

# *Building trust through assurance* Transparency Report

*This Transparency Report  
sets out PwC UK's approach  
to building trust through  
assurance*

*Year ended 30 June 2015*

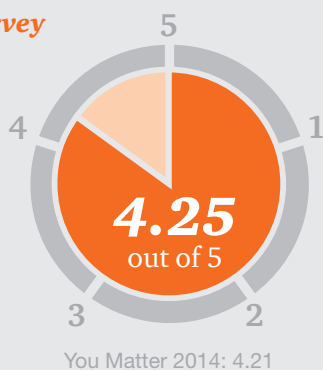
# Building trust through assurance

## Assurance at a glance

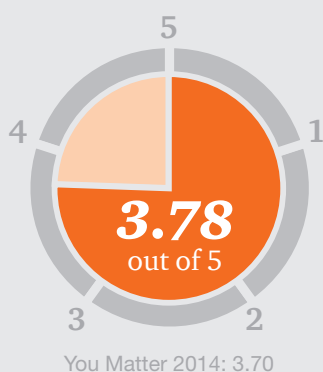
### A tireless pursuit of quality

#### Partner and staff survey

The leaders I work with are committed to providing high quality service to external clients (Assurance FY15)



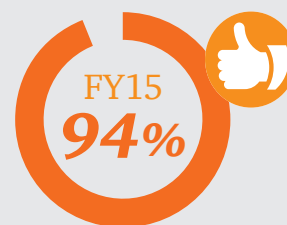
The learning and development I receive from PwC has prepared me for the work I do (Assurance FY15)



1: Strongly disagree  
5: Strongly agree

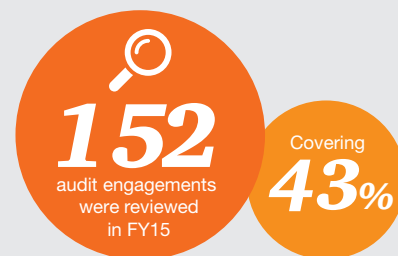
#### Internal audit quality reviews

Results of firm's own audit quality reviews



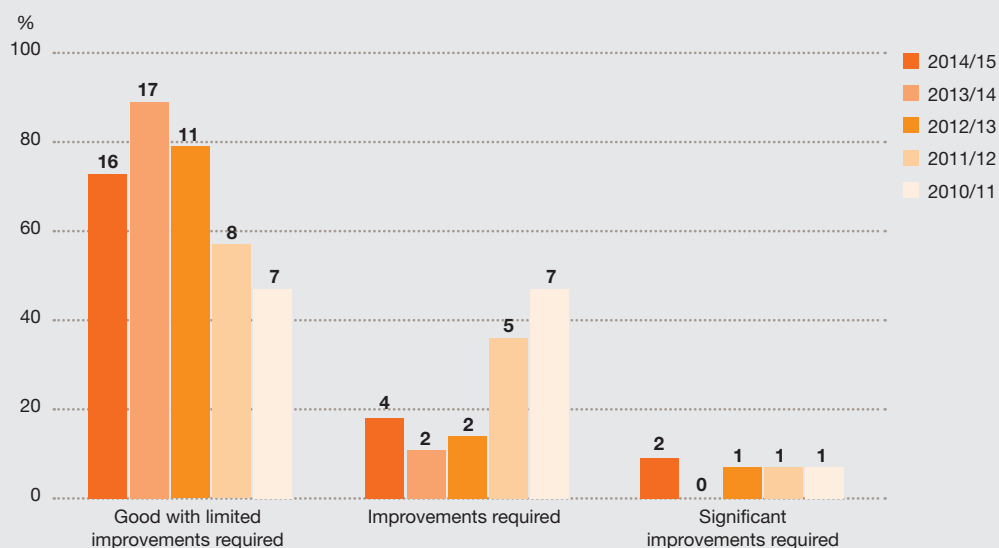
FY14: 96%

Annualised percentage of Responsible Individuals subject to the firm's own audit quality reviews



of the firm's Responsible Individuals  
FY14: 142, 39%

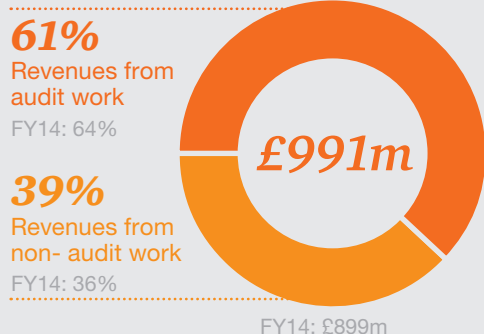
#### Results of the FRC's Audit Quality Review on the firm



For more on the Audit Quality Indicators, see pages 57–60 of this report

## Revenue

### Assurance UK revenues



## Investing in our people

### Investment in training and development



### New partner admissions



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References to FY15 refer to PwC UK's financial year ended 30 June 2015. References to 2015 (2014) refer to the calendar year ending 31 December 2015 (2014).

This report sets out PwC UK's approach to building trust through assurance. References to PwC UK refer to PricewaterhouseCoopers LLP, a member firm in the UK, but not to its subsidiary undertakings.



# Chairman's message



.....

## Welcome to PwC UK's FY15 Transparency Report

Our assurance business is at the core of our firm. Throughout our 165-year history we have always recognised the importance of building trust and confidence in business. Reporting, audit and assurance have been a critical part of the journey.

In this report we showcase the steps we continue to take to enhance the quality of our assurance services through investment in our people, technologies and processes.

This year, we have produced a digital annual report, a first for our firm and a reflection of trends in the delivery of information to make it accessible and usable. Ensuring that we respond to a changing world is also a theme that continues through this Transparency Report, as we share how our assurance business is adapting to a developing regulatory environment and technological disruption.

Fundamentally, our business is guided by a clear purpose, to build trust in society and to solve important problems. This purpose comes to life through our people working with thousands of organisations delivering assurance where it is needed most.

I hope you enjoy the report.

**Ian Powell**  
Chairman and Senior Partner

# Assurance – now and in the future

*“Last year I explained that we wanted our Transparency Report to bring alive our assurance business, and that PwC’s core purpose – ‘to build trust in society and solve important problems’ – was central to the role of that business. At that level nothing has changed, but the political and economic risk landscape has moved on at pace.”*

*James Chalmers, UK Head of Assurance*



We are living in a world of disruption. New physical and psychological threats are emerging and technology is increasing connectivity and speed of change. We witnessed the devastating Ebola outbreak in western Africa, economic shifts in Greece and China with the potential to derail our fragile recovery, and a migrant crisis of unforeseen scale. In the business world, we’ve been subject to ever-closer scrutiny from regulators, with social media providing a live commentary on our activities. Exciting digital technologies are revolutionising business models, whilst creating new risks which require immediate response. But though machines can now drive cars and perform micro-surgery, we see again and again that it’s human culture and behaviour which is critical to business success, or downfall.

.....  
***In PwC’s UK CEO survey, published in January 2015:***

***87% concerned about over-regulation***

***80% concerned about geo-political uncertainty***

***67% concerned about cyber threats***

Volatility, unpredictability, complexity and ambiguity are the new normal, affecting business and consumers at all levels – from the security measures that need to be put in place to the fundamentals of economic activity. In this environment, how can we hope to improve levels of trust between society and business?

## ***A vision of the future***

Imagine a world where society has trust in business. All capital providers are empowered to make decisions about business through access to information they can trust – it’s always available on Wiki-style platforms where everyone can contribute to a picture of performance. Financial audits are powered by artificially intelligent machines; assurance is also available over all aspects of risk, qualitative as well as quantitative. Assurance professionals have become trusted curators of business information, offering shareholders and other stakeholders a route through the data maelstrom.

### ***Our Assurance business today***

That's our vision of the future, but where is PwC's Assurance business today? This year, we've seen healthy growth across all business units; a performance which reflects a growing demand for assurance, both from the statutory audit and beyond. Of particular note is the remarkable growth of our Risk Assurance business. Here we deliver assurance against a wide range of risks. This year, for example, we've supported a major investment bank through a transformational controls remediation programme, giving independent assurance over remediation and change activities. We drew on expertise from across PwC to help us design an innovative approach to giving assurance over the culture and behaviours framework being implemented throughout the bank.

Of course, we're also working hard to keep pace with regulatory changes impacting the Assurance business. In 2016, the audit marketplace will face further change as the UK government and the Financial Reporting Council (FRC) give effect to the package of audit reform legislation agreed at EU level.

### ***..... Selection of audits won or retained this year:***

***Antofagasta,  
Bovis, Catlin,  
Crest Nicholson,  
Dechra Pharma,  
Diageo, EasyJet,  
Finsbury Growth  
& Income  
Investment Trust,  
G4S, Hiscox,  
Jupiter Fund  
Management,  
Mercantile  
Investment Trust,  
Northgate, RPC  
Group, Santander***

As the new rules are implemented, the fundamental principles of audit quality, choice and independence must be upheld. We believe that the new regulation should be introduced proportionately, so as not to put the UK capital markets at any kind of competitive disadvantage. We're also keen to see maximum cooperation and coordination between EU member states as national implementation progresses. Consistency in implementation will reduce cost and complexity for businesses across Europe.

The new rules on audit firm rotation and tendering have driven considerable movement in the large company audit market. We welcome this competition, not only because we are proud of the premium quality of our audit services, but also because it encourages us to articulate the real value of a PwC audit. We have competed well to win and retain many audit appointments, some of which are profiled opposite. Where our long-standing audit clients have chosen to award their audit mandates to other audit firms, we remain committed to working with them across PwC, including on their wider assurance agenda.

### ***Assurance UK revenue***

***£991m*** ***up  
10%***

.....  
***There is always  
room for  
improvement and  
we will never rest  
on our laurels***

.....  
***Between Jan–  
Dec 2014***

***1.26m  
hours  
were spent on  
individual and  
team development***

### ***Audit quality***

We believe that good audits empower shareholders to make confident decisions using audited information. This confidence arises from trusting that problems will be found by auditors, and that those problems will be reported and, usually, resolved. PwC audits find problems through experienced audit professionals undertaking robust risk analysis, tailoring methodologies which respond to those risks and comply with auditing standards, and consistently showing high levels of professional scepticism. Our culture and commitment to ‘doing the right thing’ means that we’re confident problems identified will be surfaced and resolved.

Every year, we challenge ourselves to improve all of these areas, and so to enhance the overall quality of our audits. Many regulators inspect our work, including the Audit Quality Review team of the FRC who assesses a sample of our audits to check our compliance with Auditing Standards. This year, we were pleased that 73% of the audits inspected were graded in the top category, although this percentage was lower than last year (2013/14: 89%). Where our regulators identify areas where we could enhance audit quality, we perform careful root cause analysis to make sure our responses drive sustainable improvements. In an environment of intense regulatory scrutiny, it is not realistic to expect that we will ever achieve results where no improvements are required. We remain focused on delivering the sustained effort required to meet regulatory and other stakeholder expectations of us. Further details of all of our inspection results are set out in section 7.

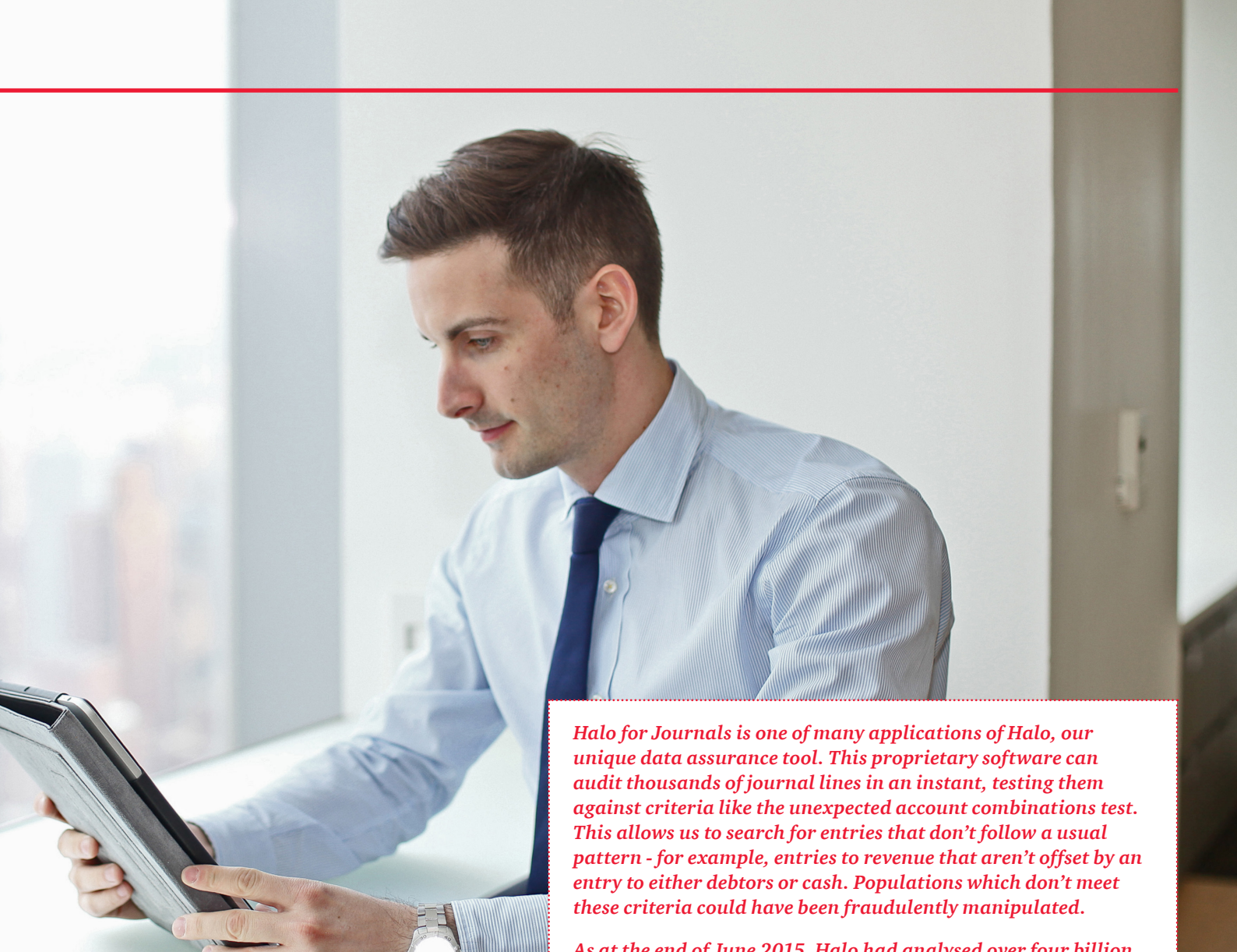
We also carefully monitor many other factors contributing to good audit quality, and on pages 57–60 you’ll read about our Audit Quality Indicators (AQIs), which we disclosed for the first time last year. These report our performance across a range of areas impacting quality, and are a further testament to our commitment to continuous improvement.



### ***Investing for the future***

A healthy business generating profitable growth means that we can invest for the future. This starts by developing our people – we rely on them to deliver premium assurance work, and to create innovative new ways to build trust. We expect them to display the highest standards of professional integrity and personal responsibility in all aspects of their work. To ensure all 6,000 of our assurance professionals maintain these standards, we provide a year-round programme of personal, business and professional education. During the year to 31 December 2014, that equated to 1.26 million hours spent on individual and team development – a massive but invaluable investment in the future.

People joining our assurance business today are welcomed as assurance professionals; our trainees will learn the rigour required in statutory audit and develop the agility needed to deliver other assurance services. Establishing



*Halo for Journals is one of many applications of Halo, our unique data assurance tool. This proprietary software can audit thousands of journal lines in an instant, testing them against criteria like the unexpected account combinations test. This allows us to search for entries that don't follow a usual pattern - for example, entries to revenue that aren't offset by an entry to either debtors or cash. Populations which don't meet these criteria could have been fraudulently manipulated.*

*As at the end of June 2015, Halo had analysed over four billion journal lines. By the end of September 2015, this number had climbed to over seven billion.*

this broad base of experience will enable them to identify and capitalise on their strengths, whilst retaining a common thread of ethics, integrity and a commitment to our core purpose.

We're conscious that tomorrow's assurance professionals may need new skills – in the future we may need coders and cyber specialists, or behavioural psychologists who can evaluate culture. As we factor these new competencies into our people strategy, we're also working hard to maintain and improve the diversity of our talent pool. Of the 18 new Assurance partners admitted at 1 July 2015, one-third were women, bringing the proportion of Assurance partners who are female to 19%. We're also delighted that our pipeline of black and minority ethnic talent is steadily increasing. The entire diversity agenda, including both of these specific areas, needs relentless focus. We're committed to achieving ambitious targets in years to come.

We're also investing in cutting-edge technology to further empower our assurance professionals. Our unique technology suite of Aura, Halo and Connect already gives us risk assessment, assurance and insight capability to set the standard for our profession, but we are going beyond that with innovations which improve data capture and handling and automate even more auditing processes.

But we're not just innovating in our traditional space of financial audit. We're also experimenting in other areas including, for example, with an electronic "nose" that could enable us to give assurance over food freshness, thereby promoting health and reducing wastage. And during the recent tragic Ebola outbreak, we worked, with Consulting colleagues, for the WHO on the reporting of its infection rates, building trust where it matters most and the risk is highest.



### ***Listening to others***

So what of our vision of the future? It might be nearer than you think. It's not a vision created by PwC auditors sitting in air-conditioned offices. This year, we've challenged ourselves to collaborate with a range of stakeholders to understand their needs for the future of assurance.

We've continued our programme of shareholder engagement, convening round table discussions on audit reporting, going concern and other hot topics, and releasing a series of Audit Insight videos designed to help shareholders understand how a PwC audit works. Shareholders are the beneficiaries of our statutory audit reports, and their feedback is an invaluable input into the evolution of our approach.

### ***Citizens' criteria for good assurance***

- ***Accessible to non-experts***
- ***Continuous***
- ***Spontaneous and unannounced***
- ***Comparable across companies***
- ***Compulsory***
- ***Independent***

In April, we convened a Citizens' Jury; inviting 24 jurors, selected to be representative of the UK's demographic spread, to spend two days deliberating on their expectations of corporate reporting and assurance. The insight we gained from this group of "ordinary" citizens was remarkable.

Our citizens began by developing their own criteria for "good" assurance, as set out in the panel opposite. They went on to imagine how assurance might operate in the future, deciding that business information would be inherently more trustworthy if users could participate in the generation of that information. Their verdict was that a collaborative or "crowd-sourcing" approach would be key to a future assurance model.

.....  
*Does a focus on maximising shareholder value lead to short-termism? Yes, says 75% of business audience @PwC\_UK debate*  
**#maximisingvalue**

*We need a capitalism that fits the world around it @Mr\_LeoJ*  
**#maximisingvalue @PwC\_UK**

*Friedman quoted or misquoted? What are the rules of the game the company must stay within for*  
**#maximisingvalue for shareholders**

*Businesses can't focus on all stakeholder groups all of the time – some strong views from panel and audience* **#maximisingvalue**

*Nick Anderson of Henderson @PwC\_UK Qtime: 'Material issues are not mutually exclusive for shareholders and stakeholders.'* **#maximisingvalue**

*Shareholders have a powerful voice for change – what stops them from using it?* **#maximisingvalue @gillylord**

*@Mr\_LeoJ: CSR is not a luxury for business, it is a differentiation*  
**#maximisingvalue**

 Live tweets from PwC Question Time event

This led us to imagine a future where a fair and balanced assessment of corporate performance is assembled in the same way as information on Wikipedia. Anyone, including the company, can contribute information, which becomes more trustworthy as it is created and edited by its users. This future cuts a swathe through the business model of our current audit practice. But that doesn't mean we should shy away from it – in the future we can imagine participating as a trusted curator – the monitor behind the Wiki-platform.

We were delighted to be invited to present our jury's verdicts to the FRC. Of course, the changes imagined by our citizens would also have profound implications for our regulatory framework.

In July, we hosted our first PwC "Question Time" event, debating whether maximising shareholder value was a "responsible or reckless" pursuit. We heard from business leaders, investors, leaders of civil society and academics during a heated discussion. About fifty years ago, Milton Friedman told us: "There is one, and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits, as long as it stays within the rules of the game." The debate taught us that views of capitalism have changed: non-financial aspects of corporate performance rank alongside financial matters in importance. We realised that we need to work with others to establish new "rules of the game" that respond to the changing demands of society.

*Whatever changes we face in the future, we believe that the best assurance will always be provided by highly skilled professionals enabled by leading technology. We're proud of our strength in both areas, and we will continue to invest as we pursue our purpose – to build trust in society and solve important problems.*

.....  
**assurance**  
[uh-shoo r-uh ns]  
**noun**  
**a statement or assertion intended to inspire confidence**

Source: Collins English Dictionary

# A report from the Public Interest Body

*This is my fifth annual report on the operation of the Public Interest Body (PIB) since it was established in 2010.*



**Sir Richard Lapthorne**

Chairman of the Public Interest Body

In my view, the core responsibility of the PIB is to strengthen the governance of PwC, and through doing this, ensure that the public interest is taken into consideration when decisions are made by the firm's executive management and the Supervisory Board. The PIB has the freedom to set its own agenda – matters with the potential to impact the public interest are brought to the PIB by executive management, but often the independent non-executives (INEs) will add to the agenda items which we believe need examination and challenge. This is an important benefit of the PIB existing as an independent body, with an independent chairman.

From the perspective of the INEs, we find the relationship between the firm's executive management and the PIB to be open and transparent; during the year we invited Stephen Haddrill, Chief Executive Officer of the FRC, to attend one of our meetings, to experience this first hand.

## **Key risks considered this year**

The PIB always considers certain areas which might be regarded as “core” to the public interest. However, we are alert to other specific risks which arise from time to time. This year we have:

- examined the firm's response to the on-going reforms to the UK and European audit markets;
- probed the reputational risks around tax advice, along with other reputational risks;

- considered the robustness of the firm's management of cyber-attack threat;
- brought constructive challenge to PwC's management of significant litigation;
- monitored the impact of the PwC network's acquisition of Strategy& (formerly Booz & Co) on the UK firm;
- considered the potential implications for the UK firm of developments in the governance of the PwC network; and
- reviewed several other aspects of PwC's management of risk.

**Changes in the audit market** – At each meeting we asked James Chalmers, the firm's Head of Assurance, and Gilly Lord, the firm's Head of Regulatory Affairs, to update us on the firm's response to the significant regulatory changes impacting the audit market. This year, we have challenged James on the processes in place to ensure that audit quality is maintained, even though the business is experiencing an unprecedented level of market tendering.

These changes have given rise to an increased degree of press comment as long-standing audit clients of all the larger firms put their audits out to tender. There are also situations where an audit appointment decision by either a client or the firm is precipitated by events other than regulatory intervention. The PIB obtains detailed briefings from the firm's management as matters unfold, including outside our regular meetings.

.....  
*We are pleased that the firm shares with us its reputational monitoring which now extends beyond print and broadcast media to include social media.*

We are satisfied that in dealing with these matters the firm has reacted appropriately, including scrupulously adhering to client confidentiality, as one would expect. We are pleased that the firm shares with us its reputational monitoring which now extends beyond print and broadcast media to include social media. This gives useful insights into how the firm is perceived and by whom over time and in reaction to publicity, both good and bad.

**Managing the reputational risks arising from the increased public scrutiny of the tax system** – Given the ongoing spotlight on tax, we have continued regularly to address with Kevin Nicholson, the Head of Tax, how the firm manages the reputational risks when providing tax advice and how it has contributed ideas and evidence to the debate on how much tax individuals and companies pay. The year was marked by Kevin appearing before the Public Accounts Committee providing evidence on tax avoidance with a specific focus on Luxembourg. We are supportive of Kevin as he contributes to the debate around reforming the UK tax system so that it is fit for the future. We are satisfied that the firm is responding to the external challenges in this area, as well as seeking to lead the future debate. We believe that governments worldwide have a role to play in changing the environment such that they do not compete for business through offering attractive tax regimes.

**Managing the threat of cyber-attack** – Given the critical role that PwC plays in the UK capital markets, we were keen to hear how the firm is managing the ever-increasing threat of cyber-attack. Executive responsibility for this area falls to Warwick Hunt, the firm's Chief Financial Officer; Warwick and his team presented to us their assessment of the current threat environment and the protective measures already taken by the firm. We also heard how the firm is continuing to invest in cyber defences – both in terms of new technologies and, importantly, the cultural attitudes of the firm's people. This area is of personal interest to me, and I had a follow up meeting with the team to explore certain aspects in more detail.

**Significant claims and litigation affecting the UK firm** – We invite Margaret Cole, the firm's General Counsel, to present to us at each meeting details of her management of the most significant litigation and other matters impacting the firm. We are regularly briefed on any regulatory investigations into the firm's activities. Such cases create material risk to the firm, but we are satisfied that the firm's response is measured and appropriate. We have also noted the need for a responsible approach to these issues by all stakeholders, including our regulators.

**The PwC network acquisition of Strategy&** – This year, our focus has been on monitoring how the activities of Strategy& are being integrated into PwC's network, and in particular the UK firm. Ian Powell has briefed us on progress at each of our meetings, and we also invited the UK's Head of Consulting, Ashley Unwin, back to the PIB, to present to us at a more detailed level. Ashley and a colleague gave us an update on developments, including the progress towards integration and the hive down which took effect on 1 July 2015.

**Developments in the governance of the PwC network** – This year, there have been modifications to the PwC network's standards and governance arrangements which apply to all member firms of the network. It has been important for us to understand these changes so that we consider if they have any impact on the role and remit of the PIB. Having considered this, we are satisfied that the changes, taken as a whole, are advantageous for the UK firm and will not change the scope of the PIB's work. We also hope that the changes may help to further enhance the quality of cross-border engagements.

**Other aspects of risk management** – We have also considered other issues facing the business which present current or long term risk. These have included the firm’s continuing progress in developing and delivering its sustainability strategy, the resourcing and robustness of the firm’s sanctions compliance and the widespread understanding of its sanctions compliance processes, and the swiftly changing business environment. In addition, we have reviewed and provided input to the contingency plan requested by the FRC from all firms subject to the Audit Firm Governance Code (the Governance Code).

### Other core activities

**Audit quality** – One of the areas on our agenda with the most significant implications for the public interest is the maintenance and improvement of audit quality. We continue to spend substantial time engaging with the FRC’s Audit Quality Review Team (AQRT) regarding the firm’s annual inspection reports. For the third successive year, together with the firm’s Head of Assurance, I met senior AQRT staff, so that we could hear about their inspection findings prior to publication; I also had a private discussion with the AQRT as part of this year’s meeting. This interaction continues to be helpful to the INEs and enables us to better understand the regulator’s priorities and focus our attention on areas of potential risk to audit quality.

My fellow INEs and I believe that there is benefit in continued dialogue with senior AQRT staff about the evolution of the inspection regime, so as to contribute to the further enhancement of audit quality.

### Engagement with other stakeholders –

In addition to our engagement with regulators, we also have a programme of engagement with other stakeholders.

It is important that the PIB has links to the wider partnership and so at each meeting we hear from the chairman of the firm’s Supervisory Board. In addition, three of the independent non-executives have attended meetings of the Supervisory Board. We have scheduled our next meeting with the members of the Supervisory Board for October 2015. We engage with other partners through our attendance at the annual Partner Meeting.

In order to formalise our engagement with shareholders, we regularly hold meetings with them, the next of which is scheduled for December 2015. Where individual shareholder representatives wish to meet separately, we will, of course respond, and we have one such bilateral meeting arranged for later this year.

As always, if any of PwC’s stakeholders would like to raise issues related to the Governance Code or our work, do please get in touch with me directly.

**Effectiveness of the PIB** – In line with good practice, we commissioned an effectiveness review of the PIB in the second half of 2014. This was externally facilitated and built on the work of the internal effectiveness review that was conducted in 2012. The PIB was found to be effective and to have evolved into a mature element of the firm’s governance. Despite the difficulty in precisely interpreting the proper consideration of the ‘public interest’ in the context of the firm’s decision-making, all members commented that they viewed the PIB as fully functioning and delivering on its remit. Key recommendations arising from the review were:

- shortening the timeframe for bringing matters to the PIB;
- considering additional meetings;
- increasing the informal engagement among the independent non-executives themselves and with the Executive Board;
- further raising the profile of the PIB to the wider partnership; and
- succession planning arrangements for the independent non-executives.

The changes in our membership, described overleaf, will give us an opportunity to consider how we best respond to these recommendations, all of which we consider to be valid.

### Our Public Interest Body

The firm established the Public Interest Body following the introduction of the Audit Firm Governance Code, which applied to PwC UK for the first time for the year ended 30 June 2011. The Public Interest Body’s purpose is to enhance stakeholder confidence in the public interest aspects of the firm’s activities, through the involvement of independent non-executives.

#### Independent non-executives:

Sir Richard Laphorne  
(Chairman)  
Sir Graeme Davies  
Dame Karen Dunnell  
Sir Ian Gibson  
(from May 2015)  
Justin King CBE  
(from 1 July 2015)  
Lord O’Donnell  
(from 1 July 2015)  
Paul Skinner CBE

#### PwC members:

Ian Powell<sup>^†</sup>  
Pauline Campbell<sup>†</sup>  
(From May 2015)  
Matthew Thorogood<sup>†</sup>  
(to December 2014)  
James Chalmers<sup>^</sup>  
Mark Hudson (from January 2015) <sup>†</sup>

<sup>^</sup> Member of the Executive Board

<sup>†</sup> Member of the Supervisory Board

### **Changes in our membership**

During the year, I was delighted to welcome back Sir Ian Gibson as a PIB member. Ian re-joined the PIB on 1 May 2015. During 2014, Ian resigned his PIB membership before PwC were appointed as auditors of WM Morrisons plc, of which he was chairman. This ensured that our independence of the firm and its audit clients was maintained. His time as chairman of Morrisons has now come to an end and therefore the firm was able to re-appoint him with no further independence issues arising.

The Governance Code recommends that there should always be a majority of independent non-executive members on the Public Interest Body. When Ian resigned, we also asked Pauline Campbell, one of our Supervisory Board representatives, to step down, so that this majority could be maintained. Pauline re-joined the PIB on 18 May.

Matt Thorogood, the former Chairman of PwC's Supervisory Board, has now vacated his Supervisory Board role and has taken up an executive leadership position as Head of Partner Affairs. This means that his PIB membership has also ceased and his successor as Supervisory Board chairman, Mark Hudson, has been appointed in his place.

I am pleased that, with effect from 1 July 2015, Lord O'Donnell and Justin King CBE joined the PIB as new independent non-executive members. These appointments anticipate the retirement of Dame Karen Dunnell and Sir Graeme Davies on 30 September 2015. Karen and Graeme brought valuable perspectives to our discussions and we shall miss their considered and insightful contributions. I am confident that Gus and Justin will also make excellent contributions drawing on their long and illustrious careers.

We continue to search for a further independent non-executive to bring broader experience to the PIB membership. The search is particularly challenging due to the strict independence requirements to which we must adhere.

### **Reviewing the effectiveness of audit firm governance**

Now that the Governance Code has been in place for several years, the FRC has reviewed the success of its implementation, and has consulted on potential changes which could be made in the light of that review. PwC has responded to the consultation with a separate appendix submitted by the PwC INEs; our response can be found on the FRC's website. Both PwC and the INEs support proposals that will help clarify the overall purpose of the Governance Code, and the role of the independent non-executives.

As INEs, we take the public interest aspects of our role very seriously. We do not believe the public interest rests only with equity shareholders of listed companies and we've encouraged the FRC to incorporate a wider consideration of the "public interest" into the revised Code.

We are also keen to retain the "comply or explain" principle that the FRC has championed so successfully as part of the UK Corporate Governance Code. To this end, we have suggested to the FRC that they avoid introducing too much prescription as they consider revisions to the Governance Code.

I continue to enjoy my role as chairman of PwC's Public Interest Body. The responsibilities of the PIB are wide-ranging and, through fulfilling those responsibilities, we are proud to make a positive contribution to the health of the UK capital markets.



**Sir Richard Lapthorne**  
Chairman of the Public Interest Body

# *Other information*



# 1. Legal structure and ownership

PricewaterhouseCoopers LLP (PwC UK) is a limited liability partnership incorporated in England and Wales.

## (a) Ownership of PwC UK

PwC UK is wholly owned by its members, who are commonly referred to as partners. During the year, the average monthly number of partners was:

	FY15	FY14
PwC UK partners	849	814
Partners on secondment overseas	36	40
	885	854

## (b) UK office structure

PwC UK operates out of 29 offices throughout the United Kingdom – a full list can be found at [www.pwc.co.uk](http://www.pwc.co.uk).

## (c) Related firms, entities and investments

Set out below are details of the principal subsidiary undertakings of PwC UK, its interest in a joint venture and its other investments. Further details can be found on pages 18 to 21 and page 35 in the PwC Financial Statements 2015 which can be found at [www.pwcannualreport.co.uk](http://www.pwcannualreport.co.uk).

### (i) Subsidiary undertakings

The subsidiary undertakings whose results or financial position principally affected the figures shown in the PwC Financial Statements 2015 are shown in the table below. A full list of all subsidiary undertakings is annexed to the Annual Return of PwC UK filed at Companies House.

All principal subsidiary companies are 100% owned, except for GeoTraceability Limited which is 92% owned. All principal subsidiary companies are incorporated in Great Britain, except for PricewaterhouseCoopers (Middle East Group) Limited which is incorporated in Guernsey, with the Group owning 100% of the ordinary shares and the local Middle East partners owning 'B' shares.

Principal subsidiary undertakings of PwC UK	Principal activity
<b>Companies</b>	
PricewaterhouseCoopers Services Limited	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
PricewaterhouseCoopers Legal (Resources) Limited	Employment of staff
PricewaterhouseCoopers (Middle East Group) Limited	Professional services
PricewaterhouseCoopers Overseas Limited	Professional services
PricewaterhouseCoopers Advisory Services Limited	Professional services
PRPi Consulting Limited	Professional services
PwC Change Management Limited	Professional services
PwC Consulting Associates Limited	Professional services
PwC Performance Solutions Limited	Professional services
GeoTraceability Limited	Natural resource tracking
Fire Station Operating Company Limited	Social enterprise
<b>Limited Liability Partnerships</b>	
PricewaterhouseCoopers Legal LLP	Legal services
PricewaterhouseCoopers CI LLP	Professional services
PricewaterhouseCoopers ME Holdings No. 1 LLP	Investment holding company

The non-controlling interest in profits and capital attributable to the members of PricewaterhouseCoopers Legal LLP and PricewaterhouseCoopers CI LLP and to the Middle East partners of PricewaterhouseCoopers (Middle East Group) Limited are shown as non-controlling interests in the PwC Financial Statements 2015.

On 1 July 2015, PwC Strategy& (UK) Ltd became a subsidiary of PwC UK. Its principal activity is strategy consulting services.

#### **(ii) Interests in joint ventures**

PwC UK holds an interest in a joint venture, Skyval Holdings LLP. Skyval develops, maintains and licenses pension-related software and is incorporated in the United Kingdom. The group has 50% voting control and owns 20% of the equity, with a 50% share of the profits and losses over the first three years, reducing to 20% thereafter.

#### **(iii) Other investments**

PwC UK also holds a number of investments including the following:

- an equity holding in PwC Strategy& Parent (UK) Limited, a company incorporated in the United Kingdom. Strategy& is a strategy consulting business;
- preference shares issued by the PwC Central and Eastern European firm as part of a strategic investment plan; and
- an equity holding in PwC Network Holdings Pte Limited, a company which provides investment funding to certain member firms of the PwC global network.

#### **(d) Principal lines of business**

PwC UK operates through four principal Lines of Service (LoS) in the UK. These are Assurance, Consulting, Deals and Tax. Support services are provided by Internal Firm Services.

The primary services provided by each of the four principal lines of service are set out in Appendix 1.

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## 2. The PricewaterhouseCoopers network

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***‘PricewaterhouseCoopers’, ‘PwC Network’ and ‘PwC’ refer to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), each of which is a separate legal entity.***

We believe we are unique amongst the world’s leading professional services organisations because of the talent of our people, the breadth of the PwC network and the strict standards with which PwC firms must comply. These standards include service quality, governance arrangements, independence, risk management, people and culture, brand and communications. PwC firms agree to adhere to network standards and their compliance is closely monitored.

### ***(a) Legal structure, ownership and network arrangements***

In most parts of the world, the right to practice audit and accountancy is granted only to firms that are majority owned by locally qualified professionals. PwC is a global network of separate firms, operating locally in countries around the world.

PwC firms are members of PricewaterhouseCoopers International Limited (PwCIL) and have the right to use the PricewaterhouseCoopers name.

As members of the PwC Network, PwC firms share knowledge, skills and resources. This membership enables PwC firms to work together to provide high-quality services on a global scale to international and local clients, while retaining the advantages of being local businesses – including being knowledgeable about local laws, regulations, standards and practices.

PwCIL is a UK private company limited by guarantee, in which PwC firms are members. PwC UK is a member firm of PwCIL. PwCIL acts as a coordinating entity for PwC firms and does not practice accountancy or provide services to clients. PwCIL works to develop and implement policies and initiatives that create a common and coordinated approach for PwC firms in key areas such as strategy, brand, and risk and quality.

PwC firms can use the PwC name and draw on the resources and methodologies of the PwC Network. In return, member firms are required to comply with certain common policies and the standards of the PwC Network.

Each member firm of PwCIL is a separate legal entity and does not act as an agent of PwCIL, or any other PwC firm. PwCIL is not responsible or liable for the acts or omissions of any of its member firms, nor can it control the exercise of their professional judgement or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm, nor can it control the exercise of another member firm’s professional judgement, or bind another member firm, or PwCIL in any way.

## Our people



195,433 people FY14

## Working in

758 locations

in 157 countries  
FY14

## Worldwide revenues

\$34bn  
FY14



### (b) Size of the network

Member firms of PwCIL provide industry-focused assurance, tax and advisory services to enhance value for their clients. Over 195,000 people in 157 countries share their thinking, experience and solutions to develop fresh perspectives and practical advice.

For the year ended 30 June 2014, PwCIL member firms generated aggregate revenues of US\$34 billion worldwide (2013: US \$32.1 billion). Aggregate revenues for the year ended 30 June 2015 will be available from October 2015 in the PwC Global Annual Review which can be found at [www.pwc.com/annualreview](http://www.pwc.com/annualreview). The PwC Global Annual Review also contains further financial and other information about the PwC Network.

A list of PwC Network audit firms and sole practitioner statutory auditors in European Union / European Economic Area Member States can be found in Appendix 3.

### **(c) Governance structures of PwCIL**

The governance structures of PwCIL are as follows:

- **Network Leadership Team (NLT)** – The NLT sets the overall strategy for the PwC Network and the standards to which PwC firms agree to adhere.

The NLT is made up of the Chairman of the PwC Network; the Senior Partners of the US, the UK and China member firms; and a fifth member appointed by the Global Board, currently the Senior Partner of PwC Germany. The Chairman of the PwC Network and the fifth member may serve on the NLT for a maximum of two terms of four years each in their respective capacities. The terms of the other NLT members are limited by the arrangements in their respective firms. The NLT typically meets monthly and on further occasions as required.

- **Strategy Council** – The Strategy Council, which is made up of senior partners of the largest PwC firms and regions, agrees the strategic direction of the network and facilitates alignment for the execution of strategy. The Strategy Council meets at least quarterly and as required.
- **Network Executive Team (NET)** – This team is appointed by, and reports to, the NLT. Its members are responsible for leading teams drawn from network firms to coordinate our activities across all areas of our business.
- **Global Board (the ‘Board’)** – The Board, which consists of 18 elected members, is responsible for the governance of PwCIL, oversight of the Network Leadership Team and approval of network standards. The Board does not have an external role. Board members are elected every four years by partners from all PwC firms. The current Board, with members from 13 countries, took up office in April 2013.

Board members may serve a maximum of two terms of four years each. The Board meets four times a year and on further occasions as required.

The names of the current members of each of the above bodies can be found in PwC’s Global Annual Review, available from October 2015 from [www.pwc.com/annualreview](http://www.pwc.com/annualreview).

### **(d) Key features of the network**

Every PwC firm is responsible for its own risk and quality performance and, where necessary, for driving improvements. Every PwC firm is also exclusively responsible for the delivery of services to its clients.

Each PwC firm’s Territory Senior Partner, Ian Powell for PwC UK, signs an annual confirmation of compliance with certain standards. These standards are regularly reviewed and updated as necessary. They cover a range of areas including independence, ethics and business conduct, Assurance, Advisory (which comprises Deals and Consulting) and Tax risk management, governance, anti bribery, anti money laundering, antitrust, IT security and data protection and privacy.

These confirmations are reviewed by others who are independent from the PwC firm in question. Member firms are required to develop an action plan to address specific matters where they are not in compliance. The action plans are reviewed and their execution monitored.

There are some common principles and processes to guide PwC firms in applying the network standards. Major elements include:

- the way we do business
- sustainable culture
- policies and processes
- quality reviews.

#### **(i) The way we do business**

PwC firms undertake their business activities within the framework of applicable professional standards, laws, regulations and internal policies. These are supplemented by a PwC Code of Conduct for their partners and staff. The PwC UK Code of Conduct is set out at [www.pwc.co.uk/who-we-are/code-of-conduct.jhtml](http://www.pwc.co.uk/who-we-are/code-of-conduct.jhtml).

#### **(ii) Sustainable culture**

To promote continuing business success, PwC firms nurture a culture that supports and encourages PwC people to behave appropriately and ethically, especially when they have to make tough decisions.

PwC people have ready access to a wide array of support networks within their respective member firms – both formal and informal – and technical specialists to help them reach appropriate solutions. The foundations of PwC’s culture are objectivity, professional scepticism, cooperation between PwC firms and consultation.

### **(iii) Policies and processes**

Each PwC firm has its own policies, based on the common standards and policies of the PwC Network. PwC firms also have access to common methodologies, technologies and supporting materials for many services.

These methodologies, technologies and content are designed to help a member firm's partners and staff perform their work more consistently, and support their compliance with the way PwC does business.

### **(iv) Quality reviews**

Each PwC firm is responsible for monitoring the effectiveness of its own quality control systems. This includes performing a self-assessment of its systems and procedures, and carrying out, or arranging to have carried out on its behalf, an independent review.

In addition, the PwC Network monitors PwC firms' compliance with network quality expectations, and risk and quality standards and policies. This includes monitoring not only whether each PwC firm conducts objective quality control reviews of all of its services, but also includes consideration of a member firm's processes to identify and respond to significant risks.

In accordance with applicable regulatory requirements, each firm may also be reviewed periodically, in some cases annually, by national and international regulators and/or professional bodies.

For Assurance work, the quality review programme is based on relevant professional standards relating to quality controls including International Standards on Quality Control 1: 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements' (ISQC 1) and where applicable, the US Public Company Accounting Oversight Board (PCAOB) Quality Controls Standards.

The overriding objective of the assurance quality review programme is to assess for each PwC firm that:

- quality management systems are appropriately designed, are operating effectively and comply with applicable network standards and policies
- engagements selected for review were performed in compliance with applicable professional standards and PwC Audit requirements, and
- significant risks are identified and managed appropriately.

A member firm's assurance quality review programme is monitored, as is the status and effectiveness of any quality improvement plans a PwC firm puts in place.

### **(e) Development of global audit methodology, technology and tools**

#### **(i) Global audit methodology**

PwC's global audit methodology is developed by the Network Assurance Methodology Group (NAMG). NAMG has responsibility for the maintenance and update of global audit policies and guidance, included within: the PwC Audit Guide; libraries of audit steps for our global Enterprise Resource Planning (ERP) system (Aura); and template letters and other documents for use by engagement teams. The UK, along with other member firms, support NAMG by seconding staff to work alongside the permanent staff. There are also a number of review and consultation groups, comprising representatives from member firms including PwC UK, which provide input to NAMG via regular conference calls and review of materials prior to release to the PwC network.

Subsequent to 30 June 2015, an Audit Methodology Leaders Group, which includes senior representation from PwC UK, has been established with the purposes of ensuring global alignment of methodology priorities, sharing of territory emerging matters, providing input on PwC's response to proposed auditing and assurance standards, and acting as a forum for discussion.

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***Our unique technologies and tools are under continual review and enhancement to improve audit quality and efficiency***

**(ii) Global audit technologies and tools**

The Global Business Transformation Leadership Team is responsible for the assurance technology strategy and oversight and consists of the Global Chief Auditor and the Global Tools & Technologies Leader together with representation from major territories including two partners from PwC UK. The Assurance Transformation agenda is supported by a network of cluster and territory Assurance Transformation Partners and Managers responsible for the roll-out, implementation and support of new technologies and initiatives.

Our unique technologies and tools, which are under continual review and enhancement to improve audit quality and efficiency, include:

- Aura, our global ERP system – new features and functionality for Aura are developed at a global level to reflect changes to regulatory and legal requirements, technology initiatives to improve quality and efficiency, themes from external and internal quality reviews and feedback from global users. New features and functionality are approved by the Aura Working Group, which is composed of PwC Tools & Technologies partners and directors and IT specialists from across the network including PwC UK. Aura changes impacting methodology aspects involve NAMG, risk management, legal and IT specialists as appropriate. Prior to release to the network, changes are tested globally through a collaborative testing approach involving a number of member firms, including PwC UK. In addition Aura specialists work closely with global and member firm learning and education functions in determining the extent of any training requirements and the development of appropriate materials; and
- other applications, such as Halo, Connect, Count and PwC's Confirmation System (see section 5 for further details) – such applications either involve global teams of audit and IT specialists developing the concept or involve a territory, such as PwC UK, taking the lead on behalf of the network. Input and approvals are obtained from relevant methodology, risk management, legal and IT specialists as appropriate. PwC UK has had a significant involvement in the development of these global applications.

**(f) Independence**

Objectivity is the hallmark of our profession, at the heart of our culture and fundamental to everything we do. Independence underpins objectivity and has two elements: independence of mind and independence in appearance.

PwC firms reinforce both of these elements through a combination of setting the right tone from the top, independent consultation on judgemental issues, detailed policy requirements including prescribed processes to safeguard independence, regular training, and careful observance of independence requirements.

**(g) Financial arrangements**

PwC UK and its subsidiary undertakings have no profit-sharing arrangements under the PwCIL network framework. Details of PwC UK's strategic alliances with certain other PwC Network firms are explained in more detail in the PwC Financial Statements 2015 on pages 18 and 21. The profit-sharing arrangements of PwC UK are set out in section 10.

### 3. Governance structure of PricewaterhouseCoopers LLP

The governance structure of PwC UK is made up of three main elements: an Executive Board responsible for developing and implementing the policies and strategy of our firm and for its direction and management; a Supervisory Board, which oversees the executive management, and represents the interests of all partners; and a Public Interest Body whose aim is to enhance confidence in public interest aspects of the firm's decision-making, stakeholder dialogue and management of reputational risks.

#### (a) The Executive Board

The Executive Board is responsible for developing and implementing the policies and strategy of the firm, and for its direction and management.

The Executive Board sets and communicates the firm's strategic priorities, which feed into the firm's business planning process. The contribution of each part of the firm is monitored through balanced scorecard reporting.

The Executive Board is chaired by Ian Powell (the Chairman), who was re-elected to serve a second term of office for four years from 1 July 2012 to 30 June 2016. The Chairman was elected by the firm's partners and he appoints the other Executive Board members, all of whom are partners in the firm. Each board member has responsibility and accountability for a specific aspect of our business.

The Executive Board meets at least monthly, and conducts formal business at additional meetings as necessary.

Length of service on the Executive Board and attendance records for the year ended 30 June 2015 are set out in Table 3.1.

The Executive Board takes overall responsibility for establishing systems of internal control and for reviewing and evaluating their effectiveness.

The day-to-day responsibility for the implementation of these systems and for ongoing monitoring of risk and the effectiveness of controls rests with senior management in the individual Lines of Service and Internal Firm Services.

**Table 3.1**  
**Executive Board for the year ended 30 June 2015**

	Length of service (years)	Board meetings	
		A	B
Ian Powell, Chairman and Senior Partner^^	9	12	12
Kevin Ellis, Managing Partner	7	12	11
Gaenor Bagley, People	4	12	11
James Chalmers, Assurance^^	7	12	11
Margaret Cole, General Counsel	3	12	12
John Dwyer, Deals	3	12	11
Warwick Hunt, Chief Financial Officer	2	12	11
Stephanie Hyde, Regions	4	12	10
Kevin Nicholson, Tax	7	12	10
Richard Oldfield, Strategy	4	12	11
Dan Schwarzmann, Clients and Markets	2	12	11
Ashley Unwin, Consulting	3	12	10

A = Maximum number of meetings could have attended.

B = Number of meetings actually attended.

^^ Member of the Public Interest Body

The systems, which have been in place throughout the financial year and up to the date of approval of the PwC UK Financial Statements Report 2015, include the following:

- The Risk Council, an Executive Board subcommittee, which is responsible for ensuring that the controls are in place to identify, evaluate and manage risk.
- Our Lines of Service and our Internal Firm Services, which document risks and the responses to them, carry out risk assessments annually and report to the Risk Council on how effectively they have managed risk during the year.
- Periodic reviews of performance and quality, which are carried out independently by the PwC network.
- Our internal audit team, which reviews the effectiveness of the financial and operational systems and controls throughout the Group, and reports to the Executive Board and the Audit and Risk Committee of the Supervisory Board.
- Our risk and quality functions, which oversee our professional services' risk management systems and report to the Executive Board.

We take client acceptance procedures extremely seriously and we do not automatically take on new clients or an engagement for an existing client. Understanding properly who we are working with and the nature and purpose of the work requested are central to protecting our reputation for quality.

We have procedures to assess the risk associated with new clients, which include reviewing their business activities and reputation to ensure they are compatible with our values. We also establish up front whether we are able to comply with independence requirements and address any potential conflicts of interest. We also regularly review existing client relationships to ensure that they remain consistent with our values and to address any independence issues that may arise from the longstanding nature of those relationships.

A more detailed explanation of the firm's systems of internal control and internal quality control for Assurance is set out in section 5.



**Mark Hudson**

Chairman of the  
Supervisory Board

## **(b) Supervisory Board**

The principal roles of the Supervisory Board are to hold the firm's Executive Board to account and to represent the interests of all partners, and as such it is a vital part of the firm's governance structure.

The Supervisory Board is made up of 12 partner members, who are elected for a term of four years by all of our partners. In addition to the 12 elected members, UK Chairman Ian Powell serves as an ex officio member, along with two partners who have been elected to the Board of PricewaterhouseCoopers International Limited, the global Board of the PwC Network. The Supervisory Board elects its own Chairman.

Six elected members stood down in December 2014 and five partners were elected, and one partner re-elected, to serve for four years from 1 January 2015.

Partners use the Supervisory Board as a formal communication channel with the Executive Board. This is achieved by holding regular meetings with partners to get their views on the firm's overall strategy and any other issues that may be of concern.

The Supervisory Board is also responsible for approving the Annual Report and the choice of auditor, for approving the admission of new partners and for approving transactions and arrangements outside the ordinary course of business. It also has the ability to consult partners on any proposed significant change in the form or direction of the LLP. It has responsibility for managing the process leading to the selection of the firm's Chairman.

There are three subcommittees of the Supervisory Board: Partner Affairs, Strategy and Governance, and Audit and Risk.

The Partner Affairs Committee is responsible for making sure that the firm's policy on partners' remuneration is being properly and fairly applied. It also has oversight of partner admissions and retirements.

The members of the Partner Affairs Committee, under a different Chairman, act as the Senior Management Remuneration Committee and make recommendations to the Supervisory Board, which sets the Chairman's profit share and approves the Chairman's recommendations for the profit share of other members of the Executive Board.

Table 3.2 Supervisory Board	Length of service (years)	Board meetings	
		A	B
Mark Hudson (Chair from January 2015)	3	11	9
Christine Adshead†~~, Deputy Chair	3	11	11
David Allen~	3	11	8
Colin Brereton (to December 2014)	9	5	2
Pauline Campbell††	6	11	9
Paul Clarke (to December 2014)	6	11	4
Duncan Cox*~	3	11	10
Katharine Finn (to December 2014)	6	5	4
Rob Hunt (to December 2014)	6	5	4
Bill MacLeod*~ (from January 2015)	1	6	6
Sue Rissbrook~	3	11	9
Caroline Roxburgh†~	3	11	11
Anne Simpson* (from January 2015)	1	6	6
Jim Stidham*† (from January 2015)	1	6	6
Claire Stokes* (from January 2015)	1	6	4
Heather Swanston** (from January 2015)	1	6	5
Matthew Thorogood (Chair to December 2014)	6	5	5
<b>Ex officio members</b>			
Simon Friend†^	3	11	11
Gerry Lagerberg^	15	11	11
Ian Powell	7	11	11

A = Maximum number of meetings could have attended.  
 B = Number of meetings actually attended.  
 \* Partner Affairs Committee member  
 \*\* Partner Affairs Committee Chair  
 † Audit and Risk Committee member  
 †† Audit and Risk Committee Chair  
 ~ Strategy and Governance Committee member  
 ~~ Strategy and Governance Committee Chair  
 ^ Member of the Board of PricewaterhouseCoopers International Limited (the "Global Board")

Note – Subcommittee membership details as at 30 June 2015

The Strategy and Governance Committee provides oversight of both the development of the UK firm's strategy and any material acquisitions or disposals. Its role is also to provide the Supervisory Board with a forward agenda to assist it to effectively commit time to strategic issues facing the firm as well as to routine operational issues.

The Supervisory Board works closely with the firm's Public Interest Body (PIB). Mark Hudson and Pauline Campbell sit on the PIB as members of the Supervisory Board to make sure that there is effective communication between the

two bodies. Pauline Campbell stood down in April 2014, so as to comply with the requirements of the Audit Firm Governance Code, and became a member of the PIB again in May 2015 when Sir Ian Gibson also rejoined.

The members of the Supervisory Board, who served during the year ended 30 June 2015, are shown in Table 3.2. The Supervisory Board members' biographies are set out in Appendix 2.

## **The Audit and Risk Committee**

### **Role**

The Audit and Risk Committee is a subcommittee of the Supervisory Board. The Committee comprises five members of the Supervisory Board (six until 31 December 2014), having both audit and non-audit backgrounds. The Committee met ten times in the year ended 30 June 2015 (FY14: 11 times). The Chief Financial Officer, the General Counsel, the Head of Internal Audit and the external auditors, Crowe Clark Whitehill LLP (CCW), attend the Committee's meetings by invitation. Both the internal and external auditors meet privately with the Committee without management presence.

The Committee monitors and reviews the:

- effectiveness of the Group's internal control and risk management systems
- firm's policies and practices concerning compliance, independence, business conduct and ethics, including whistle-blowing and the risk of fraud
- scope, results and effectiveness of the firm's internal audit function
- effectiveness and independence of the firm's statutory auditor, CCW
- reappointment, remuneration and engagement terms of CCW including the policy in relation to, and provision of, non-audit services
- planning, conduct and conclusions of the external audit
- integrity of the Group's financial statements and the significant reporting judgements contained in them
- firm's Transparency and Corporate Sustainability reports.

### **Internal control and risk management systems**

The Committee's review of internal control includes considering reports from the firm's Risk Council and internal and external auditors. A member of the Committee attends the Risk Council meetings throughout the year.

Also, during the year the Committee considered and approved the internal audit work programme including its risk assessment, proposed audit approach and coverage, and the allocation of resources. The Committee reviewed the results of internal audit work and considered the adequacy of management's response to matters raised, including the implementation of recommendations.

The Committee also considered reports from other parts of the firm charged with governance and the maintenance of internal control, including in respect of independence, compliance, ethics, whistle-blowing, fraud, data security, business continuity management and the management of the firm's own tax affairs.

The Committee also reviewed and considered the statements in section 5 of this report in respect of the systems of internal control, and concurred with the disclosures made.

### **Financial reporting**

The Committee carried out its responsibility for monitoring and reviewing the integrity of the Group's financial statements by reviewing formal updates provided by management on key accounting developments and by reviewing the financial statements with both management and the external auditors.

The significant issues the Committee considered in relation to the financial statements for the year ended 30 June 2015 are set out below. The Committee has discussed these with CCW, together with CCW's areas of particular audit focus described in the independent auditor's report included in our financial statements.

#### **• Critical accounting estimates and judgements**

The Committee reviewed management's process for considering the appropriateness of critical accounting estimates and judgements. These encompassed revenue recognition, the fair value of unbilled revenue on client assignments, provisions in respect of client claims and the assumptions adopted in valuing the firm's defined benefit pension schemes for the purposes of financial reporting. The Committee was satisfied that appropriate estimates and judgements have been made in the preparation of the consolidated financial statements.

.....  
**The Audit and Risk Committee is a subcommittee of the Supervisory Board**

- **Goodwill impairment**

Management's process and methodology for assessing the carrying value of goodwill was reviewed by the Committee. This included considering key assumptions, resulting headroom and the sensitivities applied by management in forming its assessment. The Committee agreed with management that there was no impairment of goodwill in the year.

- **Investments**

Consideration was given to management's assessment of the fair value of the investment in Strategy& Parent at 30 June 2015, and to the sufficiency of the disclosures made in respect of this assessment and of the acquisition of the United Kingdom and Middle East Strategy& businesses on 1 July 2015.

Following consideration of the matters presented to it and discussion with both management and CCW, the Committee was satisfied with the judgements and disclosures included within the financial statements. The Committee also reviewed the form and content of the Group's 2015 Annual Report.

### External audit

The Committee undertakes an annual review of the qualification, expertise, resources and independence of the external auditors and the effectiveness of the external audit process by:

- reviewing CCW's plans for the audit of the Group's financial statements, the terms of engagement for the audit and the proposed audit fee
- considering the views of management and the CCW engagement partner on CCW's independence, objectivity, integrity, audit strategy and its relationship with the Group, obtained by way of interview
- taking into account information provided by CCW on its independence and quality control.

The external auditors are engaged to provide non-audit services where there are business benefits in doing so, their objectivity and independence would not be compromised and no conflict of interests would be created. Suitable approval processes are in place to ensure that these criteria are met before CCW is engaged to provide non-audit services. Fees paid to CCW for audit and non-audit services

are set out in our financial statements. The non-audit assurance services provided during the year related to sustainability reporting, grant claims and regulatory compliance. Non-audit services constituted 13% (FY14: 13%) of CCW's total fee for the financial year.

Having considered a number of factors including audit effectiveness, business insight, tenure and approach to audit partner rotation, the Committee concluded that it was appropriate for CCW to be reappointed as auditor.

### (c) Public Interest Body

PwC UK established its Public Interest Body (PIB) to implement the principles and provisions of the Audit Firm Governance Code (the 'Governance Code').

The Governance Code states that the independent non-executives should enhance confidence in the public interest aspects of the firm's decision-making, stakeholder dialogue and management of reputational risks, including those in the firm's businesses that are not otherwise effectively addressed by regulation. In addition to those duties prescribed by the Governance Code, the members of the PIB are also expected to provide input on other matters, including the public interest aspects of: the firm's strategy; policies and procedures relating to operational risk management, internal control, quality and compliance with regulation; and external reporting.

The PIB presently comprises seven independent non-executives, two members from the firm's Executive Board and two members from the Supervisory Board. As explained in the commentary by Sir Richard Lapthorne on page 13, one independent member and one member from the Supervisory Board rejoined during the year, and Matthew Thorogood was replaced by Mark Hudson as the other Supervisory Board member when he assumed the role of Supervisory Board chair. Lord O'Donnell and Justin King CBE joined as new independent non-executive members of the PIB with effect from 1 July 2015. These appointments anticipate the retirement of Dame Karen Dunnell and Sir Graeme Davies on 30 September 2015. Following Sir Ian Gibson's resignation as a director of Wm Morrisons PLC on 22 January 2015, he rejoined as an independent non-executive member of the Public Interest Body on 1 May 2015.

.....

*The PIB's purpose is to enhance stakeholder confidence in the public interest aspects of the firm's activities*

.....

*The PIB has the freedom to set its own agenda. This is an important benefit of the PIB existing as an independent body, with an independent Chairman.*

The independent non-executives are appointed by the Supervisory Board from candidates nominated by the Senior Partner, following consultation between the Senior Partner and the Supervisory Board. Each independent non-executive has a service contract that sets out their rights and duties.

The Senior Partner and Supervisory Board respectively decide which members of the Executive and Supervisory Boards will sit on the PIB. Terms of office for the independent non-executives are not co-terminous, to facilitate rotation in future years.

The PIB meets at least four times yearly. A part of each meeting is set aside to allow the independent non-executives to meet as a separate group to discuss matters relating to their remit.

The PIB also has time allotted in its programme of meetings during the year to:

- review and discuss people management policies and procedures with the firm's leadership; and
- review and discuss reports on issues raised under the firm's whistle-blowing policies and procedures.

The PIB is given full agendas and minutes of meetings of the Executive Board and Supervisory Board together with any other documents and information it requests.

Length of service on the PIB and attendance records for the year ended 30 June 2015 are set out in Table 3.3.

### **Independence of the non-executives**

The non-executives are subject to our independence policy which makes sure they remain independent of the firm, its partners and staff, and clients. In developing this policy the firm considered the UK Corporate Governance Code, issued by the Financial Reporting Council (FRC), and the Ethical Standards, issued by the Auditing Practices Board (APB), as well as considering what a reasonable third party would expect of an independent non-executive.

<b>Table 3.3 Public Interest Body</b>	<b>Length of service (years)</b>	<b>Board meetings</b>	
		<b>A</b>	<b>B</b>
Mark Hudson from January 2015	1	2	2
Sir Richard Lapthorne (Chairman)*	5	5	5
Pauline Campbell from May 2015†	4	1	1
James Chalmers	2	5	5
Sir Graeme Davies*	5	5	5
Dame Karen Dunnell*	5	5	5
Sir Ian Gibson* from May 2015†	4	1	1
Justin King CBE* from 1 July 2015	-	-	-
Lord O'Donnell* from 1 July 2015	-	-	-
Ian Powell	5	5	5
Paul Skinner CBE*	5	5	5
Matthew Thorogood to December 2014	3	3	2

A = Maximum number of meetings could have attended.

B = Number of meetings actually attended.

\* Independent non-executive members

† Sir Ian Gibson and Pauline Campbell both stepped down from the Public Interest Body during 2014, as explained on page 11. Pauline Campbell continued to attend PIB meetings as an observer and attended an additional four meetings during FY15 in that capacity.

Under the policy all non-executives should have no personal or business relationship with a partner or member of staff of the firm, nor can they be a director, nor hold a material financial interest, in a restricted client of the firm.

The non-executives must confirm compliance with this policy in respect of their financial, business and personal relationships before being appointed and every year thereafter.

### **Other matters**

Appropriate indemnity insurance is in place in respect of any legal action against any independent non-executive and sufficient resources are provided by PwC UK to enable each independent non-executive to perform their duties, which includes, where considered appropriate and necessary to discharge their duties, access to independent professional advice at the expense of PwC UK.

A process has also been established to resolve disputes between the independent non-executives and the governance structures and management of PwC UK.

### **(d) Terms of reference**

Terms of reference exist for all governance bodies of PwC UK. Copies of those terms of reference for the Supervisory Board, the Audit and Risk Committee and the Public Interest Body can be found at [www.pwc.co.uk](http://www.pwc.co.uk).

## 4. The Audit Firm Governance Code

.....

*The firm's leadership is committed to quality and has dedicated resources to establishing high standards in quality, independence, integrity, objectivity and professional ethics*

The Audit Firm Governance Code (the 'Governance Code') was published by the Institute of Chartered Accountants in England and Wales (ICAEW) in January 2010 and applies to firms, such as PwC UK, which audit more than 20 listed companies.

The Governance Code consists of 20 principles and 31 provisions. These principles and provisions are organised into six areas being:

- leadership
- values
- independent non-executives
- operations
- reporting
- talking with stakeholders.

The FRC is in the course of reviewing the Governance Code in the light of several years' experience of implementation and in May 2015 issued a consultation document containing a range of proposals for updating the Governance Code.

The FRC has, as part of its evidence-gathering for this review, held meetings with our independent non-executives and, separately, with members of the firm's Executive Board to gain their respective experience of applying the Governance Code. It is too early to predict what changes will emerge from this review and the timing is such that it has no impact on our analysis of compliance for the year ended 30 June 2015.

Our experience is that implementation of the Governance Code has resulted in a valuable addition to our governance structure, bringing an external perspective to our consideration of the public interest.

An overview of our compliance with the Governance Code is included below. Sections 3, 5 and 7 provide further details of how we have applied the principles and provisions of the Governance Code.

### **Leadership**

The governance bodies of PwC UK are explained in Section 3, which sets out their constitution, membership, duties and responsibilities.

The Executive Board has responsibility and clear authority for the running of the firm, including the non-audit businesses, and is accountable to the partners. No individual has unfettered powers of decision. This is achieved through the governance bodies of the firm, each of which has clear terms of reference.

Each body has matters specifically reserved for their decision. The Supervisory Board provides internal oversight of the Executive Board.

### **Values**

The firm's leadership is committed to quality and has dedicated resources to establishing high standards in quality, independence, integrity, objectivity and professional ethics. Quality has been embedded throughout the firm and the detailed policies have been endorsed by the leadership team, including ethical, human resources and engagement performance.

Our reputation is built on our independence and integrity. We recognise the public interest vested in our audit and assurance practice and we take an uncompromising approach to audit quality, based on our core values of excellence, teamwork and leadership. We believe that audit quality begins with the tone set by the leadership of the firm.

Section 5 contains further details about our values and 'who we are', which have also been embodied within the PwC UK Code of Conduct.

Consultation is a key element of quality control. Although the firm has policies setting out the circumstances under which consultation is mandatory, our consultative culture means that our engagement teams often consult with each other on an informal basis as well as with experts and regularly in situations where consultation is not formally required. We consider that this culture of openness and willingness to consult, share and discuss issues can only be of benefit and enhance the quality of what we do and how we do it.

### **Independent non-executives (INE)**

As at 30 June 2015, the Public Interest Body (PIB) comprised five independent non-executives (INEs). This increased to seven with the appointment of Lord O'Donnell and Justin King, CBE with effect from 1 July 2015. The retirement of Sir Graeme Davies and Dame Karen Dunnell on 30 September 2015 will reduce the number of INEs back to five. Two members from the firm's Executive Board and two members from the Supervisory Board complete the PIB.

The PIB's purpose is to enhance stakeholder confidence in the public interest aspects of the firm's activities, through the involvement of independent non-executives. Further details of the activities of the PIB can be found on pages 10–13 and in Section 3.

### **Operations**

The firm has systems and controls in place to follow professional standards and applicable legal and regulatory requirements.

Section 5 talks about our internal control and internal quality control system for the Assurance Line of Service and explains:

- our policies and procedures for following applicable legal and regulatory requirements, and international and national standards on auditing, quality control and ethics, including auditor independence
- policies and procedures for individuals signing group audit reports to follow applicable standards on dealing with group audits including reliance on other auditors, whether from the same network or otherwise
- how we manage potential and actual conflicts of interest
- how people can report concerns about the firm's commitment to quality work and professional judgement and values.

Section 5 also sets out more information on the firm's policies and procedures for managing people in support of our commitment to quality.

Section 7 sets out the main findings from the most recent Audit Quality Inspection report on the firm and comments on the process in place to address areas of concern identified by the Audit Quality Review and other UK and overseas regulators.

..... •  
***We take an uncompromising approach to audit quality, based on our core values of excellence, teamwork and leadership***

### **Reporting**

The governance bodies receive timely and appropriate information to enable them to discharge their duties.

PwC UK prepares annual audited consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and UK laws and regulations.

The PwC Financial Statements 2015 include:

- a statement of members' responsibilities in respect of the financial statements
- a statement in respect of going concern

The PwC Financial Statements 2015, and our Risk Register, containing a management commentary covering principal risks and uncertainties, and how those risks are managed, can be found at [www.pwc.co.uk/annualreport](http://www.pwc.co.uk/annualreport).

This Transparency Report provides the disclosures required to be made by the Governance Code.

PwC UK has an Audit and Risk Committee. Section 3 sets out its constitution and provides an overview of its responsibilities.

### **Talking with stakeholders**

The report from Sir Richard Lapthorne (Chairman of the PIB), on pages 10–13, discusses our activities in relation to talking with stakeholders. In addition, further details of our shareholder liaison programme are set out on page 60.

### **Statement of compliance with the Audit Firm Governance Code**

The Executive Board has reviewed the provisions of the Audit Firm Governance Code together with details of how the firm is complying with those provisions and has concluded that, as at 30 June 2015, PwC UK is in compliance with the provisions of the Audit Firm Governance Code.

### **Reviewing the effectiveness of audit firm governance**

Now that the Governance Code has been in place for several years, the FRC has reviewed the success of its implementation, and has consulted on potential changes which could be made in the light of that review. PwC has responded to the consultation with a separate appendix submitted by the PwC INEs; our response can be found on the FRC's website. Both PwC and the INEs support proposals that will help clarify the overall purpose of the Code, and the role of the independent non-executives.

## 5. Internal control and internal quality control systems

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*We are committed to delivering the highest quality professional services, and audit quality remains of paramount importance to the firm and our continued success in the marketplace.*

Quality comes from more than the systems and processes that are embedded in the way we work to achieve compliance with standards and regulation, important though these are. Ultimately, it depends on the culture of the firm, which is based on the ‘tone at the top’, and our ability to recruit, train and motivate intelligent professionals who take personal responsibility to deliver high-quality work.

### **Introduction**

PwC UK’s quality control systems for our Assurance practice are based on International Standard on Quality Control (UK and Ireland) 1 – ‘Quality control for firms that perform audits and reviews of financial statements and other assurance and related services engagements’ (ISQC (UK&I) 1).

ISQC (UK&I) 1 applies to firms that perform audits of financial statements, report in connection with investment circulars and provide other assurance services where they relate to activities that are reported in the public domain and are therefore in the public interest.

The objective of ISQC (UK&I) 1 is for the firm to establish and maintain a system of quality control to provide it with reasonable assurance that:

- the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- reports issued by the firm, or by engagement leaders, are appropriate in the circumstances

In addition, compliance with International Standards on Auditing (UK and Ireland) requires PwC UK to have quality control systems.

Further:

- as a Registered Auditor regulated by the Institute of Chartered Accountants in England & Wales (“ICAEW”), we are required to comply with the Audit Regulations and Guidance (“Audit Regulations”) issued by the ICAEW. Compliance with the Audit Regulations is required to enable the firm to retain its audit licence in the UK; and
- we are also required to comply with the policies and regulations of a number of other regulatory bodies which PwC UK is either registered with, as a condition of ongoing registration to perform audits of certain entities, or regulated by. These regulatory bodies include the Financial Reporting Council, Quality Assurance Department, Public Sector Audit Appointments Limited, Monitor, the Financial Conduct Authority and the Prudential Regulation Authority in the UK and overseas regulatory bodies such as the Public Company Accounting Oversight Board in the US.

Consequently many of our policies and procedures have been designed and implemented to ensure that we comply, and that we can demonstrate compliance, with not only the Audit Regulations of the ICAEW, but also with the policies and regulations of other regulators with which PwC UK is registered.

The policies and procedures that form our internal quality control systems have been documented, and there is a monitoring regime to enable the Executive Board to review the extent to which the policies and procedures are operating effectively.

The policies and procedures are embedded as part of the firm’s day-to-day activities.

Although this Transparency Report is focused on our Assurance practice, many of our systems, policies and procedures operate firmwide across all parts of our business.

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## The six elements of quality control set out in ISQC (UK&I) 1



### Leadership responsibilities for quality within the firm



### Relevant ethical requirements



### Acceptance and continuance of client relationships and specific engagements



### Human resources



### Engagement performance



### Monitoring

## Explanation of our systems of internal control including internal quality control systems

Our internal control systems are based on the six elements of quality control set out in ISQC (UK&I) 1, which are:

1. Leadership responsibilities for quality within the firm.
2. Relevant ethical requirements.
3. Acceptance and continuance of client relationships and specific engagements.
4. Human resources.
5. Engagement performance.
6. Monitoring.

In parts 1 to 6 below, we set out how our internal control and internal quality control systems incorporate each of the above elements. Part 7 deals with factors outside the control of auditors, affecting audit quality, and part 8 explains our view of an additional key driver of audit quality in addition to those drivers identified by the Audit Quality Framework issued by the Financial Reporting Council (FRC). Parts 9 and 10 cover the review of the firm's internal control systems and our statement on the effectiveness of the firm's internal quality control systems for our Assurance practice.

Certain elements of the firm's internal quality control systems are reviewed by our regulators, primarily the Audit Quality Review team of the FRC but also by the Quality Assurance Department of the ICAEW and the Public Company Accounting Oversight Board. In addition, the PwC Network monitors PwC UK's compliance with PwC's Network Risk Management Standards. Updates and changes to the firm's internal quality control systems, as well as points needing reinforcement, are communicated to partners and staff via mandatory training and other technical communications. Details of the firm's internal quality control systems are available to partners and staff via Inform, our web-based technical repository and linked from our intranet site, SparkPad UK.

## 1. Leadership responsibilities for quality within the firm



### (a) Organisational structure

The Executive Board under Ian Powell's chairmanship, is responsible for the firm's internal control and internal quality control systems.

Day-to-day responsibility for implementing this system and for monitoring risk and the effectiveness of control is delegated to Compliance, Internal Firm Services and the individual Lines of Service, as appropriate.

The firm's leadership is committed to delivering high quality work and has established a culture of upholding the values of integrity, independence, ethics and professional competence.

Resources dedicated to establishing high standards in quality, independence, ethics and professional competency are in place. Quality has been embedded throughout the firm and the detailed policies endorsed by the leadership team, including ethical, human resources and engagement performance, are discussed below.

The firm's General Counsel, Margaret Cole, is the member of the Executive Board responsible for Risk and Quality. In addition, each Line of Service has a partner responsible for risk management and quality control.

Within Assurance, Richard Winter is the Assurance Risk and Quality Leader with responsibility on the Assurance Executive for risk and quality matters.

The following committees deal with the management of risk and quality within Assurance:

- the Risk Management Steering Group, whose purpose is to agree significant risk management policies and discuss current risk management issues;
- the Audit Steering Committee, whose purpose is to discuss and agree audit methodology issues and policy, and provide input into the development of PwC Audit, the audit methodology and tools used by all member firms of the PwC Network;
- the Accounting Steering Group, whose purpose is to discuss and respond to accounting developments and issues; and
- the Learning and Education Committee, whose purpose is to approve the form and content of technical training.

.....  
***PwC's purpose is to build trust in society and solve important problems. This purpose serves as a guide for the strategic choices we make as a firm.***

#### **(b) Culture and tone at the top**

PwC's purpose is to build trust in society and solve important problems. This purpose serves as a guide for the strategic choices we make as a firm. PwC is founded on a culture of partnership with professional values and a strong commercial focus. This is reflected in our vision:

"One firm – a commercial enterprise that does the right thing for our clients, our people and our communities.

Our ambition is to build the iconic professional services firm, always front of mind, because we aim to be the best. We set the standard and we drive the agenda for our profession. We value our past but look to invest in our future to leave the firm even stronger than when we inherited it. We will achieve our vision by living and breathing a common set of values and behaviours.

#### **(i) One firm**

We are one firm, an extensively networked organisation that aims to bring the best of PwC to our clients, each and every time. We will:

- aim to deliver more value than our client expects
- be agile and flexible
- share knowledge and bring fresh insights
- always act in the interest of the whole firm.

#### **(ii) Commercial enterprise**

Our clients and people feel and benefit from the energy and power of the firm. We attract, develop and inspire the best people, who inspire confidence in our clients. We will:

- be positive and energise others
- invest in personal relationships listen with interest and curiosity, encouraging diverse views; and
- have a thirst for learning and developing others.

#### **(iii) Do the right thing**

We will deliver exceptional value with integrity, confidence and humility. We support one another and our communities. We have the courage to express our views, even when they may not be popular. We will:

- put ourselves in our clients' shoes
- never be satisfied with second best

- treat people in a way we would like to be treated
- always be brave enough to challenge the unacceptable
- act with integrity and enhance our reputation.

We must all accept personal responsibility to play our part in driving our firm and demonstrating these values and behaviours – opting out is not acceptable. Put simply this is how we define success."

## **2. Relevant ethical requirements**

We take good ethical behaviour seriously and seek to embrace the spirit and not just the letter of relevant ethical requirements.



With effect from 1 October 2014, David Adair took over from Bill Morgan as PwC UK's Ethics Partner, a role defined by the Ethical Standards issued by the APB. He is a senior partner within the firm, supported by a team of specialists to help the firm apply comprehensive and consistent independence policies, procedures and tools.

In addition, Tony Stewart-Jones (another partner within the firm) is PwC UK's Chief Compliance Officer who, supported by a team of specialists, is responsible for assisting the firm in meeting its professional conduct obligations.

All partners and staff undertake regular mandatory training so that they understand the ethical and professional requirements under which we operate. All partners and staff are also required annually to confirm that they are aware of and will continue to follow all relevant ethical and professional obligations.

### **(a) Professional conduct**

The reputation and success of the firm depends on the professionalism and integrity of every partner and member of staff. Partners and staff comply with the standards developed by the PwC Network and PwC UK, and the firm monitors compliance with these obligations.

On joining the firm, all staff and partners are made aware of the The PwC UK Code of Conduct and must confirm annually that they are familiar with it. The PwC UK Code of Conduct sets out what we stand for and is underpinned by the following overarching principles:

.....

**The PwC UK Code of Conduct encourages partners and staff to report and express concerns in good faith, fairly, honestly and respectfully**

- acting professionally
- doing business with integrity
- upholding our clients' reputations as well as our own
- treating people and the environment with respect
- acting in a socially responsible manner
- working together and thinking about the way we work
- considering the ethical dimensions of our actions.

#### **(b) Independence**

The firm has specific policies, procedures and practices relating to independence, which are explained in more detail in section 6.

#### **(c) Speak Up helpline**

The firm has a whistle-blowing helpline which was relaunched with a new name, the Speak Up helpline. This is available to any partner or member of staff who observes inappropriate business conduct or unethical behaviour that cannot be resolved locally, or where the normal consultation processes are not appropriate. In addition, third parties may also call the Speak Up helpline.



The Speak Up helpline number for partners, staff and third parties is 0800 169 3590.

The PwC UK Code of Conduct encourages partners and staff to report and express concerns in good faith, fairly, honestly and respectfully. We are committed to dealing responsibly, openly and professionally with any genuine concerns raised about possible malpractice. If a genuine concern is raised which is in the public interest, the individual raising the concern will be protected from losing their job, or suffering from any form of victimisation as a result.

All calls to the speak up helpline are dealt with by trained individuals within our Professional Conduct team, and the matters raised are discussed regularly with the firm's Business Conduct Leader, who is responsible for making sure that the issues raised are appropriately investigated and resolved. There is also regular reporting of the matters raised via the Speak Up helpline to Margaret Cole, the Executive Board member responsible for Risk & Quality, and there is an annual update provided to the firm's Public Interest Body.

#### **(d) Confidentiality and information security**

Confidentiality and information security are key elements of our professional responsibilities. Misuse or loss of confidential client information or personal data may expose the firm to legal proceedings, and it may also adversely impact our reputation.

The firm's Chief Financial Officer is the Executive Board member responsible for information security. In this role he is supported by the Information Protection Governance Group, which is responsible for providing oversight, policy and strategic direction on information security matters. Membership of the Information Protection Governance Group comprises representatives from Risk and Quality, Office of General Counsel, Information Technology and the Lines of Service.

As a firm principally regulated by the ICAEW, all partners and staff are required to comply with the ICAEW's fundamental principle of confidentiality. There are also other legal and regulatory obligations on partners and staff about handling of confidential information and personal data, and contractual terms govern the use and disclosure of information. The firm provides information security and data protection training upon recruitment, annual update training for all partners and staff thereafter, and training to various departments on an ad hoc basis throughout the year.

PwC UK operates an information security management system, which is certified as compliant with the requirements of ISO/IEC 27001:2013 for all client data that comes under its control or ownership by virtue of a contract for services between PwC UK and a client.

PwC UK's information security policies and procedures aim to make sure that:

- information is protected from internal and external threats
- confidentiality, availability and integrity of information is maintained
- statutory, regulatory and contractual obligations are met
- access to confidential information is granted only for justified business needs.

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***We are opposed to bribery in any form. The PwC UK Code of Conduct makes it clear that it is unacceptable for our people to solicit, accept, offer, promise or pay bribes.***

Our policies and procedures include:

- encryption of all the firm's laptops, PCs and memory sticks
- secure and managed apps for data accessed by mobile devices
- software restricting the use of removable media
- access to engagement files – both electronic and hard copy paper files – which is restricted to those with a 'need to know' and is regularly reviewed
- regular backup of data on individual laptops and PCs
- clear-desk policy, both in our offices and at client sites
- securing hard copy files when they are not in use
- remote access to our network via a secure virtual private network, or equivalent technology
- policies on the transmission of data by email outside of the organisation
- restricted access to operational areas of PwC UK and our buildings.

The firm's policies and standards are supported by ongoing compliance monitoring. Monitoring is carried out by PwC UK's internal audit and compliance teams and is supplemented by checks by the PwC Network's global security organisation. Our ISO/IEC 27001:2013 certification is subject to annual external independent assessment.

The firm has incident reporting and response procedures that seek to minimise the impact of any data loss which does arise. These procedures include notifying clients when it is known that their data is at risk and, where appropriate and feasible, taking corrective action.

#### **(e) Anti-bribery**

We are opposed to bribery in any form. The PwC UK Code of Conduct makes it clear that it is unacceptable for our people to solicit, accept, offer, promise or pay bribes.

Policies, training and procedures designed to prevent bribery are in place.

### **3. Acceptance and continuance of client relationships and specific engagements**



We have rigorous client and engagement acceptance and continuance procedures to help protect the firm and its reputation.

#### **(a) Acceptance and continuance systems**

Within Assurance, we use two systems:

- Acceptance and Continuance (A&C) is used for all audit work; and
- Clientwise is used for non-audit work.

Both systems:

- enable engagement teams, business unit management and risk management specialists to determine whether the risks related to a potential or an existing client or engagement are manageable, and whether or not PwC UK should be associated with a particular client, its management and/or the proposed services in question; and
- contain triggers that require consultation within business units and with the UK National Assurance Risk Management Partner. This allows the right people to make the right decisions at the right time and also enables the firm to put in place safeguards to mitigate identified risks.

The systems facilitate risks to be properly assessed and appropriate policies being followed in response to those identified risks.

#### **(b) Relationship checks, independence assessments and conflicts of interest**

Before accepting a new engagement, we perform:

- checks to identify relevant relationships - these checks are performed by a dedicated relationship checking team within Compliance. Where conflicts of interest are identified, we either decline to accept an engagement or we put in place arrangements to make sure that potential conflicts of interest are appropriately managed, including the use of restricted access rooms to work in; and

- in the case of new audit clients, an independence assessment – this is a comprehensive assessment which is performed by Compliance for public interest entities or by the audit engagement team for other entities. The assessment covers all aspects of independence in relation to a new potential audit client. This enables us to identify non-audit services provided to that potential audit client and determine:
  - those services which are prohibited by Ethical Standards to be provided to an audit client to determine whether they can be terminated before we are appointed as auditor or not. Where we are able to terminate the provision of such services, the non-audit service providers in the PwC Network are instructed to terminate the service prior to our appointment and confirm that they have done so. If we are unable to terminate the non-audit service before our potential audit appointment, we decline the audit appointment; and
  - for those services which we can continue to provide, we identify the threats to our independence and objectivity and the safeguards which are in place. Where the threats to our independence and objectivity are unsurmountable, we decline the audit appointment.

#### (c) Withdrawal from an engagement

Policies and procedures are in place for circumstances in which we determine that we should, or are required to, withdraw from an engagement. These policies include the need for

appropriate consultations both within the firm and with those charged with governance at the entity, together with ensuring compliance with legal and professional obligations.

The policies and procedures also deal with circumstances where we become aware of information after accepting the engagement which, had we been aware of that information earlier, would have led us to decline the engagement.



#### 4. Human resources

Our people are our biggest asset. Perhaps the most critical components of quality are the skills and personal qualities of our people. As a professional services firm, many of these skills and qualities are relevant to all our Lines of Service. As a consequence, our strategy for recruitment, engagement, development, diversity and remuneration is consistent across the firm.

##### (a) Recruitment

PwC UK aims to recruit, train, develop and retain the best and the brightest staff who share in the firm's strong sense of responsibility for delivering high-quality services. Across the firm, we recruited over 4,000 new people, including over 1,500 graduates and school leavers, in the year ended 30 June 2015.

We have always believed that the best audits are performed by bright and intelligent people. Accordingly, we maintain a strategy of accepting strong graduates into our audit business and set a high academic threshold.

#### Recruitment

Across the firm in the year ended 30 June 2015, we recruited:



**over 4,000**  
new people, including



**over 1,500**  
graduates and school leavers

We invest in a range of approaches to recruit talented students at any stage of their academic life. In FY15, places offered included:



**40 FT and 212 PT**  
students in our degree partnership with the ICAEW and the Universities of Newcastle, Nottingham and Reading



**183**  
first-year students attended our three-day residential Talent Academy



**138**  
full-time paid professional roles for school leavers including Higher Apprentices



**637**  
paid intern and sandwich placement opportunities for students

.....

***We have removed our requirement for specific levels of achievement at A-level or equivalent as part of our selection process for graduates. This step is designed to improve access to our profession to a broader range of talent.***

However, we recognise that the traditional graduate entry route to a professional career at PwC UK does not suit every gifted student. To help us create a sustainable pipeline of talent we invest in a range of approaches to encourage talented students to join us at any stage of their academic life. These include:

- a degree partnership with the ICAEW and the Universities of Newcastle, Nottingham and Reading (40 full-time positions in FY15, with shorter placements for 212 students over the course of the year)
- full-time paid professional roles for school leavers including Higher Apprentices (138 positions in FY15, 112 in FY14)
- a three-day residential Talent Academy for first-year students (183 places in FY15, 237 in FY14)
- paid intern and sandwich placement opportunities for students (637 places in FY15, 558 in FY14).

All recruits for our full-time programmes are required to submit an application form and are subject to two interviews. Certain information such as qualifications is verified. Graduate and student recruits also pass through an internal assessment centre before joining the firm.

Last year we launched The PwC Professional, a global leadership framework which articulates the skills and capabilities we expect from all our people to deliver an outstanding experience to our clients. Our recruitment process is closely aligned to this framework, enabling us to select the best talent, based not only on their technical skills but also on their behaviours and ways of working.

We believe that investing in a broad range of skills, experiences and backgrounds puts us in a stronger position to understand and meet the needs of our clients. This year we have continued to recruit a more diverse range of talent, in particular to encourage more talented women and those from different social backgrounds to our organisation. This has included recruiting over 76 students onto our 'Women in Business' programme. We also recruited 67 people onto our 'Business Insight Week' work experience programme for sixth form students, focused on improving access to the profession.

As of June 2015 we have removed our requirement for specific levels of achievement at A-level or equivalent as part of our selection process for graduates. This step is designed to improve access to our profession to a broader range of talent, particularly given the strong correlation between social class and school academic performance in the UK. By focusing on a more contemporary assessment of our graduates as they are today through both psychometric and behavioural assessment we are now able to deliver a more relevant, inclusive and fair assessment approach without compromise to the quality of our hires.

To find out more about our many different work experience programmes visit [www.pwc.com/uk/careers](http://www.pwc.com/uk/careers).

#### **(b) Theoretical knowledge, professional skills and values**

Our people develop theoretical knowledge, professional skills and values through the work they perform, the coaching received from others and from formal learning activities that they undertake throughout the year.

##### **i) Work experience and coaching**

Each engagement leader is responsible for staffing their engagements with partners and staff with appropriate professional competence and experience. As described in our engagement performance section below, engagement leaders are expected to oversee the adequacy of the direction, coaching, supervision and review of the more junior members of their engagement teams as part of a culture that embraces coaching across our entire business.

##### **ii) Formal learning**

Our PwC Professional global leadership framework underpins a training curriculum which provides a wealth of opportunities for our people to build professional skills and knowledge to support the delivery of high quality assurance services to our clients.

Learning and development is a continuous process which starts with induction activities when a person joins the firm and continues throughout their career and is tailored to the grade, role and experience of each individual.

We have a training curriculum that includes grade transition and talent programmes as well as our technical and business skills training programmes. We support many individuals to complete professional qualifications that are required or relevant to their role. In addition, our industry groups operate specialist training programmes relevant to their sectors.

National training programmes are supplemented by additional training sessions within offices, as and when required.

Our practices to maintain capabilities and technical competence include:

- All partners and staff must complete annual risk and quality update training spanning matters relating to compliance, independence and ethics.
- All partners and staff must confirm that they have complied with the firm's development policy within the general annual confirmation; any exceptions are investigated.
- Within Assurance, all partners and staff are required to complete a learner profile to target their annual mandatory Assurance technical training requirements based on the experience, grade and role of each individual.
- The mandatory technical training programme builds foundation technical capabilities relevant to auditors. Annual update training addresses new external requirements, internal policy or methodology changes and the remediation of observations raised through internal quality reviews and external inspections.
- We consider training needs on an on-going basis and release training materials throughout the year to respond to emerging performance gaps promptly when they are identified.
- We monitor the completion of mandatory training and failure to complete mandatory training by set deadlines results in disciplinary steps being taken.
- We review the training programme for compliance with PwC network standards.
- We have processes in place to equip our tutors with effective instructor skills and the effectiveness of our training programme is assessed through a number of evaluation techniques.



.....  
***For an unprecedented 12th consecutive year, we were voted The Times UK Top 100 Graduate Employer of the Year and for the 16th consecutive year, we were voted Graduate Employer of Choice for Accounting. We were also awarded Graduate Employer of Choice for Consulting and for Human Resources.***

### iii) Access to reference material and subject matter experts

The firm maintains online reference materials covering all aspects of policy, procedure and methodology as well as a library of all relevant auditing, accounting and ethical standards. To keep theoretical knowledge up to date, partners and staff receive regular electronic update communications on technical and regulatory topics as they arise. A helpline of technical subject matter experts is also available.

### (c) Performance evaluation

We continue to invest in equipping our partners and staff with the coaching and management skills needed to give honest feedback, to continually improve performance. We expect feedback to be provided regularly throughout the year by all staff and partners. This feedback then forms a key element of our annual appraisal process. All partners and staff assess their performance against their agreed objectives and against grade-related skills and capabilities based on The PwC Professional.

The appraisal process covers technical competence and quality, and consideration is given not only to what an individual has achieved, but also how they achieved it. Based on this assessment, individuals are assigned a performance rating that is benchmarked across the firm and which influences their salary, bonus and progression within the firm.

We continue to place particular focus on the contribution and impact each person has made to the firm. The newly designed Contribution and Impact form allows people to have a more structured, meaningful and richer conversation with their people manager about their contribution and how they have demonstrated the PwC Professional attributes.

Our higher performers have the opportunity both to progress more quickly and to receive higher reward through pay progression and bonuses. Individuals with lower performance will progress more slowly, and where performance is unsatisfactory corrective action is taken.

#### (d) Career development

We develop our people through a combination of on-the-job experience (expected to account for 70% of development), coaching (20%) and training programmes (10%). This is supported by additional development opportunities, such as internal and external secondments, international assignments, membership of professional committees and working groups, community partnerships and voluntary programmes.

Each member of staff has a people manager assigned to them, who is responsible for their performance management, coaching and well-being. The people managers work with individuals to understand their unique strengths and development areas, and assess what opportunities are available to help them to acquire necessary skills.

A great deal of attention is devoted to ensuring that our people maintain their high level of professional expertise. Our career progression framework, The PwC Professional, supports all staff members to identify areas of strength and new areas of learning required.

This year we have been developing a new initiative to improve career progression and retention for those completing our Graduate Programme. Recognising that this represents a key decision point in our peoples' careers, the Senior Associate Transfer Window creates clear visibility of, and access to, opportunities to move to new or different career paths within the firm. This will be launched to the business in FY16.

#### (e) Promotion

Any promotion in the firm is based on an individual's performance, their skills and the business case. In the case of promotion to director or admission to partnership, the process is particularly thorough and involves the Line of Service leadership teams. The Country Admissions Committee conducts and manages the overall assessment validation process on all Line of Service partner candidates. All potential admissions to partnership are considered by the Executive Board and the Partner Affairs Committee, a subcommittee of the Supervisory Board, and are put to the full partnership for consideration.

Within Assurance, the process for promotion to director and admission to partnership involves a formal assessment of the quality of the individual's audit work and their adherence to ethical requirements and professional standards. We take this process seriously and will not promote an individual to director or admit an individual to the partnership if we have concerns about the quality of their work.

#### (f) Remuneration

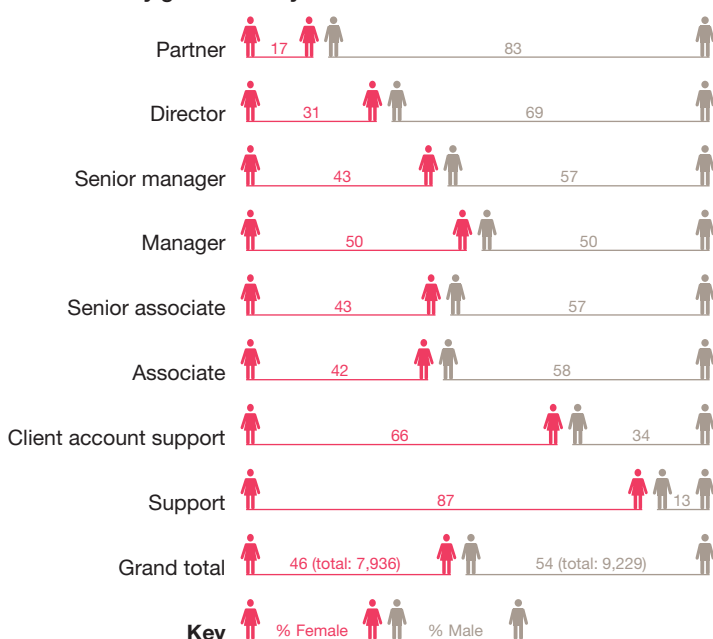
In determining remuneration for our staff, we carefully balance several elements including: the economic climate and the external market; recognition of people's hard work, including the quality of the work they deliver; the performance of the firm; and investment for the future. PwC UK has a one firm approach to performance ratings which provides consistency and clarity on the performance of our people across the business. We have common firm-wide reward principles, but in rewarding our people we recognise that we operate in different markets. We have a firm-wide bonus plan, but individual bonuses are determined by each Line of Service.

We have conducted Equal Pay Reviews for the last 10 years. Last year we published our gender pay gap externally for the first time. We were the first in our sector and one of only a handful of private companies to do so. This is one of the many activities we undertake to ensure our employment policies and practices are fair. We review pay and bonus by gender, ethnicity and different working patterns (full time to part time).

In FY15 our single figure gender pay gap is 15.3% (FY14: 15.1%). This compares favourably with 19.1%<sup>1</sup> for the UK economy. Our single figure gender pay gap does not take into account objective reasons for pay difference such as grade, location or performance level. In line with good practice, we therefore adjust this figure for the different gender demographic across the grades, as we have more men than women at our most senior grades; this adjusted pay gap figure is 2.8% (FY14: 2.5%).

#### PwC workforce profile

##### Gender mix by grade – 1 July 2015



1 Source ONS Annual Survey of Hours and Earnings (released November 2014)

It is disappointing that there has been a small increase this year, and it seems that the difference is due to the net effect of a number of factors. These can include the higher proportion of males in some of our hot growth areas (e.g. technology) and surprisingly the adjusted pay gap could also be impacted by our continued focus on the rate of progression of our female staff (where females progress to the lower end of the next pay band).

Actions we have taken this year included better communication of the current gender pay gap so that equal pay issues, and potential high risk gaps, could be reviewed in advance of making decisions in respect of salary. We are also putting increasing focus on ensuring better gender representation in our experienced hires.

#### (g) Assignment of engagement teams

Partners and staff are assigned to engagement teams, based on the individuals' experience, competencies and grade. Our internal resourcing function oversees the placement of staff into client programmes to maximise the best match of skills and experience required for the role.

In addition, for certain types of work we specify levels of experience and specific additional training to make sure that the individuals are competent to undertake that type of work. For example only certain individuals can lead or undertake certain types of work such as capital market transactions and due diligence work.

#### (h) Diversity

We have long since prioritised diversity, seeking to ensure that all our people can fulfil their potential, whatever their background, and we specifically measure our performance in this area against our gender and black and minority ethnic (BME) profile.

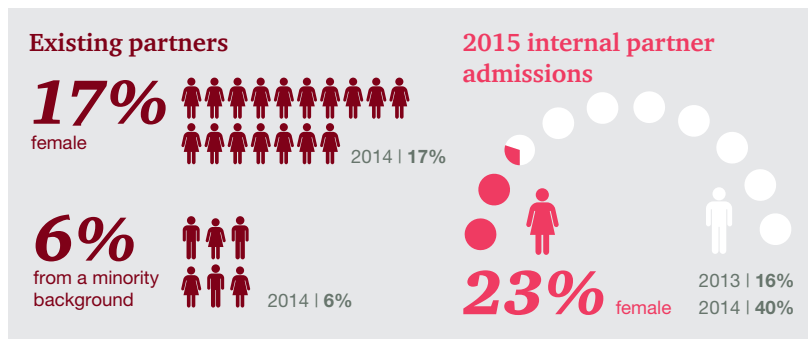
However, never before has the need for diverse talent been more critical to the success of our business; as we look to the future and our plans to grow our business we will need to work with different types of people, bringing different skills, experiences and perspectives and leveraging these assets will demand a highly inclusive working environment. Creating these conditions requires the efforts of all, particularly our partners, and this is our focus.

Over the past 12 months we have continued to focus on embedding diversity in all of our talent processes, requiring our business leaders to set and deliver grade pool gender/BME targets for the next three years. These efforts are being strengthened with the formation of a new Talent & Diversity Council (the 'Council') tasked with driving fairer and more transparent identification and assessment of our talent, with the primary objective of bringing greater diversity through to senior roles in the firm and this of course is not just limited to gender and ethnic diversity.

This isn't a quick fix; we are in it for the long term and recognise sustained efforts pay off. Of our existing partners, 17% are female and 6% from a minority ethnic background. We're making progress but not on a sufficiently sustained basis. For example, this year 23% of our new internal admissions to the partnership were female; this compares to 40% last year and 16% the year before that. Our target is 30% each year as a minimum, reflecting the female director pool from which the admissions are drawn. The goal of the Council is thus to focus on ensuring that we have a healthy and diverse pipeline to support this ambition.

During FY15 we published a major piece of Research to coincide with International Women's Day on 8 March; "The Female Millennial: a new era of talent" provides insights into the career choices and aspirations of the millennial woman who represent a growing segment of the modern day workforce. Our thought leadership also included our Women in Work Index and our Golden Age Index looking at the critical labour market indicators for the 55+ age group.

### Diversity



PwC Audit includes specific policies and procedures about the audits of groups, including multi-locational and cross-border groups

## 5. Engagement performance



The quality and effectiveness of our audit service is critical to all of our stakeholders. We therefore invest heavily in the effectiveness of our audits, in the skills of our people and in our underlying audit methodology, as well as in making the right amount of time and resources available.

We pay close attention to what our audit clients require from us, what they tell us we need to improve and to the findings of regulatory inspections on the quality of our work. Details of the most recent regulatory findings can be found in Section 7. Just as important are the internal indicators and processes that routinely monitor the effectiveness of our risk and quality processes, and provide timely information about the quality of our audit work and any areas for improvement.

### (a) Methodology and tools

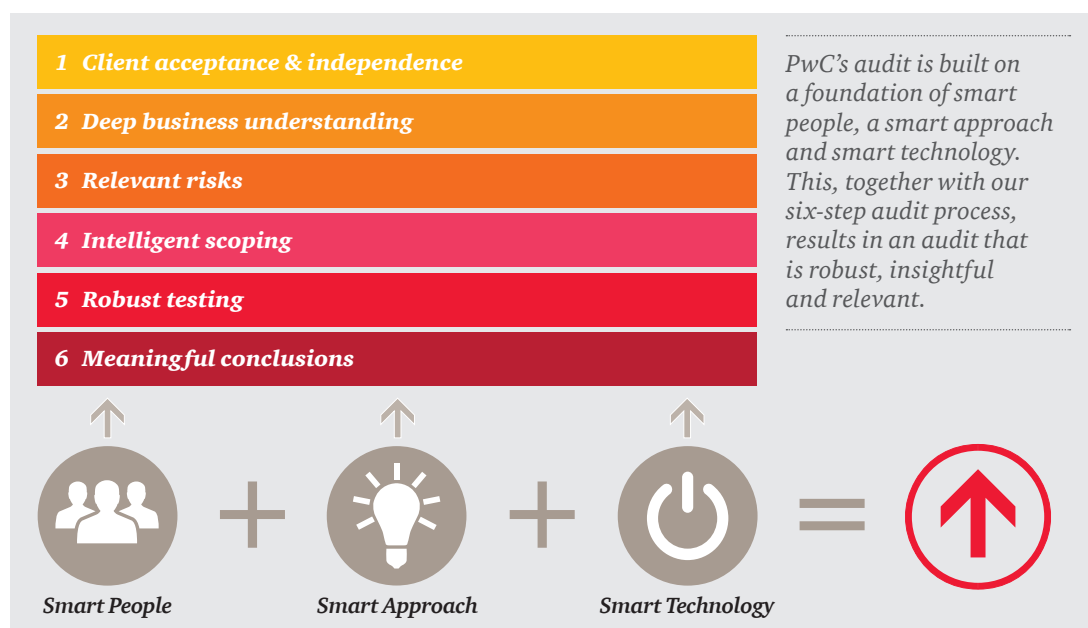
Member firms of PwCIL use a common audit methodology and process (PwC Audit), supplemented by local regulatory requirements, for their audit engagements. This common methodology allows us to provide high quality and consistent audit services from the small owner-managed business to multinational organisations, and facilitates sharing of good practice and mobility of partners and staff across the PwC Network. The PwC UK audit approach adheres to International Standards on Auditing (UK and Ireland), and laws and regulations in the UK, and we continuously seek to improve the model.

PwC Audit includes specific policies and procedures about the audits of groups, including multi-locational and cross-border groups. Those policies and procedures include the use of, and reliance on, other auditors, whether they are part of the PwC Network or not, and the signing of group audit reports.

PwC Audit is underpinned by Aura, our global ERP system which is used across the entire PwC Network. Aura supports teams in applying our methodology effectively, by creating transparent linkage between risks, required procedures and the work performed to address those risks, as well as providing comprehensive guidance and project management capabilities. Aura provides audit engagement teams with:

- a single instance global software with embedded industry specific audit procedures enabling consistency, synergy and scale;
- a systematic risk-based approach, meaning that we focus on the things that matter;
- a workflow technology that allocates audit procedures and individual tasks on personalised dashboards, enabling the timely execution and review of work;
- a workshare feature designed for shared service centres and group audits, allowing us to work more collaboratively across borders, eliminating duplication of effort; and

## PwC Audit



- real time monitoring of engagement quality and progress - anytime, anywhere and on any device (i.e. laptop, iPad, iPhone and other mobile devices).

Aura is regularly enhanced to improve features. New Aura features and functionality are developed at a global level to reflect changes to regulatory and legal requirements, technology initiatives to improve quality and efficiency, themes from external and internal quality reviews and feedback from global users. In May 2015, we implemented our latest major release of Aura (version 6) containing significant enhancements.

Aura is supported by a series of electronic tools which are accessible via a range of electronic devices ranging from tablets to PCs and smartphones. These tools include:

- **Aura Now** – a monitoring tool that provides real-time information on the quality and status of audit engagements. It visualises the progress of an engagement against planned dates, which enables us to prioritise our effort. It acts as an early warning system, highlighting areas where we need to focus to ensure we do the right things at the right time;
- **Connect** – a web-based portal designed to request and exchange documents and information securely with our clients. Connect monitors the status of information flows on a real-time basis – it allows both the client and audit team to track status at an overall engagement and individual level; and
- **Halo** – Data assurance tools that allow us to better identify and assess risks and determine where to focus audit efforts. Our tools allow us to analyse 100% of transactions, which means we can gain a higher level of audit evidence than applying normal audit sampling techniques. The analytical and visualisation capabilities allow us to analyse patterns and trends, identifying unusual and high-risk transactions, and providing invaluable insight to both ourselves and our clients. The first Halo application, covering general ledger journals, was implemented in 2014.

Subsequent to 30 June 2015, two further electronic tools became available for use by engagement teams:

- **Count** - a mobile application that facilitates the end to end process for inventory counts for both cycle and year-end inventory counts; and
- **PwC's Confirmation System** is a secure, web-based portal that facilitates an automated and standardised global end-to-end ('paperless') confirmations process. It includes safe and secure handling of confidential data and reports which identify who did what and when throughout the process.

The objective of Aura and the supporting tools is that the quality of our audits improves as teams are able to focus their efforts on areas of higher risk.

The latest release of Aura allows us to use Aura for many of the non-audit engagements carried out by our Assurance practice, such as internal audit engagements and service organisation controls reports performed in accordance with ISAE 3402, SSAE16 and AAF01/06. For other non-audit engagements, our Assurance practice uses a non-audit engagement documentation tool, Map, which has been used for many years in our Consulting practice, and in a number of member firms across the PwC network. Map helps us to ensure compliance with our policies and consistent quality of documentation.

#### **(b) Comprehensive policies and procedures**

The firm has policies and procedures governing accounting, corporate reporting, regulatory and auditing practice. These are regularly updated to reflect new professional developments, changes in our operating environment and emerging external issues, as well as the needs and concerns of the practice. These policies and procedures are supported by guidance that PwC UK provides to its professionals on how best to implement them.

The policies, procedures and guidance are available in electronic files and databases, and are readily accessible to our people remotely at any time.

### (c) Service delivery centres

We appreciate and share our clients' concerns around continuous improvement, audit quality and cost containment. Therefore, we have made investments focused on further enhancing audit quality through standardisation, optimisation and increased flexibility.

A key element of this is a sourcing model that is designed to reallocate certain administrative and common audit procedures to service delivery centres. Allocating certain tasks that do not require auditor judgement to a centralised location achieves the following benefits:

- enhanced quality through standardisation
- improved efficiency and speed through scale
- improved flexibility in delivery; and
- controlled cost of audit delivery.

The use of delivery centres allows professional staff in the UK to focus on applying their judgement and professional scepticism in the audit process, as well as spending more face-to-face time with the client.

Most of the work performed by our delivery centres in Katowice (Poland) and Kolkata (India) includes the casting, cross-referencing and internal consistency checking of financial statements, managing confirmation processes, coordination of group deliverables, audit file set-up, roll-forward and maintenance, and setting up templates and audit tests ready for audit teams to use.

To maintain confidentiality and security of information, we have implemented strict data security controls, and work is performed solely by PwC employees in these locations.

In the areas where the delivery centres have been involved to date, we believe that the quality of the work has improved.

### (d) Consultation and support

Consultation is a key element of quality control. The firm has policies setting out the circumstances under which consultation is mandatory. The firm's technical experts track new developments in relevant areas and provide updates to the appropriate professional staff.

.....  
*During the year ended 30 June 2015, a total of*

**3,029**

*consultations were dealt with and*

**9,236**

*enquiries covering audit, accounting and risk management issues. In addition,*

**99**

*technical panels took place on audit clients*

Our consultative culture also means that our engagement teams regularly consult with each other on an informal basis, as well as with experts and others, often in situations where consultation is not formally required.

Within Assurance, we use a consultation database that has been specifically designed to aid the enquiry and consultation process. It also makes sure documentation of consultations with the Assurance Risk and Quality group (ARQ) is in accordance with professional standards.

ARQ supports audit and non-audit engagement teams within Assurance to help them meet professional standards, and regulatory and legal requirements. ARQ's remit is to establish the technical risk and quality framework in which the Assurance practice operates and to provide advice and support to client teams, and in some instances, clients, when the need arises.

During the year ended 30 June 2015, a total of 3,029 consultations were dealt with (FY14: 1,527) in addition to 9,236 enquiries (FY14: 7,479) covering audit, accounting and risk management issues.

In addition, during the year ended 30 June 2015, 99 (FY14: 86) technical panels took place on audit clients, of which 58 (FY14: 50) included going concern issues.

### (e) Supervision and review

The engagement leader and engagement manager supervise the audit, review the work done, coach the team and maintain audit quality. Our audit software, Aura, is designed to help audit team members track the progress of the engagement and therefore make sure that all work has been completed, that work is reviewed by the relevant individuals including the engagement leader and, where relevant, Engagement Quality Control Reviewer (known in PwC Audit as the Quality Review Partner), and that all matters arising have been appropriately addressed.

The engagement leader is expected to:

- lead the performance of the audit and its documentation by being proactively and sufficiently involved throughout the audit, including being satisfied that risks have been assessed and responded to appropriately

.....

***We appoint a Quality Review Partner (QRP) to conduct engagement quality control reviews of the audits of listed clients, other public interest entities and clients identified as higher risk***

- drive a cultural mindset that strives for continuous quality improvement, challenges engagement team members to think, analyse, question and be rigorous in their approach, and embody the experiences of our clients and people in how the team delivers the audit and applies professional scepticism
- foster an integrated coaching culture and demonstrate a willingness to learn and to coach others
- be responsible for the engagement team undertaking appropriate consultation on difficult or contentious matters, initiating those consultations where necessary
- have an ongoing involvement in assessing the progress of the audit, and in making key judgements
- be satisfied that the review, supervision and quality control procedures in place are adequate and effective; and
- have an overall responsibility for reviewing and assessing the quality of the work done, its proper and timely documentation and the conclusions reached.

The engagement manager supports the engagement leader by:

- setting an example in the performance of the audit and its documentation by being involved throughout the audit, including identifying the risks and being satisfied that they are responded to appropriately
- striving for continuous quality improvement, challenging engagement team members and applying rigour to the audit process
- fostering an integrated coaching culture and demonstrating a willingness to learn and coach others
- together with the engagement leader, putting in place arrangements for timely reviews of audit work and documentation, and, taking into account the nature, extent and level of reviews already performed by other members of the team, satisfying himself or herself that the work performed and documentation are consistent with the understanding of the engagement; and
- reviewing work done and the record of the audit, including considering the quality of the audit process and the results of the work and the documentation of conclusions.

In addition to reviews by the engagement leader and engagement manager, all staff are expected to critically self-review their own work to make sure that it meets the relevant requirements.

**(f) Engagement quality control review**

We appoint a Quality Review Partner (QRP) to conduct engagement quality control reviews of the audits of listed clients, other public interest entities and clients identified as higher risk.

QRPs are experienced individuals who are independent of the core engagement team; they receive training when appointed as a QRP and on an annual basis thereafter.

QRPs are appointed to an engagement based on their experience and expertise. The QRP is responsible for reviewing key aspects of the audit including independence, significant risks and their responses to these risks, judgements, uncorrected misstatements, documentation of work done in the areas reviewed, the financial statements, communication with those charged with governance and the appropriateness of the audit report to be issued. QRPs are involved throughout the audit process so that their input is timely. The QRP will seek to challenge the audit team in the judgements they have made and work done. Their review is completed and any matters raised are resolved to the QRP's satisfaction in advance of the audit report date.

Second partners are required to be appointed to certain types of non-audit work and, depending on the nature of the engagement, may fulfil a role similar to that of a QRP on an audit. In other situations, their role is defined and agreed with the engagement leader and evidenced on the file.

**(g) Differences of opinion**

Policies exist to resolve the situations where a difference of opinion arises between the engagement leader and either the QRP, another Assurance partner or central functions such as ARQ or Compliance. These include the use of technical panels consisting of partners independent of the engagement.

**(h) Engagement documentation**

At the end of an engagement, teams are required to assemble the hard copy paper file and then archive both this and the electronic file in accordance with our own policies which are more stringent than those laid down by professional standards.

.....  
*We welcome the feedback that we have received both from our clients and from shareholders and other commentators on our audit reports*

In the case of the electronic audit file, automated processes exist to make sure that the file is archived on time and the act of archiving prevents any further amendments being made to the file.

The hard copy paper file is archived using an electronic system that logs the files. The hard copy file is then retained in a secure access-controlled filing system either within the office or off-site.

Unless required for legal, regulatory or internal review purposes, electronic and hard copy paper files are only accessible by members of the engagement team until they are destroyed. All engagement files are destroyed after periods specified by law or professional standards. In the case of audit files, this is generally eight years after the balance sheet date, but can be as long as 12 years after the balance sheet date in some instances.

#### **(i) Audit reporting**

We are acutely aware that the effectiveness of our work as auditors is directly linked to the effectiveness of our reporting, whether to audit committees and boards of directors, and in the role we play in external reporting in reporting to the owners of the entity being audited.

#### **(i) Reporting to audit committees**

When reporting to audit committees and those charged with governance in other organisations where no audit committee exists, we place particular emphasis on communicating our audit scope and approach, together with our assessment of audit risk. During the course of the audit we communicate any threats to auditor objectivity, including independence, the significant risks and judgements that impact the reported financial performance and position, and the manner in which the information is presented in the annual report. In part, this presentation of significant judgements includes highlighting to the audit committee the judgements that have been made by management in preparing the financial statements that we believe are important to an understanding of the performance being presented. It is important as auditors that we recognise that the nature of accounting and the judgements that are applied mean that there is often not a precise answer.

It is also our role to inform the board whether we can conclude that what is reported externally is both true and fair within established norms of materiality, including considering both qualitative and quantitative aspects of accounting and reporting.

#### **(ii) External reporting**

The form and content of our audit reports for UK entities are laid down by UK legislation and the Financial Reporting Council (FRC).

We are conscious that our reports should be clear and unambiguous. This was the second year in which we issued enhanced audit reports under ISA (UK&I) 700 'The independent auditor's report on financial statements' (revised June 2013), which included, for some entities, descriptions of how our audit had been scoped and addressed the risks of material misstatement that we had identified and our application of materiality in determining the nature, timing and extent of our audit procedures and evaluating the effect of misstatements. We also included for the first time the results of our audit work.

The revisions to ISA (UK&I) 700 provide us with the ability within our audit report to 'tell the story of our audit' in a meaningful and informative way to enhance users' understanding of the financial statements.

We welcome the continued feedback that we have received both from our clients and from shareholders and other commentators on our audit reports. The form and content of audit reports continue to evolve, due both to changes in the legal and regulatory framework (including the recently passed European Union audit directive and regulation and the output of the Sharman enquiry) and due to developing market practice. We welcome, fully support and embrace the moves towards greater transparency over the audit process.

Engagement leaders only conclude on the truth and fairness of the financial statements and sign an audit opinion following appropriate review of the work performed by the audit team, resolution of issues identified, clarification of any uncertainties and an assessment of uncorrected misstatements, both quantitative and qualitative, identified in respect of the financial statements. Consultation procedures

are in place where the audit report includes a description of how the audit scope addressed the assessed risks of material misstatement or where a modified opinion, or inclusion of an emphasis of matter or other matter paragraph is proposed. The consultation process assists in conveying matters raised clearly and unambiguously.

In addition to our audit opinion, in certain situations we also have reporting obligations to regulators and to other organisations specified by UK law such as the Financial Conduct Authority and the Prudential Regulation Authority.

#### (j) Independent senior partner review

PwC UK operates a programme of obtaining direct feedback from our clients via face-to-face interviews, undertaken by senior partners independent of the engagement teams, as well as client satisfaction surveys.

We use this feedback to make sure that we continue to provide high-quality services and address any service issues promptly.

### 6. Monitoring

Monitoring of our internal quality control systems comprises internal and external monitoring. External monitoring is undertaken by the firm's regulators and is reported in section 7.



Quality monitoring is an integral part of the firm's continuous improvement programme. We constantly seek to improve policies, procedures and the consistency of the quality of our work. Instances of failure to meet defined performance standards are treated seriously and the engagement leader responsible will be counselled to improve performance. In addition, under the firm's accountability framework, an engagement leader's remuneration can be impacted by quality failings.

Each Line of Service runs a quality review programme, in which independent teams of partners and staff review completed engagements to assess compliance with our quality standards and regulatory requirements. Details of the Assurance programme are set out below.

#### (a) ISQC (UK&I) 1 and the Audit Compliance Review

The ICAEW Audit Regulations and Crown Dependencies' Audit Rules require us to undertake an annual Audit Compliance Review (ACR). The ACR comprises audit file reviews and testing the effectiveness of the firm's controls to comply with ISQC (UK&I) 1 and Audit Regulations in functional areas such as staff performance evaluation, training and independence. An action plan is developed and implemented to address any issues identified by the ACR.

#### (b) Global Assurance Quality Review Programme

The PwC Network has established a review programme for all PwC Assurance practices. This includes a Quality Management Review (QMR), which tests whether our quality management systems are appropriately designed, operating effectively and comply with PwC Network standards, and an Engagement Compliance Review (ECR) programme to assess whether engagements are performed in accordance with relevant standards. The results of the QMR and ECR are included in the Member Firm Report, issued on the Assurance practice of each Member Firm across the PwC Network.

#### (i) Quality Management Review

A full QMR is performed every three years with a targeted update being performed in the intervening years. The updates monitor progress on remediation of any control issues raised in the last full review and assess the impact of any new developments on the internal quality control systems. The QMR is led and resourced from other PwC Network firms. PwC UK was last subject to a full QMR in 2014, with a targeted QMR undertaken in 2015.

Whilst reviews identified a number of improvements to systems, none of these were assessed as likely to lead to engagements not being compliant with relevant standards.

.....

*Each Line of Service runs a quality review programme, in which independent teams of partners and staff review completed engagements to assess compliance with our quality standards and regulatory requirements*

## (ii) Engagement Compliance Reviews

The key features of the annual ECR programme are as follows:

- a review of completed audit engagements of individuals in the firm who are authorised to sign audit reports (known as Responsible Individuals);
- an audit engagement of each Responsible Individual is reviewed at least once every three years as required by Audit Regulations;
- completed audit engagements of market-traded companies incorporated in the Crown Dependencies (i.e. Jersey, Guernsey and the Isle of Man) are reviewed once every three years as required by the Crown Dependencies' Audit Rules and Guidance;
- in addition, the firm maintains a list of clients with a high public profile and the audits of these clients are reviewed twice in any six year period;
- a review of a sample of completed non-audit assurance engagements under the international and UK assurance standards and regulatory frameworks. The sample aims to reflect the range of different non-audit assurance work and its significance to the firm;
- engagement compliance reviews are led by experienced partners, supported by teams of partners, directors and senior managers who are all independent of the office, business unit and engagement leader being reviewed;
- follow-up reviews take place if deficiencies have been identified;
- adverse findings are taken into consideration in determining the reward and promotion of engagement leaders; and
- the results are reported to the Assurance Executive and the Executive Board of PwC UK and to PwCIL.

152 audit engagements (FY14: 142) were reviewed in FY15, covering 43% (FY14: 39%) of the firm's Responsible Individuals. 21 non-audit assurance engagements (FY14: 31) were also reviewed.

.....  
*In FY15*

**143 | 94%**  
*audit engagements reviewed were classified as either 'compliant with no comments', or 'compliant with review matters'.*

**20 | 95%**  
*non-audit engagements reviewed were classified as either 'compliant with no comments', or 'compliant with review matters'.*

Each engagement reviewed is assessed using the following categories:

- 'Compliant with no comments' – relevant auditing, assurance, accounting and professional standards have been complied with in all material respects.
- 'Compliant with review matters' – the following circumstances would generally lead to this conclusion:
  - required assurance procedures not performed or not documented, relating to a significant transaction stream, balance or area
  - procedures not substantially performed in accordance with professional standards
  - assurance procedures that failed to detect a material departure from applicable accounting standards
  - inadequate documentation in respect of a significant or required area
  - inappropriate evaluation of control weaknesses
  - audit/assurance report does not conform to professional standards.

But in all cases, sufficient audit work has been performed in all other respects and we are satisfied that the appropriate report has been issued.

- 'Non-compliant' – relevant auditing, assurance, accounting and professional standards or documentation requirements were not complied with in respect of a material matter.

In FY15, 143 audit engagements (FY14: 137), representing 94% (FY14: 96%) of the audit engagements reviewed were classified as either 'compliant with no comments', or 'compliant with review matters'. These results became available in mid September 2015, shortly before this Transparency Report was published.

20 non-audit assurance engagements (FY14: 30) representing 95% (FY14: 97%), of the 21 reviewed non-audit assurance engagements were either classified as 'compliant with no comments' or 'compliant with review matters'.

An action plan is developed to respond to significant matters arising from the ECR. Specific individuals are responsible for implementing the action plan within agreed time frames. The action plan is also monitored by the Assurance Risk and Quality leadership to make sure actions are implemented.

These matters, along with any consistent themes, are included in the annual mandatory technical training programme and updates for the practice, including feedback through the quarterly Quality-in-Practice webcasts and fortnightly technical update emails. We also issue additional or revised guidance to assist teams, where we considered this is necessary. This is reinforced by designated partners and champions in each business unit using a variety of mechanisms including breakfast briefings, group meetings and voicemails.

### (iii) The Member Firm Report

A Member Firm Report is prepared annually by the international team leader assigned to PwC UK by the Global Assurance Risk and Quality Leader. The report includes the results of both the QMR and ECR for that year and an overall conclusion on the firm's quality control systems.

Based on our analysis of the results of the activities described above, as well as our consideration of regulator reviews and the results of other internal monitoring activities, we are satisfied that our internal quality control system provides us with reasonable assurance of performing and reporting in conformity with applicable standards and PwC Audit in all material respects. The report also summarised the main points arising from the QMR and ECRs that merited our attention.

PwC UK responded to the points raised within the FY14 Member Firm Report as well as external regulator reports and developed an action plan to address the exceptions noted. These actions were assigned to specific individuals and significant progress has been made in addressing these matters. The Member Firm Report for the year ended 30 June 2015 will be issued in October 2015.

.....  
*The overall  
 quality KPI scores  
 for the year ended  
 30 June 2015:*

**97%**  
*audit*

**95%**  
*non audit within  
 Assurance*

### (c) Quality key performance indicators

Quality key performance indicators (KPIs) are set each year to take account of matters arising from regulatory reviews and the ECR, in order to ensure that they focus on those aspects of our work where behavioural change and improvements in quality are considered necessary. Compliance with the quality KPIs therefore represents an ongoing challenge as we strive to continually improve audit quality.

In the year to 30 June 2015, 12 audit quality KPIs were assessed, covering various aspects of the audit from planning to execution and completion; 8 non-audit quality KPIs were also assessed, covering various aspects of non-audit engagements.

The KPIs are assessed quarterly through the 'hot review' of files by partners and staff who are independent of the engagement under review. The results are moderated at both a business unit and national level.

The overall audit quality KPI score for the year ended 30 June 2015 was 97% (FY14: 97%) against a target score for both years of 95%. Although the score remains above the target level, we are not complacent about the quality of our work and recognise that continued focus is needed. Therefore, as in previous years, we have made changes to the audit quality KPIs for the year ending 30 June 2016 to help deliver further improvements in key areas of the audit process.

Within Assurance, the overall non-audit quality KPI score for the year ended 30 June 2015 was 95% (FY14: 93%) against a target score for both years of 95%. The instances of non-compliance primarily relate to acceptance procedures not being completed on a timely basis.

Issues identified by the quality KPI reviews are communicated to the practice through the Quality-in-Practice webcasts, briefings and additional guidance, and are also incorporated into core training events. The overall quality KPI scores feed into the firm's balanced scorecard.

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## Additional elements of quality control



### Factors outside the control of auditors



### View of an additional key driver of audit quality

## Reviewing internal quality controls



### Review of internal control systems



### Statement on the effectiveness of internal quality control systems

#### (d) Complaints and allegations

If clients are not satisfied with the services we have delivered, or have suggestions for how we can improve, they may contact either the engagement leader or Margaret Cole, the Executive Board member responsible for Risk and Quality, who is located at our registered office. We look carefully and promptly at any complaint we receive. The Institute of Chartered Accountants in England and Wales (ICAEW) or the institute that the individual PwC UK partner or member of staff is a member of, may also be contacted directly.

#### (e) Learning lessons

We hold our reputation for quality in the highest regard. Inevitably, given the size of our business, we do on occasion fall short of the high standards we set ourselves. When this happens, we seek to discuss and resolve the issues with the client or other concerned party. We also review the matter independently for lessons learned and communicate those lessons to the relevant parts of our business.

#### (f) FRC investigations

The Conduct division of the FRC deals with cases that raise or appear to raise important issues affecting the public interest in the UK, and investigates whether there is evidence of misconduct by an accountant or accountancy firm which should be considered by a tribunal. We have five open investigations (FY14: three) being FRC investigations in respect of certain audits of the financial statements of Tesco PLC, RSM Tenon Group plc, Connaught plc and Cattles plc and also in respect of our compliance with the FSA client asset rules at Barclays Bank plc. Further details of the FRC's investigations can be found within the Conduct section of the FRC website. As at the date of this report, no disciplinary proceedings have been commenced in relation to any of these investigations.

## 7. Factors outside the control of auditors affecting audit quality

In addition to the processes, systems and controls outlined above, there are other factors that affect both audit quality and the reputation of the firm, which are outside of PwC UK's control.

## Regulatory and legal developments

### – Competition and Markets Authority investigation and European legislation

In the past year, the Competition and Markets Authority (CMA)'s Order<sup>2</sup> has introduced mandatory tendering with a ten year frequency for FTSE 350 companies. In addition, the Department for Business, Innovation and Skills (BIS), on behalf of the UK Government, and the FRC have begun consultations on the implementation of the new EU audit legislation in the UK. Looking at each of these:

1. CMA's Order – the Order requires FTSE 350 companies to have held a tender for the audit appointment within the last 10 years. It also imposes responsibilities on FTSE 350 audit committees including a requirement to disclose and explain the company's expected date of tender once five years of audit tenure has elapsed.
2. EU audit legislation – this new legislation<sup>3</sup> came into force on 16 June 2014 and has an effective date across all EU Member States of 17 June 2016. The legislation requires all EU public interest entities (PIE) to rotate their statutory auditor after a maximum period of tenure. We expect this maximum period to be set at 20 years in the UK with a mandatory tender at the ten year midpoint (which will align with the CMA regime). The legislation also introduces restrictions on the non-audit services which auditors can provide to their EU PIE clients.

The changes are significant and are causing complexity for business. BIS and the FRC are in the process of consulting on the implementation of these changes in the UK. There is uncertainty on how the final rules will be applied in the UK and in other EU Member States and the outcome will not be clear until closer to the effective date of the legislation of 17 June 2016.



2 The statutory audit services for large companies market investigation (mandatory use of competitive tender processes and audit committee responsibilities) Order 2014 [https://assets.digital.cabinet-office.gov.uk/media/54252eae40f0b61342000bb4/The\\_Order.pdf](https://assets.digital.cabinet-office.gov.uk/media/54252eae40f0b61342000bb4/The_Order.pdf)

3 EU audit regulation 537/2014: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32014R0537>  
EU audit directive 2014/56: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32014L0056>

We fully support those changes designed to enhance audit quality, and to increase transparency between the regulator, auditors, audit committees and shareholders. However, some of the new rules could cause disruption for business and could even jeopardise audit quality. We believe that we have the right people, with the right skills, to rise to the challenges that these changes will bring.

## 8. Key drivers of audit quality

The Audit Quality Framework, issued by the FRC, identifies five key drivers of audit quality. These are: the culture within an audit firm, the skills and personal qualities of audit partners and staff, the effectiveness of the audit process, the reliability and usefulness of audit reporting, and factors outside the control of auditors. These drivers have already been addressed in this section of the report.

In addition to the five key drivers of audit quality identified by the FRC, we believe there's a sixth critical driver and that is the financial success of the audit practice.

The quality of our audit work is largely dependent on the quality and skills of our people in what remains a highly competitive market. Our ability to recruit and retain the best graduates, staff and partners depends on our ability to offer market-competitive salaries and world-class professional training. In addition, we make significant investments in both our audit methodology and supporting technologies and tools. Without financial success, our ability to invest in our people, methodology and tools would be jeopardised.

PwC UK has, like every other business, continued to focus on costs and potential efficiency savings over the past year. However, we are absolutely clear that no financial consideration will be at the expense of audit quality.

## 9. Review of the firm's internal control system

The Audit Firm Governance Code requires the firm to conduct, at least annually, a review of the effectiveness of the firm's Assurance practice's internal control systems, covering the material controls such as financial, operational and compliance controls, and risk management

systems. In maintaining a sound system of internal control and risk management, and in reviewing its effectiveness, we have used the 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance), issued in 2005 by the Financial Reporting Council.

The Executive Board takes overall responsibility for PwC UK's internal control systems and for reviewing their effectiveness. It has reviewed the systems of internal control for effectiveness throughout the year ended 30 June 2015 and up to the date of the approval of this Transparency Report, using a process that involves:

- Confirmations from relevant senior partners, committees, the Risk Council and functions concerning the operation of those elements of the system for which they are responsible.
- Periodic reviews of the PwC UK firm's performance and quality, which have been carried out independently by the PwC Network.
- Work carried out by the internal audit function, which reports to the Audit and Risk Committee.
- Reports from the firm's regulators.
- Reports from the external auditors.

Our internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives or, in the case of financial controls, the risk of material misstatement in our financial statements. Accordingly, they provide reasonable but not absolute assurance against such a failure, or material misstatement in our financial statements.

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

PwC UK's internal quality control systems for Assurance are a subset of the firm's internal control systems and are outlined in this section.

On the basis of the reviews performed, as outlined in part 9 above, the Executive Board is satisfied that PwC UK's internal quality control systems for Assurance are operating effectively. Any matters identified through the various monitoring and review processes are actioned and changes implemented as appropriate.

## 6. Independence policies and practices

### **Policies and guidance**

The PwC Network Independence policy, which is based on the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Professional Accountants, contains minimum standards which all member firms of PwCIL have agreed to follow, including processes that are to be followed to maintain independence from clients.

The independence requirements of the US Securities and Exchange Commission (SEC) and those of the US Public Company Accounting Oversight Board (PCAOB) are in certain instances more restrictive than the IESBA code and the PwC Network's policy accounts for this by including provisions that are specifically applicable to SEC restricted entities.

The UK firm also supplements the PwC Network policy with the regulatory requirements of UK professional bodies, such as the Ethical Standards issued by the FRC.

The policy covers, among others, the following areas:

- personal and firm independence including policies and guidance on the holding of financial interests (such as shares) and other financial arrangements (which include bank accounts and loans) by partners, staff, the firm and its pension schemes
- non-audit services and fee arrangements. The policy is supported by Statements of Permitted Services (SOPS), which provide practical guidance on the application of the policy in respect of non-audit services to audit clients
- business relationships including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and purchasing goods and services
- the rotation of audit engagement personnel.

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***The PwC Network has a number of global systems that assist PwC UK and its partners and staff to comply with its independence policies and procedures.***

### **Systems**

The PwC Network has a number of global systems that assist PwC UK and its partners and staff to comply with its independence policies and procedures. These systems include:

- the Central Entity Service (CES), which contains information about corporate entities including audit clients and their related securities. CES assists partners and staff in determining the independence status of clients of the firm when they are considering a new non-audit engagement or business relationship
- Checkpoint, which all member firm partners and practice staff managers and above use to pre-clear securities before acquisition and to record their subsequent purchases and disposals. Where a member firm wins a new audit client, this system automatically informs those holding securities in this client if there is a requirement to sell the security.
- Authorisation for Services (AFS), which is a system that facilitates communication between a non-audit service's engagement leader and the audit engagement leader, documents the potential independence threats of the service and proposed safeguards, and acts as a record of the audit engagement leader's conclusion on the acceptability of the service.

PwC UK also has a number of UK-specific systems, including:

- A rotation-tracking system that monitors compliance with the firm's audit rotation policies for engagement leaders, other key audit partners and senior staff involved in an audit. This ensures that we consider each of the rotation rules which are relevant to that client entity and to the seniority of the role that the individual plays, and apply the most restrictive period of engagement tenure and time off the engagement.

- a database that records significant business relationships entered into by the firm (excluding the purchase of goods or services in the normal course of business). These relationships are reviewed periodically during the year to assess their ongoing permissibility.

### **Engagement leader, QRP and Key Audit Partner rotation policy**

We adhere to the rotation requirements of the independence rules published by IESBA, the FRC and the SEC as applicable to a particular audited entity. For entities that are subject to SEC independence rules, or listed entities that are subject to FRC independence rules, engagement leader and QRP tenure is set at five years, with a five year cooling off period and key audit partner tenure is seven years with a two year cooling off period. For entities which meet the IESBA or our internal definition of Public Interest Entity, the tenure for engagement leader, QRP and key audit partner is set at seven years with a two year cooling off period.

Public Sector clients such as NHS Foundation Trusts, education bodies and entities audited under our contract with the Audit Commission have engagement leader, QRP and sometimes key audit partner tenure set by regulations specific to audits of entities of that type and we adhere to those regulations. Typically those tenures and associated cooling off periods are similar to those in the FRC or IESBA independence rules.

For all other entities our policy sets tenure for engagement leader, QRP and key audit partner at ten years with a two year cooling off period.

### **Training and confirmations**

Annually, all partners and practice staff receive mandatory training on the firm's independence policies and related topics. Completion is monitored and non-completion may lead to disciplinary action being taken.

Additionally, face-to-face training is delivered by the firm's independence specialists and Risk and Quality teams, as required.

PwC UK requires all partners and staff upon joining the firm and at least annually thereafter to confirm that they comply with all aspects of the firm's independence policy. In addition, all partners and directors must confirm that all non-audit services and business relationships for which they are responsible comply with policy, and that the firm's processes have been followed in accepting these engagements and relationships. These confirmations serve two primary purposes: to identify potential breaches of independence that may have arisen and as an important reminder of the firm's independence policies and procedures. These annual confirmations are supplemented by confirmations from engagement team members on the firm's larger financial services clients.

### **Promoting compliance**

PwC member firms are required to have disciplinary policies and mechanisms to promote compliance with independence policies and processes, and to report and address any breaches of independence requirements.

This would include, where appropriate, discussion with the client's audit committee or governance function, regarding an evaluation of the impact on the independence of the firm and the need for safeguards to maintain objectivity.

Potential breaches of the firm's independence policies that are identified from self disclosures, independence confirmations, personal independence audits, engagement reviews and other monitoring activities are investigated by the firm's Compliance team to determine if a reportable breach has occurred. In PwC UK, a violation of independence policies by a partner or staff member has consequences that may include a fine or other disciplinary action including dismissal.

.....  
*All partners and practice staff receive mandatory training on the firm's independence policies and related topics.*

**Confirmation of internal review of independence procedures and practices**

Our independence procedures and practices are subject to review on an ongoing basis. This is achieved through a monitoring and testing programme, which includes the following:

- engagement reviews to confirm compliance with the firm's risk management procedures, including independence
- personal independence audits of a random selection of partners and practice staff managers and above
- compliance testing of independence controls and processes
- central monitoring of independence KPIs including the quality of AFSs
- annual assessment of the firm's adherence to the PwC Network's risk management standard for independence.

In addition, policies and guidance are reviewed and revised to reflect updates to laws and regulations (including the FRC's Ethical Standards), when PwC Network policies and guidance change, or when required as a result of the above reviews and of our monitoring and testing programme.

The results of the firm's monitoring and testing are reported to the Executive Board on a regular basis, with a summary reported to them on an annual basis.

Based on the reviews outlined above, we confirm that we have conducted an internal review of independence practices during the year ended 30 June 2015.

## 7. External monitoring

### (a) UK regulators

The firm is registered and authorised to undertake statutory audit work by the Institute of Chartered Accountants in England and Wales (ICAEW), which is a Recognised Supervisory Body for auditors under the Companies Act 2006.

Each year, the FRC's Audit Quality Review team (AQR) and the ICAEW's Quality Assurance Department (QAD) undertake inspections of the quality of the firm's work as statutory auditors.

The AQR inspects the audits of entities with listed equity or listed debt and other entities designated by the FRC as being of major public interest. The full scope of independent inspection by the AQR can be found at [www.frc.org.uk](http://www.frc.org.uk). The AQR also reviews the firm's policies and procedures supporting audit quality. The QAD monitors the audits of entities that do not fall within the AQR's scope.

The results of the inspections undertaken by the AQR and QAD are reported to the ICAEW's Audit Registration Committee (ARC). In June 2015, the ARC considered the findings arising from the AQR and QAD inspection reports and confirmed the continuance of the firm's audit registration.

### (i) Audit Quality Inspection Report

The FRC issued its 2014/15 Audit Quality Inspection Report on PwC UK on 29 May 2015. A full copy of the report is available on the FRC website at [www.frc.org.uk](http://www.frc.org.uk).

The FRC report sets out the principal findings arising from the AQR's inspection of PwC UK for the period March 2014 to January 2015. The inspection comprised reviews of individual audit engagements and a review of the firm's policies and procedures supporting audit quality.

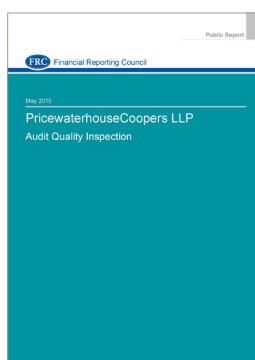
The AQR reviewed 22 audit engagements relating to FTSE 100, FTSE 250 and other listed and major public interest entities with financial year-ends between June 2013 and June 2014.

The FRC report focused on matters where it believed improvements were required to safeguard and enhance audit quality. While the report was not intended to provide a balanced scorecard, the FRC highlighted certain matters which it believed would contribute to audit quality, including the actions taken by the firm to address findings from the prior year's inspection.

The FRC report noted that the firm placed considerable emphasis on its overall system of quality control and, in most areas, had appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, the AQR identified certain areas where improvements were required to these policies and procedures.

The FRC report highlighted the following key messages to which the firm should pay particular attention in order to enhance audit quality or safeguard auditor independence:

- Ensure that, when using the firm's valuation and other specialists, audit teams obtain sufficient appropriate audit evidence to corroborate their conclusions.
- Ensure audit teams undertake sufficient testing of manual and automated journals.
- Ensure the firm's audit reports accurately describe the audit procedures performed to address the identified risks.
- Strengthen the firm's central resources for advising audit teams on regulatory requirements relating to auditing to ensure appropriate advice is given in response to audit teams' consultations.
- Take action to ensure that partners are notified promptly of new audited entities and dispose of any financial interests held in them on a timely basis.
- Review the firm's arrangements for ensuring audit engagement partners give proper consideration to the threats to the firm's independence arising from the provision of non-audit services.



Of the 22 audits reviewed in 2014/15 (19 in 2013/14), the AQR concluded that:

- Sixteen audits (17 in 2013/14) were performed to a good standard with limited improvements required
- Four audits (two in 2013/14) were graded as requiring limited improvements, and
- Two audits (None in 2013/14) required significant improvement.

An audit is assessed as requiring significant improvement if the AQR has significant concerns in relation to the sufficiency or quality of audit evidence, or the appropriateness of audit judgements in one or more key areas, or other areas are considered to be individually or collectively significant. This assessment does not necessarily imply that an inappropriate audit opinion was issued. We are satisfied that appropriate audit conclusions were reached in both of the audits assessed as requiring significant improvements this year, although we recognise that, in one of these cases, the new extended form of audit report was not issued.

During the year, the FRC also completed their thematic review into 'The audit of loan loss provisions and related IT controls in banks and building societies'. Over the course of the thematic reviews, the FRC focuses on specific aspects of the audit process across all the major audit firms. We have reflected the findings of these reviews in our 2015 training programmes.

The FRC is also currently in the process of conducting three further thematic reviews, one into 'Engagement Quality Control Reviews', the second into 'Audit Sampling Methodology', and the third into 'Internal Quality Monitoring'. We will respond to these findings as they are published and take action as required.

#### **(ii) QAD findings**

The QAD provided us with a copy of its confidential report to the ARC. This report is not publicly available.

In summary, the QAD concluded that the firm continued to maintain a high standard of audit work, although the need for some improvements was identified.

Of the ten audit files reviewed, eight (FY14: five) were assessed as complying with Audit Regulations. The other two files (FY14: five) were assessed as generally acceptable, with some isolated issues, often around documentation but in some cases, relating to the quality of audit evidence. Some areas for improvement were noted on all of the files reviewed, although in many cases these were relatively minor.

The QAD found that the firm had improved its documentation of related parties, a matter raised in previous years, although noted that some further improvements were needed in this area. The firm enhanced its procedures to drive the improvements needed, but the updated procedures had not yet been adopted in the files reviewed by the QAD.

A follow-up review was also undertaken on one audit that was reviewed in the prior year. The QAD concluded that the issues raised in the prior year had been satisfactorily addressed.

#### **(iii) Other UK regulators**

##### **Public Sector Audit Appointments Limited (PSAA)**

PSAA is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims. Before 1 April 2015, these responsibilities were discharged by the Audit Commission. PSAA monitors the performance of appointed auditors annually and publishes the results of its monitoring.

The latest PSAA report on PwC UK was published in June 2015. That report notes that the firm is meeting PSAA standards for overall audit quality and regulatory compliance requirements. PSAA uses a red, amber, green (RAG) indicator for overall audit quality and regulatory compliance. PwC UK's combined audit quality and regulatory compliance rating was amber. The firm's performance against the regulatory compliance indicators has deteriorated since last year, with only 11 of the 17 indicators scored as green. In addition, the firm's overall weighted audit quality score has decreased from last year. However, the satisfaction survey results show that audited bodies are satisfied with the performance of PwC UK as their auditor. We take all of these findings very seriously and have appropriate remediation plans in place to respond.

### Monitor

Monitor is the regulator of NHS Foundation Trusts. Annually, Monitor requests that QAD review a sample of audits for NHS Foundation Trusts. QAD reports the results of its reviews privately to Monitor. Monitor writes to each engagement leader reviewed to inform him/her of the outcome. Monitor also writes to the NHS Foundation Trust to inform it of the outcome and it requests that the Chair of the Board ensures the results are shared with the Council of Governors, as the body responsible for appointing the external auditor. The latest audits reviewed were for the year ended 31 March 2014. Three of our NHS Foundation Trust audits were reviewed for that year. Monitor advised the relevant engagement leaders and NHS Foundation Trusts there were no issues arising in the QAD report that it wished to raise.

### (iv) Other UK regulatory bodies with which we have interactions

As statutory auditors we engage in ongoing dialogue with regulators of our clients. For example, many audit teams meet with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) on a regular basis. We also have a duty to report the PRA and FCA matters under the Financial Services and Markets Act 2000 (communications by Auditors) Regulations 2001.

All of our actuaries are required to comply with ethical standards set and maintained by the Institute and Faculty of Actuaries (IFoA). In addition, the FRC is responsible for setting technical actuarial standards (TASs), and requires actuaries to comply with the TASs for various types of actuarial work. We also believe that it is normally appropriate to apply the requirements of the TASs to other work conducted by actuaries.

We regularly respond to consultations issued by the IFoA, FRC, PRA and other regulators. We play a full role in the governance of the actuarial profession, with many of our actuaries sitting on boards, committees and working parties of the IFoA.

We engage with the PRA and FCA through other roles including reporting as a skilled person under s166 of the Financial Services and Markets Act 2000 and Client Asset/Client Money reporting, as set out in the FCA's Supervision Manual.

Additionally, PwC LLP is authorised and regulated by the FCA for designated investment business and consumer credit-related activity; details of our status can be viewed on the FCA website under firm reference number 221411.

We also work with our clients to enable them to assist the Corporate Reporting Review team of the FRC in their work monitoring public company reporting.

### (b) Overseas regulators

PwC UK is registered with regulators in the following territories in order to meet local requirements in relation to the audits of certain entities:

- United States of America (Public Company Accounting Oversight Board);
- the Crown Dependencies of:
  - Jersey (Jersey Financial Services Commission)
  - Guernsey (Guernsey Registry); and
  - the Isle of Man (Financial Supervision Commission of the Isle of Man);
- Canada (Canadian Public Accountability Board);
- Japan (Japanese Financial Services Agency); and
- Kazakhstan (Kazakhstan Stock Exchange's JSC ('KASE')).

As a requirement of these registrations, PwC UK is subject to monitoring by the respective regulatory authorities.

### (i) Public Company Accounting Oversight Board

The US Public Company Accounting Oversight Board (PCAOB) is the regulator for the audits of public companies with securities listed in the US. Engagements relevant to the PCAOB include SEC registrants that are Foreign Private Issuers ("FPIs") and the UK components of US listed groups.

The PCAOB, in cooperation with the AQR, inspected PwC UK in 2014 and reviewed the audit files of two FPI audits and one other engagement together with the firm's related quality control procedures. The PCAOB published its report in August 2015.

The PCAOB's review did not identify any audit performance issues that, in the inspection team's view, resulted in the firm failing to obtain sufficient appropriate audit evidence to support its opinion on the issuer's financial statements or internal control over financial reporting ("ICFR") or to fulfill the objectives of its role in the other engagement.

In addition to evaluating the quality of the audit work performed on specific audit engagements, the inspection included review of certain of the firm's practices, policies, and procedures related to audit quality. The inspection team did not identify anything during its quality control review that it considered to be a quality control defect that warranted a discussion in a Board inspection report. A full copy of the report can be found at [www.pcaobus.org/Inspections/Reports/Pages/default.aspx](http://www.pcaobus.org/Inspections/Reports/Pages/default.aspx).

#### **(ii) The Crown Dependencies**

Under arrangements with the relevant regulatory authority in the Crown Dependencies, the AQR undertakes the review of relevant audits performed by PwC UK of the financial statements of entities registered in the Crown Dependencies. In their 2014/15 inspection of PwC UK, no such audits were reviewed by the AQR.

#### ***(c) Responding to matters raised by our Regulators***

We are committed to working constructively with, and take seriously all the findings identified by the firm's regulators in relation to the quality of the firm's audit work. We establish action plans to address the findings, together with a clear time frame for their resolution, and appoint individuals to be responsible for making sure that those actions are achieved.

The agreed action plans typically involve revisions to the firm's policies and procedures, or to their application guidance, as well as making sure of the inclusion of particular topics in mandatory training events.

The Head of Assurance, the Assurance Risk and Quality Leader and other partners responsible for the regulatory process within the firm, monitor progress against agreed action plans on a regular basis.

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## 8. Audit quality information

Rebuilding confidence in corporate reporting, following the decline of trust in the business community over the last few years, continues to be a key focus for us. Shareholders want to be able to trust in, and make confident decisions based on, the audited financial statements. Auditors, therefore, play a crucial role in conducting high quality audits resulting in reliable audit opinions.

### **Audit reporting**

Our commitment to transparency over the audit process is stronger than ever, and this is evident in the way in which we have fully embraced the enhanced auditor reports over the past two years. This includes talking about the results of our audit work where possible, and effectively, an end to the story of the audit.

As year two of the new requirements comes to a close, we have again actively sought feedback from stakeholders, including shareholders, fund managers, analysts and audit committees, on our reports. Feedback from the investment community clearly shows that they no longer “flick past” the audit report, pausing only to look for modifications. In fact, some shareholders, fund managers and analysts have told us that the audit report is becoming the first thing they turn to in the annual report. They find that it is a valuable tool in pointing them towards where they should focus their attention and the matters they should discuss with the directors. To this end, the extended auditor reports have enhanced dialogue and communication between the shareholders and directors and have provided insight into key elements of the audit process.

..... • ***Rebuilding confidence in corporate reporting, following the decline of trust in the business community over the last few years, continues to be a key focus for us***

### **Measuring audit quality**

But while the extended auditor reports shine a light on the ‘story’ of the audit, they do not in themselves enable a complete assessment of the quality of the audit. Indeed, defining audit quality remains a challenge. But if we understand what audit quality means to us, the profession, our clients and the investment community, then we can work in a focused way to improve audit quality.

If regulators can understand and measure the indicators of audit quality, then they can better direct their supervisory efforts towards these important areas. And if there is a better shared understanding throughout the marketplace of how to judge audit quality, it will increase the degree to which audit firms compete based on audit quality.

Last year, we reported for the first time on a set of metrics agreed with the Policy and Reputation Group as being factors which could contribute to audit quality. Each of the firms disclosed their performance against those metrics, enabling observers to assess the results of each firm and make comparisons between them. Our results for the year ended 30 June 2015 are set out overleaf. While this increased transparency has been well received by the investment community and the regulators, we still welcome any further feedback as we continue to develop our assessment and measurement of audit quality next year.



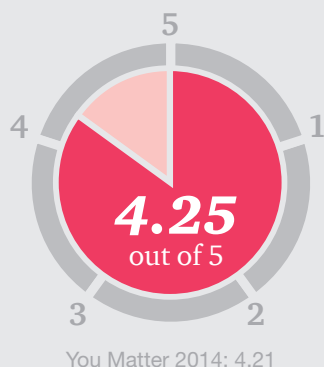
## Partner and staff survey

The PRG identified three people-related areas which could contribute to audit quality, the measurement of which is intended to be done through staff feedback surveys. The suggested survey questions are:

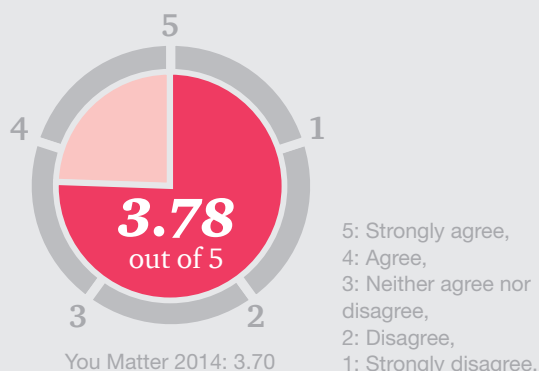
1. I am encouraged to perform a high quality audit
2. I receive enough training and development to enable me to deliver quality audits
3. I have sufficient time and resource to deliver quality audits

PwC conducts an annual staff survey: You Matter. This is derived from PwC's global staff survey, the questions are applicable across all lines of service and the results feed into our global reporting on people engagement. We have reviewed the survey questions and identified two which we believe provide equivalent evidence and have reported the results for the UK assurance line of service below.

### 1. The leaders I work with are committed to providing high quality service to external clients (Assurance FY15)



### 2. The learning and development I receive from PwC has prepared me for the work I do (Assurance FY15)



3. We do not currently have a question in the survey that provides evidence against the third question, but will seek to incorporate this when the survey questions are next updated.

We take the workloads of our partners and staff very seriously. We recognise that the opportunities afforded by a diverse and challenging portfolio must be balanced with the need to provide sufficient time for partners and staff to perform their roles to the highest possible standards. To that end, the workloads of partners and staff are reviewed on a regular basis and adjusted, as needed, to enable them to continue to deliver high quality audits.



## External investigations

### Number of cases in the last 12 months in which the FRC's conduct committee has found against the firm or one of its members

In the year to 30 June 2015 there were **no cases** (2014: nil) found against the firm by the Conduct division of the FRC.

### Number of cases in the last 12 months in which the disciplinary committee of the firm's lead recognised professional body has found against the firm or one of its members

In the year to 30 June 2015 there were **no cases** (2014: nil) found against the firm by the Audit Registration Committee of the ICAEW.

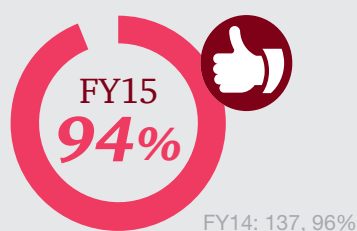
Again this year, we've not had any adverse conclusions in disciplinary cases brought against us by our lead regulators. We're mindful, however, that we have a number of ongoing regulatory investigations as set out on page 48 and we are assisting our regulators with their enquiries. Whatever the results of these cases, we ensure that our partners and staff reflect on the lessons learned from each situation.

## Engagement performance

### Internal

#### Results of firm's own audit quality reviews

In FY15, 143 audit engagements, representing 94% of the audit engagements reviewed, were classified as “compliant” or “compliant with review matters”<sup>4</sup>



#### Annualised percentage of Responsible Individuals subject to the firm's own audit quality reviews



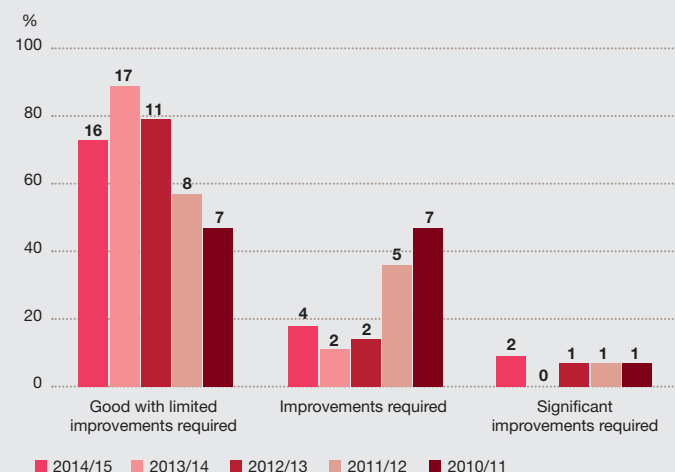
### External

#### PCAOB inspection results

The PCAOB last inspected PwC UK in 2014 and included the review of the audit files for two FPI audits and one other engagements and the firm's related quality control procedures.

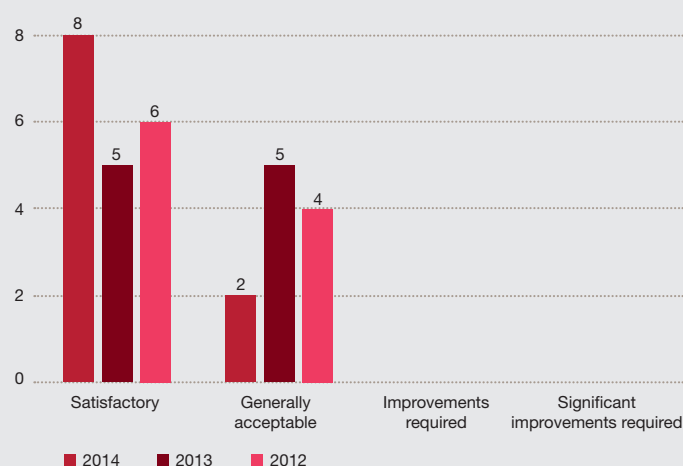
During this review, the PCAOB reviewed audit engagements and did not identify any audit performance issues that, in the PCAOB's view, resulted in PwC UK failing to obtain sufficient appropriate audit evidence to support its opinion on the inspected engagement's financial statements or internal control over financial reporting or to fulfill the objectives of its role in the other engagement. In addition, during the review of PwC UK's quality control system, the PCAOB did not identify anything that it considered to be a quality control defect that warrants discussion in its inspection report.

#### Results of the FRC's Audit Quality Review on the firm



The FRC report noted that the firm placed considerable emphasis on its overall system of quality control and, in most areas, had appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, the AQR identified certain areas where improvements were required to these policies and procedures and we're working hard to address these. Further details can be found in Section 7 of this report.

#### Findings of the ICAEW Quality Assurance Department's engagement quality reviews



The QAD provided us with a copy of its confidential report to the ICAEW's Audit Registration Committee. This report is not publicly available.

In summary, the QAD concluded that the firm continued to maintain a high standard of audit work, although the need for some improvements was identified. We will continue to enhance our procedures to address any matters raised.

<sup>4</sup> See page 46. These results became available in mid September 2015, shortly before this Transparency Report was published.



## Investment

*We take our responsibilities to provide assurance services very seriously and are committed to continuing to invest in our assurance practice. The investment we make in training our people, and in assurance research and development, is substantial, and is reflected in the profitability figures set out on page 61.*

### Training activity in Assurance

We present calendar year training information within this report to mirror the training approach we have in place in Assurance. Our training curriculum runs from January to December to fit with the typical audit cycle and the majority of our training is typically delivered over the summer months. The accompanying figures in the table below are for the calendar year ended 31 December 2014.

<b>19 hours</b> per person	The minimum structured training hours provided to qualified partners and staff within the annual mandatory audit, accounting and compliance update programme
<b>19–82 hours</b> per person	The range of possible structured mandatory training hours required by qualified partners and staff engaged in audits based on their grade, experience and role (defined by their learner profile responses)
<b>76,000</b> items	The number of Assurance mandatory training items completed during the calendar year
<b>99 hours</b> per person	The average time charged to training time codes by qualified partners and staff during the calendar year <sup>1</sup>
<b>1.26 million</b> hours 2013: 1.24m	The total number of hours charged to training time codes by all partners and staff in Assurance during the year, including exam training for staff under training contracts

<sup>1</sup> This metric is calculated by taking the total hours charged to training time codes by client facing personnel from partner to Senior Associate 2 (qualification) in Assurance during 2014 and dividing this by the average headcount (FTE) for the same staff grades and time period

### Investment in research and development in Assurance

Both PwC UK and our global network invest heavily in the development of our Assurance product.

We have dedicated teams who focus on improving our methodologies and technologies. An important objective of this work is the improvement of audit quality. You can read more about this on pages 20 and 21.



## Shareholder liaison

### Qualitative description of shareholder liaison

We have a dedicated shareholder engagement team who works, together with our audit partners, to understand the expectations of the shareholder community. We produce shareholder-focused surveys, thought leadership and other material to help audit teams, executives and non-executives respond better to shareholder needs. We also work to educate investors and analysts on developments in accounting, regulation and governance through roundtable events and by facilitating dialogue between senior audit partners and members of the shareholder community.

We continually seek the views of the investment community on the wider reporting, regulatory and governance issues facing UK companies and the audit profession. We held several round-table events to:

- seek shareholders' views on their expectations of the directors' statement that the annual report and accounts are fair, balanced and understandable, as well as what they expect from the auditor in reviewing that statement.
- help them understand the requirements of the 2014 UK Corporate Governance Code, particularly around the new viability statement, and to get an understanding of their expectations of the new disclosures.
- seek to understand their information needs following the removal of the requirement for companies to publish interim management statements.

We've published the results of four global surveys of investment professionals during the year. We asked them for their views on integrated reporting, the use of adjusted performance measures and best practices for accounting policy disclosures, as well as on reporting in the power and utilities sector.

We've continued to seek feedback from shareholders and analysts on the format and content of our audit opinions. Those discussions highlighted that there is a need for education about the audit process and the judgments required, particularly in the areas of materiality, risk assessment and scoping and testing. Consequently, we developed educational videos targeted at the investment community with our audit partners explaining, in plain language, those areas. These videos can be found in the auditor view section of [www.pwc.co.uk](http://www.pwc.co.uk).

We've also continued to participate in the Global Auditor Investor Dialogue, which is an informal forum comprising major global auditing networks and leading global institutional investors.

## 9. Financial information

### Consolidated financial information

The following information is extracted from the consolidated financial statements of PwC UK for the year ended 30 June 2015:

- consolidated profit for the financial year before members' profit share was £818m (FY14: £772m)
- consolidated profit available for division among members was £755m (FY14: £711m).

### Relative importance of statutory audit work

An analysis of the UK and total group revenue of PwC UK for the financial year ending 30 June 2015, which shows the relative importance of UK-related statutory audit work, is shown below:

	FY15 £m	FY14 £m
Statutory audits and directly related services for audit clients	604	571
Non-audit services to audit clients <sup>5</sup>	365	332
Services to audit clients	969	903
Services to clients we do not audit	1,790	1,636
UK firm revenue	2,759	2,539
Revenue from non-UK subsidiary undertakings	324	275
Group revenue	3,083	2,814
Revenues from statutory audits and directly related services for audit clients as a percentage of UK firm revenue	22%	22%

<sup>5</sup> Typical non-audit services provided to audit clients include some of the services listed in the line of service descriptions in Appendix 1 and are only provided to audit clients where permitted by Ethical Standards and PwC Network and PwC UK policies..

### Audit profitability

The Consultative Committee of Accountancy Bodies (CCAB) issued a Voluntary Code of Practice on Disclosures of Audit Profitability (the Audit Profitability Code) in March 2009. The Audit Profitability Code sets out recommended disclosures in respect of the profitability of statutory audits and directly related services (the 'reportable segment').

Revenue and operating profit of the reportable segment, calculated in accordance with the requirements of the Audit Profitability Code, are:

	FY15 £m	FY14 £m
Revenue	604	571
Operating profit	149	122

Revenue, direct costs and overheads for the reportable segment are recognised and measured on a basis consistent with the firm's consolidated financial statements:

- revenue represents amounts recoverable from clients for statutory audits and directly related services provided during the year, excluding Value Added Tax. It reflects the fair value of the services provided on each client assignment including expenses and disbursements, based on the stage of completion of each assignment as at the balance sheet date.
- operating profit for the reportable segment is calculated based on direct costs, including staff costs associated with engagements falling within the segment and training, together with an allocation of firmwide overheads, such as property and IT costs. These costs are allocated on a pro rata basis, based primarily on the headcount or revenues of the relevant business segment. No cost is included for the remuneration of members of PwC UK, consistent with the treatment of partners' remuneration in the firm's consolidated financial statements.

## 10. Remuneration of partners

.....  
**37%**

*Each partner's performance income, which in the year ended 30 June 2015 represented on average approximately 37% of their profit share*

Partner roles are remunerated solely out of the profits of PwC UK and its subsidiaries and partners are personally responsible for funding their pensions and other benefits.

Audit partners and audit staff, which includes staff from other Lines of Service contributing to the audit, are not permitted to be, nor are they incentivised to be, evaluated or remunerated for the selling of non-audit services to their audit clients.

The expectations of audit partners are set out in Section 5, and audit quality forms a key part of the partner performance appraisal process.

In addition, the Assurance Risk & Quality partners input into the assessment of performance in respect of risk and quality matters for the audit partners in their teams and the Assurance Risk & Quality Leader is involved in the remuneration discussions for audit partners to make sure that the process complies with the firm's policies.

The final allocation and distribution of profit to individual partners is made by the Executive Board, once performance has been assessed and the annual financial statements have been approved. The Supervisory Board approves the process and oversees its application.

Each partner's profit share comprises three interrelated profit-dependent components:

- responsibility income – reflecting the partner's sustained contribution and responsibilities
- performance income – reflecting how a partner and their team(s) have performed
- equity unit income – reflecting the overall profitability of the firm.

Each partner's performance income, which in the year ended 30 June 2015 represented on average approximately 37% of their profit share (FY14: 39%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the partner's role. These objectives include ensuring that we deliver quality services and maintain our independence and integrity.

Quality failings identified either through regulatory reviews or internal quality reviews impact the remuneration of audit partners, and other audit and non-audit engagement leaders in Assurance, through an accountability framework.

There is transparency among the partners over the total income allocated to each individual.

### **Drawings**

The overall policy for partners' monthly drawings is to distribute a proportion of the profit during the financial year, taking into account the need to maintain sufficient funds to settle partners' income tax liabilities and to finance the working capital and other needs of the business. The Executive Board, with the approval of the Supervisory Board, sets the level of partners' monthly drawings, based on a percentage of their individual responsibility income.

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## ***11. Public interest entities***

A list of the public interest entities for whom we issued an audit opinion between 1 July 2014 and 30 June 2015, who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008) can be found in Appendix 4.

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# Appendices

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## Appendix 1: Lines of service

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*PwC UK operates through four principal Lines of Service (LoS) in the UK. These are Assurance, Consulting, Deals and Tax. Programmes to develop expertise and to share knowledge in all key industries are also in place.*

### **Assurance**

**Audit and capital markets, regulatory and other similar assurance:** statutory and non-statutory audit, financial accounting, corporate reporting, compliance with new and existing regulations and remediation, risk and regulatory monitoring, International Financial Reporting Standards (IFRS) and new UK GAAP conversions, assurance on capital market transactions and listings and assurance on non-financial information.

**Risk assurance:** IT risk assurance, business resilience, commercial assurance, performance assurance, treasury and commodity services and internal audit.

**Actuarial:** mergers and acquisitions, capital structuring, financial modelling, predictive modelling, insolvencies and run-off solutions, regulatory, risk and capital management, underwriting and catastrophe modelling, claims, reinsurance, insurance reserving and reporting, pensions and other benefit plans, performance benchmarking and insurance needs for the public sector.

### **Consulting**

**Consulting:** finance, strategy, delivering deal value, operations, people, technology, governance risk and compliance, enterprise performance management (process transformation, systems implementation and application management), project and programme management and cyber security and business change enabled by digital technology.

**Sustainability and climate change:** impact reviews, strategic and performance planning, corporate governance and business ethics, policy development and roll-out, risk management, carbon markets planning and transactions, environmental tax and regulation, environmental health and safety management, ethical supply chain management, reporting and assurance on waste and resource use management.

**New businesses:** refers to the portfolio of businesses where we've recognised the potential for developing alternative business models: PwC's Learning Services, MyFinancepartner, The Difference, Research to Insight and GeoTraceability.

## ***Deals***

**Transaction services:** buy and sell-side financial and due diligence, commercial and market due diligence, structuring, sale and purchase agreements, business modelling, valuations, bid support and defence.

**Corporate finance:** mergers and acquisitions advisory, private equity advisory, project finance and public private partnerships, public to private transactions and public company advisory.

**Business recovery services:** financial and operational restructuring, debt and capital advisory, working capital management, corporate insolvency, independent business reviews, chief restructuring officers, interim leadership (PwC UK's turnaround panel), optimised exits & corporate simplification, accelerated mergers and acquisitions, corporate liability management, pension scheme credit advisory, and distressed property advisory.

**Forensic services:** disputes including asset tracing, commercial, competition, intellectual property and shareholder disputes, construction and insurance claims; investigations including anti-money laundering, financial crime, fraud and corruption, ethics and integrity consulting, anti-trust, royalty examinations and warranty compliance; and forensic advisory including contract and project risk, fraud prevention, project delay analysis, litigation readiness, revenue leakage, forensic technology, data analytics and cyber response.

## ***Tax***

**Tax:** corporate tax advisory, tax on transactions, transfer pricing, corporate and international tax structuring, finance and treasury, indirect taxes, property taxes, tax management and accounting services, dispute resolution, corporate tax compliance and outsourcing, private business tax advisory, personal tax advisory and compliance, tax valuations, sustainability and climate change taxes, tax risk and strategy, tax disclosures, tax transparency, value chain transformation, investment advisory, incentives, grants and reliefs, operational tax services (financial services).

**Human resource services:** pay, performance and risk, global mobility solutions, pensions and workforce benefits, people services including HR transaction advice, HR analytics and benchmarking, HR technology and transformation.

**PwC Legal\*:** Corporate law, banking and finance, employment and pensions law, real estate advice, immigration law, intellectual property law, IT law, general commercial and contractual law, dispute resolution (tax and commercial), regulatory disputes, cyber security and data protection law, public procurement, legal entity management and governance advice.

\*PwC Legal LLP is a separate member firm of the PwC network

## Appendix 2: Biographies



### The Executive Board

#### 1 Ian Powell

##### Chairman and Senior Partner

Ian joined the UK firm's Executive Board in 2006 and was elected Chairman and Senior Partner in 2008. He joined the UK firm as a graduate trainee in 1977 with a degree in economics from Wolverhampton Polytechnic. He became a partner in 1991. Before becoming chairman, he was Head of Advisory. He has an honorary doctorate in business administration, awarded by the University of Wolverhampton Business School.

#### 2 Kevin Ellis

##### Managing Partner

Kevin graduated in industrial economics from Nottingham University, joined the firm in 1984 and became a partner in 1996. Before he joined the Executive Board in 2008, he headed up our Business Recovery Services and between 2008 and 2012 he was Head of Advisory. During his time with the firm Kevin has been on two secondments, one with an overseas bank and the other with a major UK financial institution.

#### 3 Gaenor Bagley

##### People

Gaenor graduated from Cambridge University with a mathematics and management degree. She trained in audit and spent three years in an investment bank corporate finance team. In 1992, she joined the Tax practice and in 2000 became a partner, continuing to work in M&A and specialising in Private Equity. She joined the Executive Board in 2011 and is responsible for our people, communities and sustainability.

#### 4 James Chalmers

##### Assurance

James graduated from Oxford University with an engineering degree and he joined the firm in 1985. He became a partner in 1997. Before joining the Executive Board in 2008 as Head of Strategy and Talent, he was a member of the Assurance leadership team. During his time in Assurance he worked with multinational clients and has been on long-term secondments to clients in the banking and healthcare sectors.

#### 5 Margaret Cole

##### General Counsel

Margaret graduated from Cambridge with a degree in law. She joined the Executive Board on 1 January 2013 and was previously Managing Director of Enforcement and Financial Crime and a board member of the FSA. She has over 20 years' experience in private practice, specialising in commercial litigation with an emphasis on financial services. She has held positions with Stephenson Harwood and White & Case.

#### 6 John Dwyer

##### Deals

John graduated from University College Dublin with a commerce degree. He has worked in most of the businesses under the Deals umbrella including Business Recovery Services and Corporate Finance. He became a partner in 1997 and ran the Transaction Services business between 2007 and 2011. He joined the Executive Board in 2012.



## 7 **Warwick Hunt** Chief Financial Officer

Warwick graduated from the University of the Witwatersrand in Johannesburg with a bachelor of accountancy. He is responsible for the leadership of the UK firm's Finance and Operations functions. Before joining the Executive Board in October 2013 he was PwC Middle East senior partner. He was territory senior partner and Chief Executive Officer in PwC New Zealand from 2003 to 2009.

## 8 **Stephanie Hyde** Regions

Stephanie graduated from Brunel University with a mathematics and management degree. She joined the firm in 1995 and became a partner in 2006. Before joining the Executive Board in 2011, she led our Assurance practice in Reading and our mid-cap market in the South East. Stephanie has worked in a number of our offices in the UK with clients ranging from private businesses through to FTSE 100 companies.

## 9 **Kevin Nicholson** Tax

Kevin joined the Executive Board in 2008 as Head of Regions after spending four years leading the Entrepreneurs and Private Clients practice on the Tax Leadership Team. He graduated from Newcastle-upon-Tyne Polytechnic, joined the firm in 1991 and became a partner in 2000. Over this period he worked in the North East, the Midlands, London and Hong Kong, and also spent two years working with Global Tax Leadership in New York.

## 10 **Richard Oldfield** Strategy

Richard graduated from the University of York with an economics degree. He joined the firm in 1992 and became a partner in 2003. Before joining the Executive Board in 2011, he led our Banking and Capital Markets business within Assurance. He has worked in London, Zurich, Paris, New York and most recently Sydney, on both audit and non-audit clients. Richard is also the Global Audit Partner for HSBC.

## 11 **Dan Schwarzmenn** Clients and Markets

Dan has a masters degree in Business Administration from City University and became a Partner in 1998. Before joining the Executive Board in January 2014 he was responsible for the Business Recovery Services team in the UK from 2008. Dan has been involved in a number of high-profile UK and international assignments, mainly in the financial services sector.

## 12 **Ashley Unwin** Consulting

Ashley graduated from Sheffield University in 1991 with a degree in business; he also gained an MSc in organisational development. He joined the firm in 2009 to lead our Consulting practice. Ashley's early career was spent with Arthur Andersen where he made partner in 1998. Before joining the firm, he worked in private equity and held senior positions in EMI. He joined the Executive Board in 2012.

# Supervisory Board

## **Mark Hudson**

is Chairman of the UK Supervisory Board and the Alliance Supervisory Board. He is a Consulting partner based in London with a focus on M&A and performance improvements in the Retail and Consumer Sector. He joined the firm as a direct entry partner in 2001 after holding executive board roles in industry in plc and PE backed companies. He is also a member of the PIB.

## **Christine Adshead**

is a Deals partner in Regional Transaction Services in London, having previously been based in Manchester. She joined the firm in 1986 and became a partner in 1998. Christine became Chair of the Strategy and Governance Committee in January 2015 and is also Deputy Chair of the Supervisory Board.

## **Dave Allen**

is a Consulting global relationship partner with experience in both the TMT and government sector in London. He joined the firm in 1989 and became a partner in 1997. He is a member of the PwC Middle East Board.

## **Colin Brereton**

is a Markets partner in the Commercial Innovations Team based in the London Top Tier business unit and is leader of PwC Network's Response to the Economic Crisis in Europe. He joined the firm in 1982 and became a partner in 1995. Colin left the Supervisory Board on 31 December 2014.

## **Pauline Campbell**

is an Assurance partner in our London Top Tier business unit where she deals with listed companies. She joined the firm in 1985 and became a partner in 1996. She is the Chair of the Audit and Risk Committee and was re-elected to the Supervisory Board from 1 January 2015.

## **Paul Clarke**

was an Assurance partner within the London Insurance and Investment Management business unit and the Global Insurance Regulation Leader. He joined the firm in 1985 and became a partner in 1994. Paul left the Supervisory Board on 31 December 2014 and retired from the firm on 30 June 2015.

## **Duncan Cox**

is a Tax partner in London, specialising in mergers and acquisitions. He joined the firm in 1994 and became a partner in 2007.

## **Katharine Finn**

is an Assurance partner in the West & Wales business unit. She joined the firm in 1990 and became a partner in 2006. She was the Chair of the Partner Affairs Committee until 31 December 2014 when she left the Supervisory Board.

## **Simon Friend**

is an Assurance partner in London. He joined the firm in 1982 and became a partner in 1993. He is a member of the Global Board, the body responsible for the governance of the PwC Network.

## **Rob Hunt**

is a Deals partner based in Birmingham and leads the national middle market Business Recovery Services team. He joined the firm in Birmingham in 1984 and became a partner in 1996, spending three years in London from 2010. He was Chair of the Partner Affairs Committee when it acted as Senior Management Remuneration Committee until 31 December 2014, when he left the Supervisory Board.

## **Gerry Lagerberg**

is a Deals partner in Forensic Services in London. He joined the firm in 1983 and became a partner in 1995. He is a member of the Global Board, the body responsible for the governance of the PwC Network, and a member of the PwC Middle East Board.

## **Bill MacLeod**

is an Assurance partner who deals with a wide range of listed, private and inbound clients. He joined the firm in 1983 and became a partner in 1995. He is based in Newcastle where he is the Office Senior Partner. Bill joined the Supervisory Board on 1 January 2015.

## **Sue Rissbrook**

is a Tax partner in London. She specialises in Transfer Pricing and leads our Global Transfer Pricing Retail and Consumer Goods Industry Network. She joined the firm in 2000 and became a partner in 2007.

## **Caroline Roxburgh**

is an Assurance partner, based in the Edinburgh office. She is Audit Engagement Leader for a mixture of middle-market clients, both listed and private companies. Caroline joined the firm in 1981 and became a partner in 1995.

## **Anne Simpson**

is an Assurance partner in London Banking & Capital Markets where she leads the Banking Regulatory practice. She joined the firm in 1981 and became a partner in 1993. Anne joined the Supervisory Board on 1 January 2015 and chairs the Partner Affairs Committee when it acts as Senior Management Remuneration Committee.

## **Jim Stidham**

is a Tax partner in London specialising in Global Mobility. He joined the firm in 1983 and became a partner in 1996. Jim joined the Supervisory Board on 1 January 2015.

## **Claire Stokes**

is a Consulting partner and is Risk and Quality Leader for Consulting UK and Consulting EMEA. She joined the firm as a direct entry partner in 2008. Claire joined the Supervisory Board on 1 January 2015 and is the Supervisory Board representative on the Partner Pensions Governance Committee.

## **Heather Swanston**

is a Deals partner in Business Recovery Services in London where she leads the Refinancing and Restructuring team and is a member of the BRS Executive. She joined the firm in 1988 and became a partner in 2002. Heather joined the Supervisory Board on 1 January 2015 and chairs the Partner Affairs Committee.

## **Matthew Thorogood**

(Supervisory Board Chairman until 31 December 2014 when he left the Supervisory Board) now leads Partner Affairs, having previously been a Tax partner in the Human Resources Services part of the Tax practice in London. He joined the firm in 1986 and became a partner in 2001.



## Public Interest Body (PIB)

The Public Interest Body (PIB) comprises seven independent non-executives and four representatives from the firm (two from the Executive Board and two from the Supervisory Board).

### 1 Sir Richard Laphorne

Sir Richard Laphorne (PIB chair) is the current Chairman of Cable & Wireless Communications plc. Sir Richard's executive career spanned British Aerospace plc, where he was Vice-Chairman and Finance Director, and Courtaulds plc, where he was Finance Director. He spent his first eighteen years working for Unilever plc in the UK, Africa, Holland and France. As a non-executive he was a part-time Chairman of Nycomed Amersham plc, New Look plc, Morse plc, Arlington plc, and has served as a non-executive director of Orange plc, Robert Flemings, and Oasis International Leasing in Abu Dhabi.

### 2 Sir Graeme Davies

Sir Graeme Davies is Emeritus Vice-Chancellor of the University of London, having served as Vice-Chancellor and President from 2003–2010. He has been vice-chancellor of three different universities in the UK, and was also previously chief executive of the Universities Funding Council and the Higher Education Funding Council for England. He also serves on the boards of a number of other bodies involved in the higher education sector and has served on the board of London First.

### 3 Dame Karen Dunnell

Dame Karen Dunnell is a professional statistician and most of her career was spent at the Office of National Statistics where she latterly held the post of National Statistician and Chief Executive. She is currently a visiting fellow at Nuffield College, Oxford, an Honorary Fellow at Cardiff University and a Governor of the University of Westminster.

### 4 Lord O'Donnell

Lord O'Donnell is Chairman of Frontier Economics, a Strategic Advisor to Toronto Dominion Bank, Executive Director and Strategic Advisor to Brookfield Asset Management, visiting Professor at LSE and UCL, member of the Economist Trust and Chair of the Behavioural Insights Team Advisory Board at the Cabinet Office. Gus was Cabinet Secretary and Head of the British Civil Service from 2005–2011. Previously, he was Permanent Secretary of the Treasury from 2002–2005 and served on the IMF and World Bank Boards. Gus was appointed to the House of Lords in 2012, where he sits as a crossbencher. Most recently, he chaired a group which produced a report on Wellbeing and Policy.

### PwC members (not pictured)

Ian Powell<sup>^</sup>†, James Chalmers<sup>^</sup>, Matthew Thorogood<sup>†</sup> (until 31 December 2014), Mark Hudson<sup>†</sup> (from January 2015), Pauline Campbell<sup>†</sup> (from May 2015).

<sup>^</sup> Member of the Executive Board

<sup>†</sup> Member of the Supervisory Board

## **5 Paul Skinner**

Paul Skinner is Chairman of Defence Equipment and Support, a trading entity within the Ministry of Defence responsible for defence procurement and related support activities, and is a member of the Defence Board of MoD. He is also a Non-Executive Director at Standard Chartered plc and Air Liquide SA and a member of the Advisory Body of Norton Rose Fulbright LLP. Paul spent his 40 year executive career with Royal Dutch Shell with his final position being as a Group Managing Director and CEO of the Group's global oil products business. He was later Chairman of Rio Tinto plc.

## **6 Sir Ian Gibson**

Sir Ian's executive career was spent mainly in the automotive industry, with 18 years at Nissan Motor Company Ltd where he was Chief Executive in the UK and Europe, and was on the Japanese Main Board. Previously, he was at Ford Motor Company for 15 years. Sir Ian has been a Non-Executive Deputy Chairman at ASDA plc and a Non-Executive Director at several companies, including GKN plc, Northern Rock plc and Greggs plc and has been Chairman of Trinity Mirror plc and Wm Morrison Supermarkets plc and BPB plc. Sir Ian has also been a Member of the Court of Directors at the Bank of England and has had several Government advisory roles.

## **7 Justin King CBE**

Justin King stepped down as CEO of Sainsburys in July 2014. He has previously worked for M&S, Asda, Haagen Dazs, Pepsi, and Mars in a thirty year career spanning fast moving consumer goods and Grocery Retailing. He was a non-executive director of Staples between 2007–2015, was a board member of LOCOG from 2009–2013, and a member of the Prime Minister's Business Advisory Group from 2010–2012. Recently Justin has taken the interim role of Chairman of Manor Marussia F1 Team, reflecting a lifelong interest in the sport.

Brief biographical details for each firm member of the PIB:

### **1 Ian Powell**

Ian Powell, Chairman and Senior Partner, is responsible for the leadership and strategic direction of the UK firm and its role in the PwC Network. His background is in Assurance and Restructuring, where he has advised leading international financial institutions and corporates. Ian joined the firm in 1977, became a partner in 1991 and has worked in Birmingham, Manchester and London. He has a degree in Economics from Wolverhampton Polytechnic. He previously headed the Advisory practice.

### **2 James Chalmers**

James Chalmers, Executive Board member responsible for Assurance, has a degree in Engineering from Oxford University and joined the firm in 1985. He became a partner in 1997.

### **3 Mark Hudson**

Mark Hudson, Supervisory Board Chairman from January 2015 is a Retail and Consumer partner within the Consulting practice based in London. He has a degree in Engineering from Imperial College and an MBA from INSEAD. He joined as partner in 2001 after a career which included Executive Board roles at Welcome Break and Iceland Group as well as being a Partner at Bain & Company.

### **4 Pauline Campbell**

Pauline Campbell, Supervisory Board member, is a London Top Tier partner, and has dealt with the spectrum of market segments from private client to top tier. She joined the firm in 1985 and became a partner in 1996. Pauline chairs the Audit and Risk Committee of the Supervisory Board.

Following Sir Ian Gibson's resignation as a director of Wm Morrisons PLC on 22 January 2015, he rejoined as an independent non-executive member of the Public Interest Body on 1 May 2015.

## Appendix 3: EU Entities (as at 30 June 2015)

Member State	Audit firm/statutory auditor
Austria	PwC Wirtschaftsprüfung GmbH, Wien
	PwC Transaction Services Wirtschaftsprüfung GmbH
	PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH, Linz
	PwC Kärnten Wirtschaftsprüfung und Steuerberatung GmbH, Klagenfurt
	PricewaterhouseCoopers Vorarlberg Wirtschaftsprüfungs GmbH, Dornbirn
	PricewaterhouseCoopers Tirol Wirtschaftsprüfungsgesellschaft mbH, Innsbruck
	PwC Steiermark Wirtschaftsprüfung und Steuerberatung GmbH, Graz
	PwC Salzburg Wirtschaftsprüfung und Steuerberatung GmbH, Salzburg
	PwC Burgenland Wirtschaftsprüfung und Steuerberatung GmbH, Eisenstadt
	PwC Österreich GmbH, Wien
	PwC Salzburg Wirtschaftsprüfung und Steuerberatung GmbH, Salzburg
	PwC Österreich GmbH, Wien
Belgium	PricewaterhouseCoopers Bedrijfsrevisiorn bcvba/Reviseurs d'enterprises scrl
	SPRL PricewaterhouseCoopers Audit Services
Bulgaria	PricewaterhouseCoopers Audit OOD
Croatia	PricewaterhouseCoopers d.o.o
Cyprus	PricewaterhouseCoopers Limited
Czech Republic	PricewaterhouseCoopers Audit s.r.o
Denmark	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab
Estonia	AS PricewaterhouseCoopers
Finland	PricewaterhouseCoopers Oy
France	PricewaterhouseCoopers Audit
	PwC Sellam
	PricewaterhouseCoopers Entreprises
	Diagnostic Révision Conseil (DRC)
	Philippe Aerts
	Didier Cavanie
	Jean-Laurent Bracieux
	Didier Falconnet
	Didier Brun
	François Miane
	Antoine Priollaud
	Yves Moutou
	Bernard Kervarec

<b>Member State</b>	<b>Audit firm/statutory auditor</b>
<b>Germany</b>	PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft
	Wibera WPG AG
	PwC FS Tax GmbH Wirtschaftsprüfungsgesellschaft
<b>Greece</b>	PricewaterhouseCoopers Auditing Company SA
<b>Hungary</b>	PricewaterhouseCoopers Konyvvizsgalo Kft.
<b>Iceland</b>	PricewaterhouseCoopers ehf
<b>Ireland</b>	PricewaterhouseCoopers
<b>Latvia</b>	PricewaterhouseCoopers SIA
<b>Liechtenstein</b>	PricewaterhouseCoopers AG
<b>Lithuania</b>	PricewaterhouseCoopers UAB
<b>Luxembourg</b>	PricewaterhouseCoopers, Société coopérative
<b>Malta</b>	PricewaterhouseCoopers Malta
<b>Netherlands</b>	PricewaterhouseCoopers Accountants N.V.
	Coöperatie PricewaterhouseCoopers Nderland U.A
<b>Norway</b>	PricewaterhouseCoopers AS
<b>Poland</b>	PricewaterhouseCoopers Polska sp. z.o.o.
	PricewaterhouseCoopers sp. z.o.o.
<b>Portugal</b>	PricewaterhouseCoopers & Associados-Sociedade de Revisores Oficiais do Contas Lda
<b>Romania</b>	PricewaterhouseCoopers Audit S.R.L.
<b>Slovak Republic</b>	PricewaterhouseCoopers Slovensko s.r.o
<b>Slovenia</b>	PricewaterhouseCoopers d.o.o.
<b>Spain</b>	PricewaterhouseCoopers Auditores, S.l.
<b>Sweden</b>	PricewaterhouseCoopers AB
	Ohrlings PricewaterhouseCoopers
<b>UK</b>	PricewaterhouseCoopers LLP
	PricewaterhouseCoopers AS LLP
	Andrew Ratcliffe
	Richard Sexton

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## ***Appendix 4: Public Interest Entities***

Below is a list of the public interest entities for whom we issued an audit opinion between 1 July 2014 and 30 June 2015, who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008).

4IMPRINT GROUP PLC	BRAMMER PLC
ABERFORTH GEARED INCOME TRUST PLC	BRISTOL & WEST PLC
ACACIA MINING PLC (formerly AFRICAN BARRICK GOLD PLC)	BRISTOL WATER PLC
AGGREKO PLC	BRITISH AMERICAN TOBACCO PLC
AIRE VALLEY MORTGAGES 2004 - 1 PLC	BRITISH LAND COMPANY
AIRE VALLEY MORTGAGES 2005 -1 PLC	BRITISH TELECOMMUNICATIONS PLC
AIRE VALLEY MORTGAGES 2007 - 1 PLC	BT GROUP PLC
AIRE VALLEY MORTGAGES 2007 - 2 PLC	BUNZL PLC
AIRE VALLEY MORTGAGES 2008 - 1 PLC	BURBERRY GROUP PLC
AMLIN PLC	CAIRN ENERGY PLC
ANGLIAN WATER (OSPREY) FINANCING PLC	CAPITAL & COUNTIES PROPERTIES PLC
ANGLIAN WATER SERVICES FINANCING PLC	CAPITAL GEARING TRUST PLC
ARKLE MASTER ISSUER PLC	CARNIVAL PLC
ARM HOLDINGS PLC	CARPETRIGHT PLC
ARRIA NLG PLC	CARR'S MILLING INDUSTRIES PLC
ASIA RESOURCE MINERALS PLC	CATLIN UNDERWRITING
ASIAN TOTAL RETURN INVESTMENT COMPANY PLC	CENTAUR MEDIA PLC
AVIVA PLC	CENTRICA PLC
AVON RUBBER PLC	CHELTENHAM & GLOUCESTER PLC
BABCOCK INTERNATIONAL GROUP PLC	CIRCASSIA PHARMACEUTICALS PLC
BAGLAN MOOR HEALTHCARE PLC	CLARKSON PLC
BAILLIE GIFFORD JAPAN TRUST PLC	CLERICAL MEDICAL FINANCE PLC
BAILLIE GIFFORD SHIN NIPPON PLC	COALFIELD RESOURCES PLC
BANK OF SCOTLAND PLC	COBHAM PLC
BARCLAYS BANK PLC	CONSORT MEDICAL PLC
BARCLAYS PLC	COUNTRYWIDE PLC
BERENDSEN PLC	CRESTON PLC
BIRMINGHAM AIRPORT (FINANCE) PLC	CRODA INTERNATIONAL PLC
BLACKROCK EMERGING EUROPE PLC	DARTY PLC
BLACKROCK LATIN AMERICAN INVESTMENT TRUST PLC	DEBENHAMS PLC
BLACKROCK NORTH AMERICAN INCOME INVESTMENT TRUST	DERWENT LONDON PLC
BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC	DEVA FINANCING PLC
BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC	DEVELOPMENT SECURITIES PLC
BOS (SHARED APPRECIATION MORTGAGES) NO.3 PLC	DEVRO PLC
BOS (SHARED APPRECIATION MORTGAGES) NO.4 PLC	DUNELM GROUP PLC
BOS (SHARED APPRECIATION MORTGAGES) NO.6 PLC	EASYJET PLC
BRADFORD & BINGLEY PLC	ELECTRA PRIVATE EQUITY INVESTMENTS PLC
	ELECTRA PRIVATE EQUITY PLC
	ELECTROCOMPONENTS PLC

ENERGY ASSETS GROUP PLC	INTEGRATED ACCOMMODATION SERVICES PLC
EQUITY RELEASE FUNDING (NO.1) PLC	INTERNATIONAL BIOTECHNOLOGY TRUST PLC
EQUITY RELEASE FUNDING (NO.2) PLC	INTU DEBENTURE PLC
EQUITY RELEASE FUNDING (NO.3) PLC	INTU PROPERTIES PLC
EQUITY RELEASE FUNDING (NO.4) PLC	J D WETHERSPOON PLC
EQUITY RELEASE FUNDING (NO.5) PLC	J SAINSBURY PLC
EXCHEQUER PARTNERSHIP (NO. 2) PLC	JARDINE LLOYD THOMPSON GROUP PLC
EXCHEQUER PARTNERSHIP PLC	JKX OIL & GAS PLC
EXPERIAN FINANCE PLC	JOHN WOOD GROUP PLC
F&C CAPITAL AND INCOME INVESTMENT TRUST PLC	JPMORGAN ASIAN INVESTMENT TRUST PLC
F&C GLOBAL SMALLER COMPANIES PLC	JPMORGAN CHINESE INVESTMENT TRUST PLC
FCE BANK PLC	JPMORGAN EMERGING MARKETS INVESTMENT TRUST PLC
FDM GROUP (HOLDINGS) PLC	JPMORGAN EUROPEAN SMALLER COMPANIES TRUST PLC
FENNER PLC	JPMORGAN INCOME & CAPITAL TRUST PLC
FINSBURY GROWTH & INCOME TRUST PLC	JPMORGAN JAPANESE PLC
FOREIGN & COLONIAL INVESTMENT TRUST PLC	JPMORGAN MID CAP INVESTMENT TRUST PLC
FUTURE PLC	JPMORGAN OVERSEAS INVESTMENT TRUST PLC
GALLIFORD TRY PLC	JUPITER FUND MANAGEMENT PLC
GAMES WORKSHOP GROUP PLC	JUPITER US SMALLER COMPANIES INVESTMENT TRUST
GKN HOLDINGS PLC	KCOM GROUP PLC
GKN PLC	KEYSTONE INVESTMENT TRUST
GLAXOSMITHKLINE CAPITAL PLC	LADBROKES PLC
GLAXOSMITHKLINE PLC	LATCHWAYS PLC
GOLDMAN SACHS INTERNATIONAL.	LAVENDON GROUP PLC
GRACECHURCH CARD PROGRAMME FUNDING PLC	LBG CAPITAL NO. 1 PLC
GRACECHURCH MORTGAGE FINANCING PLC	LBG CAPITAL NO. 2 PLC
GRAINGER PLC	LEGAL & GENERAL FINANCE PLC
GRAPHITE ENTERPRISE TRUST PLC	LEGAL & GENERAL GROUP PLC
GREAT HALL MORTGAGES NO1 PLC	LEWIS (JOHN) PARTNERSHIP PLC
HBOS PLC	LEWIS (JOHN) PLC
HELLERMANNTYTON GROUP PLC	LIONTRUST ASSET MANAGEMENT PLC
HENDERSON EUROTRUST PLC	LLOYDS BANK PLC
HENDERSON GLOBAL TRUST PLC	LLOYDS BANKING GROUP PLC
HENDERSON OPPORTUNITIES TRUST PLC	LOWLAND INVESTMENT COMPANY PLC
HENDERSON SMALLER COMPANIES INVESTMENT TRUST	M & G HIGH INCOME INVESTMENT TRUST
HENRY BOOT PLC	M. P. EVANS GROUP PLC
HILTON FOOD GROUP PLC	MAN GROUP PLC
HOGG ROBINSON GROUP PLC	MANCHESTER BUILDING SOCIETY
HOME RETAIL GROUP PLC	MARSTON'S ISSUER PLC
HONOURS PLC	MARSTON'S PLC
HORNBY PLC	MARTIN CURRIE GLOBAL PORTFOLIO TRUST PLC
HOUSING FINANCE CORPORATION LTD	MARWYN MANAGEMENT PARTNERS PLC
HPC KING'S COLLEGE HOSPITAL (ISSUER) PLC	MCBRIDE PLC
HUNTING PLC	MEGGITT PLC
HYDER CONSULTING PLC	MICROGEN PLC
ICAP PLC	MITHRAS INVESTMENT TRUST PLC
IG GROUP HOLDINGS PLC	MORRISON(WM)SUPERMARKETS PLC
IMPERIAL TOBACCO FINANCE PLC	MORTGAGES NO.6 PLC
IMPERIAL TOBACCO GROUP PLC	MORTGAGES NO.7 PLC
INCHCAPE PLC	MOTABILITY OPERATIONS GROUP PLC
INDIVIOR PLC	NATIONAL EXHIBITION CENTRE (DEVELOPMENTS) PLC

NATIONAL GRID ELECTRICITY TRANSMISSION PLC  
 NATIONAL GRID GAS PLC  
 NATIONAL GRID PLC  
 NATIONWIDE BUILDING SOCIETY  
 NEC FINANCE PLC  
 NEWCASTLE BUILDING SOCIETY  
 NORCROS PLC  
 NOTTING HILL HOUSING TRUST  
 NRAM PLC  
 OCADO GROUP PLC  
 OXFORD BIOMEDICA PLC  
 P2P GLOBAL INVESTMENTS PLC  
 PEARSON PLC  
 PENNON GROUP PLC  
 PHOENIX IT GROUP PLC  
 POLAR CAPITAL GLOBAL FINANCIALS PLC  
 POLAR CAPITAL GLOBAL HEALTHCARE GROWTH AND  
 INCOME TRUST PLC  
 POLAR CAPITAL TECHNOLOGY TRUST PLC  
 PORVAIR PLC  
 PREMIER FARNELL PLC  
 PREMIER FOODS PLC  
 PV CRYSTALOX SOLAR PLC  
 PZ CUSSONS PLC  
 RECKITT BENCKISER GROUP PLC  
 REDROW PLC  
 REXAM PLC  
 RICARDO PLC  
 RIO TINTO PLC  
 RIT CAPITAL PARTNERS PLC  
 RL FINANCE BONDS PLC  
 ROAD MANAGEMENT CONSOLIDATED PLC  
 ROYAL DUTCH SHELL PLC  
 RUSPETRO PLC  
 SABMILLER PLC  
 SAVILLS PLC  
 SCHRODER ASIAPACIFIC FUND PLC  
 SCHRODER JAPAN GROWTH FUND PLC  
 SCHRODER UK GROWTH FUND PLC  
 SCHRODERS PLC  
 SCOTTISH WIDOWS PLC  
 SEPURA PLC  
 SHAFTESBURY PLC  
 SHANKS GROUP PLC  
 SILVERSTONE MASTER ISSUER PLC  
 SMITHS GROUP PLC  
 SOUTH WEST WATER FINANCE PLC  
 SPORTECH PLC  
 ST. JAMES'S PLACE PLC  
 STAGECOACH GROUP PLC  
 STANDARD LIFE EUROPEAN PRIVATE EQUITY TRUST PLC

STANDARD LIFE PLC  
 STHREE PLC  
 STV GROUP PLC  
 STYLES & WOOD GROUP PLC  
 SUPERGROUP PLC  
 SYNTHOMER PLC  
 T CLARKE PLC  
 TATE & LYLE PLC  
 TELECITY GROUP PLC  
 TESCO PERSONAL FINANCE PLC  
 TESCO PLC  
 THE CITY OF LONDON INVESTMENT TRUST  
 THE EUROPEAN INVESTMENT TRUST  
 THE MERCANTILE INVESTMENT TRUST  
 THE MERCHANTS TRUST PLC  
 THE MONKS INVESTMENT TRUST PLC  
 THE SAGE GROUP PLC  
 THOMAS COOK GROUP PLC  
 THORNTONS PLC  
 TOWN CENTRE SECURITIES PLC  
 TR EUROPEAN GROWTH TRUST PLC  
 TRINITY FINANCING PLC  
 TSB BANKING GROUP  
 TUI TRAVEL PLC  
 TYMAN PLC  
 UK MAIL GROUP PLC  
 VODAFONE GROUP PLC  
 VOLEX GROUP PLC  
 VP PLC  
 WATERMAN GROUP PLC  
 WELLCOME TRUST FINANCE PLC  
 WILMINGTON GROUP PLC  
 WITAN PACIFIC INVESTMENT TRUST PLC  
 WORKSPACE GROUP PLC  
 WORLDWIDE HEALTHCARE TRUST  
 WS ATKINS PLC  
 XCHANGING PLC  
 ZOTEFOAMS PLC

Entities whose transferable securities are admitted to trading  
 on a regulated market but are incorporated in Jersey:

CENTAMIN PLC  
 EXPERIAN PLC  
 GENEL ENERGY PLC  
 HENDERSON GROUP PLC  
 WIZZ AIR HOLDINGS PLC  
 WOLSELEY PLC

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## Appendix 5: Glossary

**AQR** – Audit Quality Review team

**Assurance** – the line of service responsible for delivering assurance including audit, risk assurance, capital markets work and actuarial services, as described on page 64

**The Board** – the Global Board

**The Code** – the PwC UK Code of Conduct

**CRR** – Corporate Reporting Review (previously known as the Financial Reporting Review Panel)

**The firm** – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales

**FRC** – Financial Reporting Council

**The Global Board** – the Board of PricewaterhouseCoopers International Limited

**Governance Code** – the Audit Firm Governance Code

**Group** – PwC UK and its subsidiary undertakings in the UK, Channel Islands and Middle East

**ICAEW** – Institute of Chartered Accountants in England and Wales

**IFAC** – International Federation of Accountants

**IFRS** – International Financial Reporting Standards

**The Instrument** – Statutory Auditors (Transparency) Instrument 2008

**ISAs (UK&I)** – International Standards on Auditing (UK and Ireland)

**ISQC (UK&I) 1** – International Standards on Quality Control (UK and Ireland) 1: ‘Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements’

**NET** – Network Executive Team

**NLT** – Network Leadership Team

**PCAOB** – Public Company Accounting Oversight Board of the United States of America

**PIB** – Public Interest Body

**The Policy and Reputation Group** – a group of policy heads from each of the six largest UK audit firms, together with representatives of ICAEW and ICAS (Institute of Chartered Accountants in Scotland) who meet to discuss policy and reputation issues impacting the profession

**PricewaterhouseCoopers** – the network of member firms of PwCIL

**PricewaterhouseCoopers LLP** – a limited liability partnership incorporated in England and Wales

**PwC** – the network of member firms of PwCIL

**PwCIL** – PricewaterhouseCoopers International Limited

**PwC Financial Statements 2015** – The PricewaterhouseCoopers LLP Members’ report and financial statements for the year ended 30 June 2015, which can be found at [www.pwcannualreport.co.uk](http://www.pwcannualreport.co.uk)

**PwC Network** – the network of member firms of PwCIL

**PwC UK** – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales

**QAD** – Quality Assurance Department of the ICAEW

**RIs** – ‘Responsible Individuals’ are the individuals in the firm allowed to sign audit reports

**SEC** – Securities and Exchange Commission of the United States of America

**‘us’** – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales

**‘we’** – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales

We have prepared the Transparency Report, in respect of the financial year ended 30 June 2015, in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the 'Instrument') issued by the Financial Reporting Council ('FRC'). This report also incorporates the key drivers of audit quality set out in the Audit Quality Framework issued by the FRC in February 2008.

In addition to the Instrument's requirements, we have included those matters specified to be included in the Transparency Report by the Audit Firm Governance Code, issued by the Institute of Chartered Accountants in England and Wales ('ICAEW') in January 2010.

This Transparency Report has been prepared solely in respect of the UK limited liability partnership of PricewaterhouseCoopers LLP and does not relate to any of its subsidiary or associated undertakings, or any fellow member firm of PricewaterhouseCoopers International Limited.

PricewaterhouseCoopers LLP is referred to throughout this report as 'the firm', 'PwC UK', 'we', 'our' and 'us'. 'Group' refers to PwC UK and its subsidiary undertakings in the United Kingdom, Channel Islands and the Middle East.

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The Design Group 22260 (07/15)

