review report is produced with the assistance of an experienced external consultant on an annual basis, with monitoring of quality procedures carried out throughout the financial year. Feedback is provided both by written report and by internal training courses. Matters that have been raised in previous reports are followed up during the course of subsequent quality reviews. The Firm has established a Technical Committee, headed by a partner, that is responsible for its quality control systems and procedures, and for monitoring compliance with those procedures.

Statement on internal quality control systems

The Partners consider that the various procedures set out above are effective in achieving their objectives, and, overall, are satisfied with the operation of the Firm's internal quality control system.

The skills and personal qualities of audit partners and staff

The expertise of our Partners and audit teams is the cornerstone of audit quality. Our human resources team has a team member dedicated to training co-ordination. The culture within the organisation is that all members of our audit teams are armed with the skills and knowledge to carry out any audit to which they are assigned.

The Firm provides training to all Partners and staff on ethical requirements and regular update courses are provided for staff in each of our main service lines. The requirement to comply with the Ethical Standard is embedded in our auditing procedures and processes and all Partners and staff are positively encouraged to consult in case of any concerns that they may have in relation to ethical issues.

Our audit system places great emphasis on understanding the audited entities' businesses and is tailored to specifically address the requirements of International Standards on Auditing (UK). An audit briefing meeting takes place before the commencement of each audit at which all members of the audit team are present. This briefing includes a brainstorming session in respect of the risk of fraud arising.

Staff are allocated to assignments based on their skills and expertise and reviews are carried out of all audit work by qualified personnel and by Partners.

On the job training is emphasised throughout the Firm and a comprehensive programme of in-house training courses is provided to ensure that all Partners and staff have the skills and knowledge to fulfil their roles and provide the highest level of expertise. In-house training provided in the twelve months ended 30 April 2023 included:

- Updates on new and forthcoming accounting standards.
- Updates on International Standards on Auditing (including ISA 315 revised July 2020- Identifying and Assessing the Risks of Material Misstatement) and Ethical Standards and Procedures.
- Training on changes and updates to the Firm's audit methodology.
- Learnings from decided legal and regulatory cases relating to auditing.
- Feedback from internal and external audit monitoring reviews (including ethical issues).
- Updates on new tax legislation.
- Specialist tax training courses.
- Anti-money laundering and anti-bribery.
- Data protection and confidentiality.
- Management skills training courses covering a range of skills are held on a regular basis for senior managers and prospective partners.
- Induction training for all new employees to introduce them to the Firm's policies and procedures.

The Firm has a subscription with a professional training provider and all partners and staff receive updates on courses available in relation to topical matters, which they may book themselves with the approval of an appropriate line manager. Employees are also alerted to the availability of courses provided by the professional accountancy bodies and in relation to specialist sector areas and are encouraged to attend as necessary.

All partners, employees and service line heads are encouraged to identify training needs for themselves and where appropriate, team members. Training needs are documented on an annual basis. All Partners, qualified and other senior employees then document how they have fulfilled their identified training requirements. This documentation is reviewed by a member of the Human Resources team to ensure that training requirements have been met. This is also reviewed as part of the Firm's quality monitoring process by the external consultant referred to above.

The Firm employs a significant number of trainees through an apprenticeship scheme. The Firm is an Institute of Chartered Accountants in England & Wales registered training firm. All apprentices are allocated a counsellor who is Qualified Person Responsible for Training ("QPRT"). The QPRT provides training support for each apprentice, including six-monthly development reviews. All apprentices are provided with third party training courses pursuant to any professional examinations and internal training courses, including courses on auditing and related matters.

Progress of all of our people is monitored through a regular counselling and six-monthly appraisal process which is co-ordinated by the central Human Resources team.

The effectiveness of the audit process

As indicated above the Firm has adopted paperless audit methodology which is specifically tailored to meet the requirements of International Standards on Auditing (UK). Particular emphasis is placed on documented risk assessments, at an overall audit level and against specific audit assertions, carried out at the planning phase of the audit. The audit system is designed to ensure that all work is clearly documented and reasons for key audit decisions recorded. A review of all audit work is clearly marked on each audit file. The controls built into the audit software also help ensure that an audit can only be completed once all of the issues identified at the planning stage have been addressed and all of the required procedures to address specific audit risks performed.

The audit documentation also requires that key ethical decisions made at all stages of the audit are clearly recorded, with consultation having taken place as necessary.

All audit teams are aware of the support provided by the Firm's technical committee, which includes four of the Firm's Responsible Individuals, including the technical partner. In addition, the technical committee consults with the senior technical partner, who has many years' audit experience and is a past member of the United Kingdom Auditing Practices Board and former Chair of the Global, European and United Kingdom Technical Advisory Committees of an international accounting network.

The reliability and usefulness of audit reporting

The Firm requires clear reporting to recipients of our audit reports. There are consultation procedures in place whenever a modified audit opinion is contemplated to ensure that this clearly conveys our opinion. Where there is an audit committee, discussions take place as appropriate confirmed by written communications about threats to audit objectivity, the scope of our audit, the key risks identified, and judgements made in reaching the audit opinion.

Monitoring of quality control

The Firm was last inspected by the Financial Reporting Council in October 2021 and by the Quality Assurance Directorate for audit of the Institute of Chartered Accountants in England & Wales ("QAD") in March 2023 as part of its three-year inspection cycle. In addition, as explained, the Firm carries out an annual quality review with the assistance of an external consultant.

The Financial Reporting Council review addressed the whole firm procedures and the inspection of only one audit file, given the very small number of public interest entities audited by the Firm that fell within its scope.

The Firm found all of the reviews carried out helpful and informative in its journey to continue to develop and deliver a quality audit service.

The most recent review of audit files was that carried out by the QAD who commented that the Firm carries out audit work to a generally acceptable standard but identified a few matters requiring action on the sample of audit files selected for inspection. These findings were largely consistent with the findings of our own internal quality reviews carried out by an external consultant. The QAD was positive about the continued involvement of an external reviewer to achieve an appropriate level of compliance.

The QAD did not review the Firm's whole firm procedures as these fall within the remit of the review carried out by the Financial Reporting Council.

The Financial Reporting Council review made a number of helpful recommendations to improve quality and an action plan has been established. We have a plan to implement the recommendations made which has been communicated to the Financial Reporting Council.

The reports made by both the Financial Reporting Council and QAD are confidential and therefore we are restricted by the terms of confidentiality set out in those reports from publishing detailed findings.

Independence Procedures

The Firm has clearly documented its rules on independence, reflecting the requirements of the Ethical Standard issued by the Financial Reporting Council in the United Kingdom.

A register is maintained of all audited entities that have shares listed on a regulated investment exchange, the AIM of the London Stock Exchange or quoted on ISDX markets. All Partners and staff are made aware of the fact that they should not hold shares in any audit client. On an annual basis the Firm obtains an independence declaration from all Partners and staff to ensure that they are aware of their responsibility to maintain independence and to confirm that they do not hold any financial interest in an audit client of the Firm that would jeopardise such independence.

At the planning stage of every audit, documentation is completed to confirm that no members of the audit team or the Firm itself has risks which could jeopardise the independence or perceived independence of the Firm in carrying out that audit engagement.

As part of the Firm's internal annual compliance review, checks are carried out of all of the above documentation, on a sample basis, to confirm that the Firm's independence rules have not been departed from. Such a review was completed for the 2022 calendar year and no issues were identified.

The Firm complies with the requirements of the Ethical Standard to rotate key audit partners from public interest entity clients after five years, furthermore anyone who has acted as the engagement partner for a particular entity for a period of five years, shall not subsequently participate in the engagement until a further period of five years has elapsed.

For non-public interest entities, rotation is not required but an independent quality control review is put in place after an audit partner has been in place for over ten years. There are no formal requirements to rotate staff, but the length of service of senior staff members on audits is taken into account at the planning stage and appropriate safeguards put in place if considered necessary.

HAZLEWOODS LLP
22 August 2023

Appendix

List of public interest entities audited by the Firm

The Firm completed the statutory audit of seven public interest entities in the financial year ended 30 April 2023. These were as follows:

- Athelney Trust Plc
- British & American Investment Trust Plc
- Chelverton UK Dividend Trust Plc
- SDV 2025 ZDP Plc (a subsidiary of the above)
- Chelverton Growth Trust Plc
- Oxford Technology 2 VCT Plc
- Seneca Growth Capital VCT Plc