Transparency Report

Building trust through our audits

Year ended 30 June 2019
Building trust through our audits

Assurance* at a glance

Here are some of the highlights of our year to 30 June 2019, and some of the key data points within this report:

Our pursuit of quality

Partner and staff survey
The leaders I work with encourage me to deliver high quality services

Audit quality reviews – internal
Results of the firm’s own audit quality reviews – percentage of audits rated compliant, compliant with review matters, and non-compliant:

Number of audit engagements reviewed and the annualised percentage of Responsible Individuals subject to the firm’s own audit quality reviews

142 audit engagements were reviewed in FY19 covering

41% of the firm’s Responsible Individuals

FY18: 136, 39%

PwC AQR Inspection Gradings 2014/15 – 2018/19
All reviews

Revenue
Assurance UK revenues
£1,201m
FY18: £1,132m

Investing in our people
Investment in training and development

New partner admissions

For more on the Audit Quality Indicators, including training, see section 16 of this report, and for human resources see section 9.

* The Assurance line of service included the Audit and Risk Assurance practices for the year ended 30 June 2019. With effect from 1 July 2019, the Audit and Risk Assurance practice became separate lines of service.
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Welcome to our 2019 Transparency Report

This report includes information about how the firm is governed and includes updates from Lord Gus O’Donnell, Chair of our Public Interest Body, as well as from Hermione Hudson, who leads our audit practice. While PwC is a multidisciplinary firm, this report is primarily focused on our audit practice and related services.

The audit profession continues to be under significant public scrutiny and challenge. We understand the concerns and recognise that the audit profession has not kept pace with the expectations of society and needs to evolve and reform. We support changes that will improve audit quality. Over the last year, we also opened up a public discussion on the future of audit and have been listening to a wide range of stakeholders, exploring how it needs to change to meet society’s evolving expectations. We know there are no easy answers and that no single participant can resolve the challenges but we are committed to changes that ensure audits remain relevant and valuable.

There continues to be regulatory and political interest in our sector and we remain committed to working with policy makers on all the areas under review, to develop a system in which we can all be confident.

The purpose of this report is to help our key stakeholders and wider society understand our governance framework in the interests of providing transparency.

Kevin Ellis
Our purpose is to build trust in society and solve important problems. We seek to bring our purpose to life in everything we do. There can be no trust without confidence and building and maintaining confidence in audit is vitally important. Ensuring that the audit is fit for the future matters. It is important, not only to us as a leading firm in the sector, but also to the many stakeholders who rely on the assurance that the audit profession is here to provide.

Our people are key to performing high quality audits and we draw upon a wide range of specialist skills across our multi-disciplinary practice. Our people are also critical to embedding good governance and culture throughout the firm.

We take our public interest responsibilities seriously and audit quality is the primary objective within our audit practice.

We have taken steps to align our business to support this focus on audit quality, creating two distinct businesses – Audit and Risk Assurance. We have also introduced a series of measures to augment our quality control processes, as well as reinforcing the culture of challenge in audit. We are also working with the members of our Public Interest Body to strengthen the independent oversight of our audit practice.

In June 2019 we announced a programme to enhance audit quality, which included committing an additional £30 million a year for training, people and technology initiatives. We were very disappointed that we received a sanction from our regulator, the Financial Reporting Council (FRC), in respect of our historical audit work on Redcentric PLC. We also acknowledge that our latest Audit Quality Review results (the annual assessment of audit quality undertaken by the FRC) are not acceptable. The FRC identified areas that require further improvement and we are addressing them to ensure that we consistently deliver high quality audits.

Taken together, these measures represent a significant transformation of our audit business and support our clear-sighted focus on audit quality and our public interest responsibilities.

Kevin Ellis
September 2019
Update from the Chair of the Public Interest Body

The PIB has once again been very active this year, with a continuing focus on the key themes that underpin its role. Transparency has always been an important public interest issue and we acknowledge that it has now become even more critical, given the intense external scrutiny of the profession. Through our oversight role of the firm and our ongoing engagement with the FRC, the PIB has a strong understanding of this and other key public interest matters. Everything we do is guided by the public interest and shaped by a culture of challenge.

Changes in the Membership of the Public Interest Body

As part of the PIB’s succession strategy, Dame Fiona Kendrick was appointed as an Independent Non-Executive (INE) member of the PIB, with effect from 1st July 2019. Dame Fiona, a former Chief Executive and Chairman of Nestlé UK, brings significant experience and expertise to the PIB. I am also pleased to report that Sir Ian Gibson agreed to extend his term as a member of the PIB and as an INE for a further year to May 2020.

Anne Simpson stepped down as a member of the PIB as of 31 December 2018, at the same time as her term as chair of the Supervisory Board came to an end. Anne was replaced on the PIB from January 2019 by Chris Burns as he took up the role of chair of the Supervisory Board. Chris is a Senior Audit partner based in London. Pauline Campbell also stepped down as a member of the PIB on 20 February 2019 and was replaced by Kate Wolstenholme, with effect from that date. Kate is an Audit partner based in London and leads the firm’s Law Firms Advisory Group. I would like to place on record our appreciation of both Anne’s and Pauline’s contributions to the PIB’s work.

I am very pleased to provide my annual report as Independent Non-Executive Chair of the firm’s Public Interest Body (PIB).
In 2018, the externally facilitated review of the PIB highlighted areas which could make the PIB more effective. The recommendations included focusing on succession planning and diversity to ensure quality and appropriate skills. The PIB has prioritised these areas and, following the recent changes to its composition, now has a 40% representation of women, ahead of the target of 33% set by the Hampton Alexander Review for FTSE 350 Boards.

Activities

The PIB continues to set its own agenda with a focus on matters that it regards as being in the public interest, including those of significant societal or systemic interest for the firm and for audit in particular. The PIB has had regular updates on, and gave consideration to, the regulatory and litigation issues faced by the firm in the year. The PIB has carefully considered the culture of the firm, risk, audit quality matters as well as operations and people. The PIB has focused in particular on promoting audit quality, providing oversight of the firm's Audit practice and the quality measures in the wider UK business. The PIB is also consulted by the firm's leadership in respect of certain individual client acceptance decisions.

Critical to this was the PIB's input into the development of a programme to enhance audit quality, which was introduced in June 2019. The PIB agreed that enhancing quality control processes within the firm's Audit practice would place a greater emphasis on reinforcing the culture of challenge in audit. The PIB also engaged with the firm's leadership on strengthening the governance and enhancing the oversight of the public interest aspects of the firm's Audit practice.

The PIB is wholly supportive of the firm's decision to invest further in audit quality by committing an additional £30m a year for training, people and technology initiatives. The PIB recognises that such investment decisions are in the public interest and will help to build trust in the audit sector. The PIB also supports the firm aligning its business behind audit quality, including the creation of Audit and Risk Assurance as two distinct businesses, as well as reviewing the responsibilities and workload of the firm's auditors and making changes to the objectives and recognition of audit partners and staff.

In the view of the PIB, these changes to strengthen audit quality have come at an important time for the firm and the profession. Ensuring that there is consistently high audit quality is critical and where there are audit failings, lessons must be learnt and the issues addressed. We were very disappointed that the firm received a sanction from the FRC in respect of the 2015 and 2016 audits of Redcentric Plc and considerable discussion took place in respect of the issues relating to the failures. The PIB was also concerned to see a reduction in the firm's performance in the FRC's Audit Quality Review for the year, particularly given that the results for the prior year were the highest among the largest accounting firms. The PIB will monitor carefully the firm's response to the FRC's findings. It is the view of the PIB that, taken together, the various measures to strengthen audit quality that have been announced represent a significant commitment to ensuring that audit quality is the primary objective of the firm's audit business.
During the course of the year, the PIB has also worked to support the implementation of the recommendations from the 2018 governance review of the firm. Sir Ian Gibson joined the newly formed Risk Committee of the Supervisory Board while Paul Skinner joined the newly formed Talent and Remuneration Committee of the Supervisory Board. The INEs have continued to focus on increasing awareness and understanding of their role and responsibilities and a series of office visits were undertaken to regional offices as well as attendance at a number of other internal events.

The PIB spent time considering the safeguards in place to prevent the firm’s failure. As part of these discussions, the PIB undertook a review of the firm’s updated Contingency Plan and also spent time reviewing information security processes.

The PIB recognises the importance of maintaining and developing links to the wider partnership. As a member of the PIB, the chair of the Supervisory Board has a standing agenda item at each meeting in order to provide an update on the activities of the Supervisory Board. As part of promoting these close links, the PIB held two joint meetings with the Supervisory Board during the year. The INEs also continue to meet partners and staff through other forums, for example by attending Partner Meetings and office visits.

The Audit Firm Governance Code identifies investors in listed companies as a primary stakeholder group. In February 2019 the INEs, together with members of the firm’s leadership, met with a number of investor representatives from the Corporate Reporting and Auditing Group (CRAG), led by the Investment Association, to discuss the activities of the PIB and a range of related matters. The dialogue at the meeting covered the key issues of audit quality and the future of audit. The meeting was constructive and there was mutual agreement to continue this engagement on a regular basis. I am also pleased to report that the INEs have continued their regular engagement meetings with the FRC, with Paul Skinner having also participated in the FRC’s Business Continuity Planning round table event.

Reputation

The reputation of the firm, and business more widely, is of particular interest to the PIB. In the year we have had an independent review of the FRC led by Sir John Kingman, the Statutory Audit Services Market Study led by the CMA and the Future of Audit inquiry led by the BEIS Select Committee and we also note the ongoing independent review by Sir Donald Brydon into the quality and effectiveness of audit. The PIB agrees with the view of the leadership of the firm that these reviews represent a chance to revisit and rethink what an audit does, how the market and regulatory framework operates, and how best to ensure that audits address the needs of stakeholders now and in the future. In our written evidence to the BEIS Select Committee’s Future of Audit inquiry, the INEs acknowledged that restoring trust in the UK corporate reporting framework was critical. We also highlighted our support for the important work that government, BEIS and the regulators are undertaking on the role of audit and suggested that, in our view, all parties should consider the wider reporting framework, of which audit is only one component.

With regard to the ongoing Brydon Review, while the PIB recognises the importance of the firm’s programme to enhance audit quality, we also acknowledge that reform is needed throughout the corporate reporting and audit regime. It is our hope that the Brydon Review will play a significant part in helping to close the trust deficit between society and UK business. The PIB is supportive of the firm’s Future of Audit initiative, which has engaged with a wide range of interested parties to explore the broad issue of how auditing needs to evolve for the future.
Culture, Values and Governance

Culture has been a continuing area of focus for the INEs. In the view of the PIB, the firm continues to have an appropriate culture in place which is based on five key values of acting with integrity, making a difference, care, working together and reimagineing the possible. We continue to see this culture reflected in the information presented to us as well as in the processes for decision making and in the INEs interactions with staff and partners.

An important strand of the firm’s programme to enhance audit quality is the reinforcing of the culture of challenge in audit. The PIB agrees that strong quality control is rooted in a healthy culture of challenge and that audit quality is reliant upon an auditor’s ability to ask the right questions, take an independent view and challenge management when necessary. The PIB fully supports the collaboration with Karthik Ramanna, Professor of Business & Public Policy at the University of Oxford’s Blavatnik School of Government, to bring a fresh perspective to the question of what is a healthy culture of challenge.

Audit Firm Governance Code

The PIB uses the Audit Firm Governance Code as a guide to good governance as well as a compliance requirement, and the INEs have worked during the year to fulfil the Code’s purpose. We continue to look for improvements in effectiveness and efficiency in the PIB’s involvement in the firm’s governance, collectively enhancing the firm’s performance in meeting the purpose of the Code. The PIB is mindful of its role in promoting audit quality, helping the firm to secure its reputation more broadly and reducing the risk of firm failure. The INEs are free to determine the PIB agenda and to discuss and consider those issues we feel are of the highest importance to our stakeholders including investors and the wider public.

The PIB receives regular updates from the firm’s Ethics Partner, who has a reporting line into the PIB. Appropriate indemnity insurance is in place in respect of legal action against an INE and sufficient resources are provided by the firm to enable each INE to perform their duties including, where considered appropriate and necessary to discharge their duties, access to independent professional advice at the expense of the firm.

Look ahead

The PIB continues to be a key component of the firm’s governance and its focus will continue to be on reputation, culture, the Audit Line of Service particularly in respect of audit quality and its role in society. We will help to strengthen oversight of the public interest aspects of the firm’s Audit practice. The PIB will continue to focus on how best to promote audit quality and reduce the risk of failure, and will also continue to monitor and have input into regulatory matters as well as the various audit related reviews.

It continues to be a critically important time for the profession and we look forward to continuing to fulfil our role in supporting the development of the firm’s governance and its ability to deliver on its purpose.

Lord Gus O’Donnell

Chair of the Public Interest Body

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It’s been a challenging year for the audit profession with continued media and political scrutiny. Much of the external commentary has focused on the concerns about, and the dissatisfaction with, the scope, purpose and performance of audit. As a profession, we have to recognise that we have not been sufficiently responsive to the changing needs and expectations of our stakeholders and there have also been well-documented instances where audit quality has fallen short. We are now at a watershed moment, and we recognise the need for significant change if our work as auditors is to remain relevant.

Audit Quality is the primary driver for our audit professionals and we believe we have a high quality audit practice. However, we know it’s important to continue to invest in improving the consistency of audit quality to reflect the increasing complexity of businesses and regulatory and governance requirements. This year, we’ve implemented a programme to enhance audit quality, underpinned by significant investment, which I’ve described in more detail below.

One part of this programme has been to create an Audit practice and a Risk Assurance practice as two distinct businesses. For the year to 30 June 2019, we had one Assurance practice comprising a portfolio of audit and other types of assurance; going forward, in our Audit business we will only focus on external audit and related services.

These steps will support us in our objective of renewing our focus on the essential skills, resources and culture required to deliver audits of a consistently high quality.

“We will deliver the highest quality audits, combining passionate people with leading technology and building trust in society.”

Hemione Hudson
Assurance in 2019

Going forward my focus in this part of our Transparency Report will be on the Audit business. However, as this is a review of the past year, the discussion below covers the Assurance practice as a whole.

For the year to 30 June 2019, Assurance UK revenue reached £1,201m, up 6% on the previous year. We have seen growth across all areas of the business, including a number of major external audits we’ve won this year. However, our listed company audit business continues to be adversely impacted by mandatory firm rotation, and of course, there are companies who have awarded their external audit mandate to another firm. In addition to our statutory audit business we’ve seen growth in Risk Assurance (non-statutory assurance services over areas of risk not covered by the financial statements audit). These services help companies manage risks across a wide range of areas including cyber threats, contract and commercial risks and regulatory risk.

Regulatory findings

Audit quality continues to be fundamental to our business and we continually review and update our audit processes in response to internal and external findings. As part of our programme to enhance audit quality, described below, we are increasing by two thirds the number of specialists in our Audit Risk and Quality team.

We are disappointed that there was a deterioration in the results of the FRC’s Audit Quality Review of PwC for the year and that we have audits subject to regulatory censure.

The FRC’s report indicated that 77% of our audits assessed required no more than limited improvements, down 5% on the previous year and meaning 23% of the sample of our audits assessed were rated as needing more than limited improvements. Of the FTSE 350 audits that were part of the sample, 65% required no more than limited improvements, down 19% on the previous year and meaning 35% were rated as needing more than limited improvements. We are working hard to address the issues identified by the FRC, which include areas such as the auditing of assumptions on long term contracts, provisions and estimates and adequate challenge of management. We have incorporated these areas into our annual auditor training.

We deliver many thousands of audits successfully every year and we remain proud of the work we carry out on the vast majority of our audits. The FRC’s overall inspection of quality is based on a very small sample of these audits. However, the results demonstrate that we do not always deliver our audits consistently and it is this variability that we need to address.

These results are a fresh reminder of why we are committed to a quality-first approach and why we are working hard to ensure that the quality of our audits continues to improve. Although this approach is of critical importance we recognise that it will not in itself be sufficient to restore trust in audit. Reform is needed throughout the corporate reporting and audit regime as we discuss further on the next page.
Our programme to enhance audit quality

To ensure a consistently high standard of auditing across our UK business, we are investing an additional £30m annually as part of a wide-ranging programme to provide greater focus on the quality and public interest responsibilities of our statutory audit services. This programme of measures aims to ensure more consistent audit quality and increased transparency while at the same time strengthening our market resilience.

The programme has three key areas:

• Additional investment in training, people and technology;
• Further alignment of our audit business behind audit quality; and
• A reinforced focus on culture and quality control.

Section 3 of this report provides more detail on the programme. Key elements include:

• Our people are key to performing high quality audits and we continue to recruit and promote talented individuals throughout our Assurance practice. Going forward, within our Audit business we are creating a new national digital audit team – focused on the development and application of innovative technologies that will help drive audit quality. We are also hiring more than 500 additional experienced auditors across the UK to increase capacity.
• We're doubling our face-to-face training programme. This expanded and extended scheme is designed to cover topics that have been highlighted by regulatory reviews as important areas in ensuring high-quality audits. We have already begun the programme with our summer 2019 auditor training programme which saw almost 3,000 auditors attend a two day fully immersive residential training course covering key topics like assessing long-term contracts, management judgments and estimates.
• We are undertaking a comprehensive review of the risk and return of our audit engagements to ensure we achieve a return that allows continual investment in and focus on quality and strengthens our market resilience.
• We are also focusing on the important cultural aspects of audit delivery, such as fostering a culture of scepticism and challenge. A high quality audit relies on an auditor’s ability to ask the right questions, take an independent view, challenge management when necessary and not rationalise away things that look wrong. I’m very pleased that, as noted in the report from the Chair of our Public Interest Body, we are now working in collaboration with Professor Karthik Ramanna to bring a fresh perspective to fostering healthy culture of challenge. Professor Ramanna will provide an independent paper on what a culture of challenge looks like in practice to help us reinforce this vital cornerstone of our firm’s character.
• The Audit leadership team, partners and staff will be assessed and rewarded differently from the rest of the firm, with even more emphasis on aligning their remuneration with the delivery of audit quality.

I will update you on the progress of this important programme of activity in next year’s Transparency Report.

External reviews of the audit sector

The role and value of audit continued to face intense scrutiny over the last year, with a number of government-commissioned reviews examining the audit sector from different angles:

• The Competition and Markets Authority has scrutinised the structure of the audit market, considering choice and competition and the impact of perceived conflicts of interest;
• Sir John Kingman examined the structure, role and responsibilities of the regulator (the ‘Kingman Review’)
• Sir Donald Brydon’s review of the scope and purpose of the audit itself (the ‘Brydon Review’) remains ongoing; and
• The BEIS Select Committee report on the Future of Audit, which sets out a number of recommendations to the government on how to improve the quality and usefulness of audit and promote independence and challenge among auditors.

All of these reviews will form critical elements of a reform package. We have participated fully in each exercise, and we’re committed to working with all parties to find the best way forward. We recognise that this is a moment for change and support proposals that will enhance audit quality and create a stronger and more impactful regulatory regime.

We are also very supportive of Sir Donald Brydon’s work to address the scope and purpose of audit as was clear from our Future of Audit initiative that the audit has not kept pace with society’s expectations. We have made it clear we welcome more choice, but that this must not be at the cost of audit quality. We have also expressed our strong belief in the significant benefits to audit quality of a multi-disciplinary practice.

We also believe strongly that real change needs to be underpinned by accountability throughout the wider corporate reporting and governance system, including companies, shareholders, non-executives, legislators and regulators; we are glad to see that these areas are being examined by the Kingman and Brydon reviews.

Our future of audit initiative

Last November, we opened our Future of Audit engagement programme to speak directly with those who have an interest in the audit, listening to their thoughts on how auditing needs to evolve for the future. We have gathered the views of more than 600 people in all – investors, business leaders, the public sector and academics from across the UK – via a series of roundtables, an extensive survey, an online forum, and many individual conversations.

There were some areas of clear consensus, such as a call for the audit to provide both assurance about a company’s future prospects and clearer signalling of risk. However, in other areas, there were conflicting views which could be addressed by allowing flexibility in the audit scope; this approach was supported by the substantial majority of respondents to our survey.

We’ve shared our findings with Sir Donald Brydon and his team and hope that they will be a useful contribution to his important work.

“Having spent my working life as an auditor, it matters to me that the audit remains relevant and plays a role in building trust in business and enabling the capital markets. There is still a long way to go and we will continue to work with the government and regulators towards achieving our shared objective of restoring trust and confidence in corporate reporting and the audit. As I said at the outset, these are challenging times but I’m optimistic about what lies ahead.

Hemione Hudson
September 2019
This Governance section provides details of the firm’s governance arrangements. We explain the roles of the Senior Partner and Management Board and its committees, the Supervisory Board and its committees, and the Public Interest Body.

Each of the Chairs of the Management Board and the PIB have provided updates on pages 1 to 6. We have also included an update on the implementation of the findings from our recent Governance Review on page 12.

The firm’s governance is guided by our purpose – to build trust in society and solve important problems. Our purpose is central, not only to our decision making processes and our risk appetite, but also to how we manage our business in the interests of our partners and stakeholders.

Further information on our Network and its governance is contained on pages 27 to 32.

**Good Governance**

We have regard to good governance practices under the Audit Firm Governance Code (AFGC) and the UK Corporate Governance Code (2016). During the year we considered that we complied with the AFGC in full. Further information on our compliance, including our governance KPIs, is provided on page 19.

We look to enhance our governance as part of our ongoing commitment to quality. Within our governance arrangements, we acknowledge and support the heightened interest in audit and audit related services and the quality of our delivery of these.

We have a common cause with investors, regulators, government and society to ensure the right actions are taken to build world-leading levels of trust in audit and the profession itself.

Audit quality is fundamental to the success of our firm and we look to continually improve our governance arrangements to support this.

Our INEs are a fundamental part of our governance structure.

The role of the INEs arose from the original AFGC in 2010 and the desire to have external oversight for firms that provided audit services to large clients. We determined that the best way to achieve this was to have a separate PIB comprised of a majority of INEs. By having a separate body, able to determine its own agenda and with high calibre INEs, the firm considered this to be the most appropriate way to ensure the public interest is served, by helping the PIB to oversee audit quality in addition to its consideration of wider public interest issues.

In the prior year, we undertook a review of our governance arrangements and we have included an update on the implementation of the findings from this review on page 12.

**Stakeholders and dialogue**

We recognise that with approximately 19,000 employees, 900 partners, 60,000 alumni, a turnover of over £3bn and a regulated business, we are a substantial firm with a broad range of stakeholders.

We therefore look to communicate with our stakeholders through various channels, for example engaging with investors regularly, including through individual meetings as well as our annual investor update meeting, and with the Company Reporting and Auditing Group who meet with the PIB members as well as management representatives. In the year, representative internal stakeholder engagement included biannual partner meetings led by the Management Board with partners from across the firm; biannual partner engagement meetings led by the Supervisory Board; the Senior Partner holding town hall meetings with staff, utilising technology for live webcasts; and regular communication via multiple platforms to all partners and staff.
Governance Review Update

Last year we set out the key observations and recommendations arising from a review of the firm’s governance arrangements. Since then we have worked hard to address the proposed recommendations as part of our commitment to good governance practices and continual development.

Details of our key governance boards and committees can be found on page 15. This section of the Transparency Report provides an update on the recommendations and how they have been implemented across FY19. Our activities are summarised under four key areas.

Increasing engagement with partners about the firm’s partnership ethos to support an aligned understanding

We have developed an enhanced leadership programme designed in part to increase our engagement with partners on the firm’s partnership ethos. The subject was also reinforced at our biannual partner meetings which focused on partnership culture and behaviours. Partnership ethos will remain an area of focus in FY20 as the Partnership Ethos Steering Group is established and embeds.

Refresh governance arrangements, roles and responsibilities for clarity and transparency

Our governance structures have been refreshed to:

- Replace the SB’s Senior Management Remuneration Committee with the Talent and Remuneration Committee.
- Separate the SB’s Audit and Risk Committee into two committees to allow for greater focus on risk oversight.
- Establish an Executive Risk Committee of the MB to enhance the focus on risk management.
- Update relevant terms of reference and review effective working practices to clarify roles and responsibilities.

Increase the profile of the Independent Non Executives (INES) and the value they bring to the broader partnership

As part of refreshing our governance arrangements, we have embedded two separate INEs into committees of the SB, specifically the Talent and Remuneration Committee and Risk Committee. In addition, the INEs continue to engage with, and bring significant value to, the partnership on an ongoing basis via their role on the PIB, engagement at internal and external stakeholder meetings, and visits to our regional offices.

Assess the need for a fundamental rewrite of the Members’ Agreement

An assessment of the Members’ Agreement kicked off in FY19 and remains ongoing. The purpose is to assess the need to modernise the Agreement and make it easier to understand. Any material changes to the Members’ Agreement will require a partner vote before coming into force.

Chris Burns
Chair of the Supervisory Board
Governance structure leadership

How is PwC’s Governance Structured?

Our governance structure reflects our partnership model. We have a Senior Partner who, once elected, forms their Management Board and Committees. The Supervisory Board (“SB”) is made up of elected partners and certain ex-officio members. The Public Interest Body is made up of INEs, plus representatives from the firm’s Management Board and Supervisory Board, being the Senior Partner, Chair of the SB, Head of Audit, and a member of the Supervisory Board as at 30 June 2019. The firm’s Chief Risk Officer and General Counsel has a standing invitation to attend Public Interest Body meetings.

The Boards’ activities are governed by the Members’ Agreement, and by the Terms of Reference which are available on the firm’s website. Each member of the Management Board is subject to formal, rigorous, and ongoing performance evaluation. In addition, consideration is given to PwC’s Network standards. Support is given to the Boards by our Secretariat team who are responsible for advising on governance matters. A diagram setting out the firm’s governance structure is on page 15.

How often do the Boards meet and what is member attendance?

The Management Board and Supervisory Board meet monthly, with additional meetings called when required. The Public Interest Body met five times throughout the year. Meeting attendance by individual members is provided with their biographies in Appendix 2.
Activities
The key matters considered in the year by our governance bodies were strategy, culture, people, quality, performance, regulation and reputation. Within these matters, the governance of key risks facing the firm (including cyber, regulatory and litigation risks) were considered and included on the Boards’ agendas. Further information on our risks and how these are managed and mitigated is contained on page 65, and more detail in relation to each of the Boards is set out below.

PwC UK
Areas of focus for the Boards

The Supervisory Board considers a wide range of issues for the firm such as risk, strategy, reputation, people matters including health and wellbeing, technology, return on investments, and culture and has supported, given guidance to and challenged the Senior Partner and the Management Board ("MB"). The SB has particular insight on the views of the partners of the firm and reflects those in conversations with management. Partners are able to review notes of SB meetings via Google+.

Twice a year the SB holds engagement meetings around the country at which partners can speak directly to SB members on matters of concern. The partner feedback is discussed with the Management Board.

The SB is supported by its Committees:

- **The Partner Affairs Committee**: The primary purpose of the Committee is to ensure all partners are treated fairly, which includes monitoring and overseeing the annual partner income moderation process, reviewing partner medical provision, development, changes to benefits, flexible working and diversity. It also ensures that appropriate processes and procedures are in place to provide robust governance, for example on direct partner admissions and the retired partner programme.

- **The Talent and Remuneration Committee** ("T&RC") (previously the Senior Management Remuneration Committee): The primary purpose of the Committee is to review the remuneration, talent development and, where appropriate, succession plans for the T&RC population. The T&RC population is defined as the UK Senior Partner, members of the MB and any UK partners on the Global Leadership Team or EMEA Executive Team.

- **The Audit Committee** (previously covered by the Audit and Risk Committee): The primary purpose of the Committee is to provide assistance to the SB in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting and internal control functions of the firm.

- **The Risk Committee** (previously covered by the Audit and Risk Committee): The primary purpose of the Committee is to review the firm’s risk framework, on behalf of the SB. The Risk Committee receives reports from management and from the firm’s Executive Risk Committee, which enables it to review and challenge the firm’s enterprise wide risk framework, policies and procedures, within the context of the firm’s strategy.

Following the firm’s governance review the Strategy and Governance Committee was dissolved on 31 December 2018 with its responsibility being taken by the SB. It was also decided to split the Audit & Risk Committee into two separate Committees (Risk and Audit) from 1 January 2019.

The SB has met 15 times (excluding ad hoc meetings) and in October 2018 and June 2019 the SB held its meetings in Bristol and Reading respectively.

The SB has two members who are also Global Board members and provide Network updates and a Network perspective at SB meetings, while helping to enable consistency across the Network.
The purpose of the **Public Interest Body** is to enhance stakeholder confidence in the public interest aspects of the firm’s activities, through the involvement of INEs. The PIB considered a wide range of issues, as determined by the independent Chair, with a particular focus on matters of public interest. The membership of the PIB includes the Senior Partner, the Head of Audit and the Chair of the SB. In the year there were five formal meetings.

During the year, the INEs oversaw the firm’s policies and procedures for promoting audit quality; helped the firm to secure its reputation more broadly including for audit and other businesses; and considered matters to reduce the risk of firm failure resulting from audit matters and more widely. In accordance with the Audit Firm Governance Code ("AFGC"), the role of the INEs included enhancing 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.

Additionally the INEs regularly received updates on compliance with professional standards, and legal and regulatory requirements. As well as those duties that are prescribed by the AFGC, the members of the PIB provide input on other matters, including the public interest aspects of the firm’s strategy, external reporting, and policies and procedures relating to operational risk management, internal control, quality and compliance more broadly, including its promotion and people management. Accordingly during the year the PIB considered these matters regularly. In particular, the PIB received reports at each meeting from the Ethics Partner in relation to ethical standards.

In addition, the PIB and SB held two joint meetings during the year, to help ensure that both bodies had the opportunity to discuss matters of common interest. The Chairman of the PIB, Lord Gus O’Donnell, has provided an update on the PIB’s work on page 3 of this Report.

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The **Management Board** provides oversight of the long term strategy and certain partner matters under the Members’ Agreement (including dealing with involuntary retirements of partners).

The MB has focussed on strategic matters, utilising the knowledge and experience of both Executive Board and Clients and Markets Executive members. The formal meetings are scheduled to be held at least quarterly but further ad-hoc meetings have also been held for strategy sessions and certain partner matters. In the year the MB met 14 times. At its formal meetings, the MB considers matters in line with its Terms of Reference, including updates with respect to the audit practice.

The **Executive Board**, which is a committee of the MB, meets more frequently, at least monthly, for a full day. During the year it met 18 times and considered the day-to-day governance and business performance of the firm. Accordingly, the EB consists of senior executives, including the chair of the Clients and Markets Executive ("CME") (but not the Line of Service Leaders who sit on the CME). The Executive Board received updates from its members, with topics including: people, technology and investments, litigation and investigations, clients and markets, finance, international matters, and regular business updates from Lines of Service leaders and subject matter experts.
Compliance with the Audit Firm Governance Code

The EB and PIB have reviewed the principles and provisions of the Audit Firm Governance Code together with details of how the firm is complying with those. Following this review, the EB, on behalf of the MB, has concluded that, as at 30 June 2019, the firm is in full compliance with the principles and provisions of the Audit Firm Governance Code.

The AFGC includes a requirement for firms to determine governance KPIs and to report against them. The EB and PIB considered the KPIs that the firm had reported against in the prior year and confirmed that they remained supportive of them being applied for the year ended 30th June 2019 without any changes being made. The KPIs are set out in the table below.

During the year, the firm carefully considered the provisions of the updated 2018 UK Corporate Governance Code. It was decided that, while the firm did not intend to implement any of the provisions of the 2018 UK Corporate Governance Code not already included in the AFGC, it would keep this under review pending any future updates to the AFGC.

<table>
<thead>
<tr>
<th>Governance KPI</th>
<th>Notes</th>
<th>Performance</th>
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<tbody>
<tr>
<td>Board attendance</td>
<td>Sufficient meetings should be held for the Boards to achieve their objectives and in line with their Terms of Reference. Attendance should be achieved by all members for 80% of meetings.</td>
<td>The number of meetings and attendance was in line with the firm’s requirements, except for certain members of the SB, EB and MB. These attendance records will be considered further for FY20. Attendance records of individual participants of each Board are stated in Appendix 2.</td>
</tr>
<tr>
<td>Board composition</td>
<td>Information on the composition of the MB, SB and PIB is on the firm’s website, <a href="http://www.pwc.co.uk/who-we-are.html">www.pwc.co.uk/who-we-are.html</a> Board presentations include sponsors and presenters to help achieve a diverse population of people presenting at Board meetings.</td>
<td>MB – 4 out of 12 MB members are female, and there is 1 BAME member. From 1 July 2019, 4 out of 13 MB members were female, and there were 2 BAME members. SB – 5 out of 15 SB members (including ex-officio members) are female, and 2 BAME members PIB – 4 out of 9 PIB members are female, this has increased to 5 PIB members from 1 July 2019.</td>
</tr>
<tr>
<td>Board activities</td>
<td>The Chair and the Secretary regularly meet to consider the matters appropriate for future meetings to ensure that sufficient time is spent on the most relevant matters for the firm. This is also considered during the Board effectiveness reviews.</td>
<td>The firm considers that this was complied with in the year.</td>
</tr>
<tr>
<td>Board effectiveness</td>
<td>The timing of reviews for the Management Board, Supervisory Board and Executive Board are being finalised. The firm reviewed the Boards and Committees’ Terms of Reference as part of the implementation of the recommendations from the Governance Review. PIB Terms of Reference are available on the firm’s website and its composition is determined by the Members’ Agreement.</td>
<td>An externally facilitated effectiveness review of the PIB was carried out in 2018 and the PIB have reviewed the progress made on the recommendations from this review during the year. Terms of Reference are due to be reviewed in Autumn 2020. The number of INEs was increased to Six following the appointment of Dame Fiona Kendrick during the year. Sir Ian Gibson agreed to extend his term as a member of the PIB and as an INE for a further year to May 2020.</td>
</tr>
</tbody>
</table>
Governance KPI | Notes | Performance
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**Values**
Integrity, compliance, whistleblowing, and people surveys are reviewed at least annually (and updates from PAC/PMC at least half yearly).
INEs review reputation, the risk register and audit quality at least annually.
Integrity is covered at all Board meetings. Compliance is covered at the Audit & Risk Committee, PAC (sanctions) and EB meetings. Whistleblowing is discussed at PIB and A&RC meetings. People surveys are discussed at EB and PIB meetings. The MB and EB receive PMC reports and minutes. The SB receive PAC reports.
Reputation and audit quality is covered at every PIB meeting. The top risks are discussed and agreed with the PIB, SB and EB (on behalf of the MB). The PIB receive quarterly Risk and Quality updates.
The firm considers that it complied with this KPI ensuring certain matters relating to the firm’s values and reputation are considered during the year, including by the INEs.
These matters were reviewed during the year and confirmed at the July 2019 PIB meeting.

**Systems and Risk**
Boards review effectiveness of firm’s systems of internal control at least annually.
Audit Committee meets at least 4 times a year and the Risk Committee meets at least 4 times a year.
The Audit & Risk Committee (A&RC) was dissolved on 31 December 2018 and two separate Committees were created to focus on Audit and Risk.
The SB receives regular updates from both the Audit and Risk Committee. Additionally, the PIB also receives updates from the Risk Committee in order to assess both the key risks and the adequacy of related controls.
Annually the Audit Committee confirms an Internal Audit plan which is compiled using a risk based approach. Internal Audit reports are received by the Audit Committee and EB periodically. In addition, the External Auditors report to the Audit Committee at least annually.
The firm considers that it complied with this KPI ensuring certain matters relating to the firm’s operations and oversight by the Audit Committee and the Risk Committee are considered during the year. The Audit & Risk Committee (A&RC) met 8 times in FY19 (for the period 1st January 2019 to 30th June 2019) and the Audit and Risk Committees each met twice in FY19 (for the period 1st January 2019 to 30th June 2019).

**Dialogue**
Firm shall meet with investors at least annually (e.g. the Company Reporting and Auditing Group).
INEs attend a Supervisory Board meeting at least annually.
Firm should consider the perspective of listed companies and their investors by, for example, inputting into consultations.
The Boards should consider the Sustainability KPIs at least annually.
The INEs met with the CRAG on 29th April 2019. The Ethics Partner periodically meets with investors as part of his role and the firm also held its annual investor update event in September 2018, which was focused on building confidence in business and reporting in a digital world.
The PIB and SB have held two joint meetings this year.
Investor engagement was covered at PIB meetings as part of the Corporate Affairs updates.
The Sustainability year-end report is approved by the EB (on behalf of the MB) and Audit Committee in September.
The firm considers that it complied with this KPI through internal and external dialogue, investor engagement and considering sustainability matters during the year.
Following the Governance Review, Paul Skinner and Ian Gibson were appointed as ex-officio members of the Talent and & Remuneration Committee and Risk Committee respectively.
During the year, the firm led a public discussion on the future of audit and listened to a wide range of stakeholders, exploring how it needs to change to meet society’s evolving expectations.
The EB (on behalf of the MB) and Audit Committee considered the Sustainability KPIs in September 2019.
The Audit Committee Report

Following the firm’s governance review on the Audit & Risk Committee (A&RC) was dissolved on 31 December 2018 and two separate Committees were created to focus on Audit and Risk.

The Audit Committee of the Supervisory Board comprises five members of the Supervisory Board, having both audit and non-audit backgrounds. Collectively, the A&RC and AC met 10 times in the year ended 30 June 2019 (FY18 A&RC: 9 times).

The Managing Partner and Chief Operating Officer, the Finance Partner, the Head of Internal Audit, the external auditors, Crowe U.K. LLP (Crowe) have a standing invitation to attend Committee meetings. Both the internal and external auditors meet privately with the Committee without management present.

The Committee monitors and reviews:

- The effectiveness of the firm’s internal control and risk management systems;
- The firm’s policies and practices concerning compliance, independence, business conduct, including fraud;
- The scope, results and effectiveness of the firm’s internal audit function;
- The effectiveness and independence of the firm’s statutory auditor;
- The reappointment, remuneration and engagement terms of the firm’s statutory auditor including the policy in relation to, and provision of, non-audit services;
- The planning, conduct and conclusions of the external audit;
- The integrity of the Group’s Financial Statements and digital annual report and the significant reporting judgements contained in them;
- The firm’s Transparency Report and Sustainability Scorecard; and
- From 1st January 2019 the firm’s policies and practices relating to compliance, independence and whistleblowing, which had previously been considered by the A&RC, are now considered by the Risk Committee.

Internal control and risk management systems

The Committee's review of internal controls includes considering reports from the firm’s internal and external auditors.

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 the internal audit work programme 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 and the management of the firm’s own tax affairs. From 1st January 2019, the Risk Committee considered governance and internal control matters including in respect of independence, compliance, whistleblowing and data security.

The Committee reviewed and considered the statements in the section commencing on page 69 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 Group’s Financial Statements with both management and the external auditors. The significant issues the Committee considered in relation to the Group’s Financial Statements for the year ended 30 June 2019 are set out below.

The Committee has discussed these with Crowe, together with Crowe’s Key Audit Matters described in the independent auditor’s report on our Financial Statements.
Revenue recognition and the valuation of unbilled amounts for client work
The Committee reviewed the firm’s approach regarding revenue recognition and the carrying value of unbilled amounts for client work. The review of revenue recognition focused partly on client assignments with complex contractual terms, which are continuing to become more common as the range of the firm’s activities increases, as well as on certain exceptional items. The review of the valuation of unbilled amounts of client work was mainly undertaken on a Line of Service basis as the assessment of the carrying value is affected by the nature of the services being provided and the contractual terms of the assignments. These reviews included discussions with management and the internal and external auditors. The Committee was satisfied that the firm’s approach to revenue recognition and to the valuation of unbilled amounts for client work were appropriate.

Provisions for claims and regulatory proceedings
The Committee considered that this continued to be a complex and higher risk area given the current political, regulatory and economic environment, the higher expectations of regulators and the inherent judgement involved in determining provisions. The Committee considered the controls that were in place to ensure the appropriateness of judgements and estimates made in determining the level of provisioning. The Committee was briefed by the firm’s Head of Litigation and Regulatory Investigations on the status of claims and regulatory matters involving the firm. While the assessment of provisions is a judgmental matter, the Committee was satisfied that the level of provisions held was reasonable based on the information available.

Following consideration of the matters presented to it and discussion with both management and Crowe, 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 2019 Annual Report and Accounts.

New accounting standards
The Committee received updates over the course of the year in relation to the implementation of new accounting standards IFRS 9 and IFRS 15, in addition to the impact assessment of implementing IFRS 16.

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 Crowe’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 Crowe engagement partner on Crowe’s independence, objectivity, integrity, audit strategy and its relationship with the Group; and
- Taking into account information provided by Crowe 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 Crowe is engaged to provide non-audit services. Fees paid to Crowe 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, regulatory compliance and controls assurance. Non-audit services constituted 18.4% (FY18: 18.8%) of Crowe’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 Crowe to be reappointed as external auditor.
The table below provides a quick and easy guide to the remaining sections of the 2019 Transparency Report to help readers find what may be most relevant to them.

<table>
<thead>
<tr>
<th>Section number and title</th>
<th>Content of the section</th>
<th>Page references</th>
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<tbody>
<tr>
<td>3 Our Programme to Enhance Audit Quality</td>
<td>Further details of our programme to enhance audit quality outlined earlier in this report are set out in this section.</td>
<td>25-26</td>
</tr>
<tr>
<td>4 The PricewaterhouseCoopers Network</td>
<td>We describe how the network is structured, its key governance bodies and its role in developing and implementing network standards, consistent policies, guidance and audit methodologies and tools to member firms to aid the delivery of consistently high quality audits.</td>
<td>27-32</td>
</tr>
<tr>
<td>5 Internal control and internal quality control systems</td>
<td>We provide an introduction in this section to our internal quality control systems that are based on the objectives of International Standard on Quality Control (UK) 1 – ‘Quality control for firms that perform audits and reviews of financial statements and other Assurance and Related Services Engagements’ (ISQC (UK) 1).</td>
<td>33-34</td>
</tr>
<tr>
<td>6 Leadership responsibilities for quality within the firm</td>
<td>Here we explain how the firm’s leadership (its Executive Board, on behalf of the Management Board) fulfils its responsibilities for quality through our organisational structure, culture and tone at the top.</td>
<td>35-36</td>
</tr>
<tr>
<td>7 Relevant ethical requirements</td>
<td>We take good ethical behaviour seriously and seek to embrace the spirit and not just the letter of relevant ethical requirements, including those related to Independence. The section covers professional conduct (including links to our Code of Conduct which is accessible to anyone), independence (with additional information being found in section 14), our whistleblowing policies and Speak-up helpline (which is available to anyone as well as our partners and staff, our policies around confidentiality and information security (including some of the measures we take to protect ours and our clients’ data and personal information), our anti-bribery policies and policy in respect of preventing facilitation of tax evasion.</td>
<td>37-40</td>
</tr>
<tr>
<td>8 Acceptance and continuance of client relationships and specific engagements</td>
<td>Protecting the firm and its reputation relies on rigorous acceptance and continuance policies and procedures. This section sets out those policies and procedures including situations where we may withdraw from an engagement and how we manage conflicts of interest.</td>
<td>41-42</td>
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<tr>
<td>Section</td>
<td>Description</td>
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<tr>
<td>9 Human resources</td>
<td>This section sets out our approach to recruitment as well as our policies and aims in respect of performance evaluation, career development, promotion, remuneration, assignment of engagement teams and diversity.</td>
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<tr>
<td>10 Engagement performance</td>
<td>Policies and procedures relating to how audit engagements are conducted is the focus of this section where we cover our audit methodology, outline the technologies and tools that we use to deliver audits, some of which our clients also use to share data and information. We also outline our delivery model which includes the use of service delivery centres in Poland and India to perform administrative and non-judgemental tasks, our competency centre in Bradford which performs aspects of the audit of cash and property, plant and equipment and our centres of excellence which perform the audit of more complex technical areas such as the audit of pensions, share based payments and tax together with automated and manual controls testing. In addition, we set out the consultation and support mechanisms available to partners and staff in delivering audits, including when differences of opinion arise, along with details of how our audits are supervised and reviewed either by the engagement leader or, where appointed, the independent engagement quality control reviewer. Finally, the section covers our policies and procedures around documentation and matters connected with reporting of our findings and our audit opinion.</td>
<td></td>
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</table>
| 11 Internal monitoring | Monitoring is an integral part of the firm’s continuous improvement programme and our internal quality control system includes internal review processes though the monitoring of:  
• our firmwide controls through our own self-evaluation of those controls (QMSE);  
• the quality of individual engagements within our internal inspections programme (the ECR), full details of which can be found in Appendix 4.  
We also outline our Audit Quality Indicators (AQIs), and Key Performance Indicators (KPIs) which provide further insight into the quality of our audit work.  
We don’t always get it right and we set out in this section what we do in respect of regulatory investigations into the conduct of our audit work, lessons learned and our policies and procedures around complaints and allegations.  
Details of external monitoring on the quality of our audit work by regulators is set out in section 15. |
| 12 Review of the firm’s internal control system and 13 Statement on the effectiveness of the firm’s internal quality control systems | Within this section, we outline the firm’s review of its internal control systems and conclude on the overall effectiveness of the firm’s system of internal control and whether it provides reasonable assurance that audit reports issued by the firm are appropriate in the circumstances.  
In addition, we outline the risks facing our business, including risks specific to the audit practice, and explain how those risks are being managed or mitigated. |

Alongside the above, there are various other chapters and appendices that set out further required information, such as more detail around the firm’s independence policies and practices, a list of EU Public Interest Entities we have issued an auditors’ report on, and biographies for each of member of the firm’s governance boards.
Our Programme to Enhance Audit Quality

Over the last year, we have been listening to the views of a wide range of stakeholders about the future of audit - exploring how it needs to change to meet society’s evolving expectations.

Given the important role that auditing plays in the modern economy, everyone that relies on audit work needs to have the same high level of confidence in its transparency, objectivity and effectiveness.

As a demonstration of our commitment to audit quality and to continually improving and strengthening audit quality, on 5 June 2019 we announced a package of measures we are introducing to ensure we deliver consistently high quality audits that meet the needs of investors, companies and wider society.

To do this we are investing an additional £30m annually as part of a wide ranging action plan to provide greater focus on the quality and public interest responsibilities of our statutory audit services.

The programme has three key areas:

- additional investment in training, people and technology;
- further alignment of our audit business behind audit quality; and
- a reinforced focus on culture and quality control.

Key actions

- **Investing in training, people and technology**
  - Doubling face to face training for all our experienced auditors.
  - Creating a new national digital audit team – focused on the development and application of innovative technologies that will help drive audit quality.
  - Hiring more than 500 additional experienced auditors across the UK.

- **Further alignment of our audit business behind audit quality**
  - Creating a practice with a singular focus on external audit and audit related services and strengthening its governance with our Independent Non-Executives.
  - Undertaking a comprehensive review of the entities that we audit to ensure we achieve a return that allows continual investment in and focus on quality.

- **A reinforced focus on culture and quality control**
  - Commissioning an independent paper from Karthik Ramanna, Professor of Business and Public Policy at the University of Oxford Blavatnik School of Government, on what a culture of challenge means for auditors in 2019.
  - Increasing by two thirds the number of specialists in our audit Quality Control team.
We believe our Programme to Enhance Audit Quality (PEAQ) demonstrates our commitment to audit, and to continually improving and strengthening audit quality. Taken together, these areas and actions represent a significant transformation of our audit business that will support our high performing teams in an environment which places a culture of challenge at its heart. They will ensure more consistent audit quality and increased transparency while at the same time strengthening our market resilience.

We believe that the investments and changes we are putting in place will ensure that our people have the skills, knowledge and mindset to perform audits to a consistently high quality day-in, day-out. We will report on the progress that PEAQ is having in next year’s Transparency Report.
We see this commitment to transparency as a clear responsibility and the inevitable consequence of the impact our business has on our stakeholders, the capital markets and the communities in which we live and work.

It really matters to us that we engender confidence in the entire PwC Network by putting this principle of transparency into practice.

We believe that the key factors that differentiate PwC among the world’s leading professional services organisations are the talent of our people, the breadth of the PwC network and the standards with which PwC firms comply.

These standards cover important areas such as service quality, governance arrangements, independence, risk management, people and culture, and brand and communications. PwC firms agree to follow common policies and PwC Network standards, and their compliance with these standards is monitored regularly.

(a) PwC Network

PwC is the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services. Together, these firms form the PwC network. ‘PwC’ is often used to refer either to individual firms within the PwC network or to several or all of them collectively. PwC UK is a member firm of PwCIL.

In many parts of the world, accounting firms are required by law to be locally owned and independent. Although regulatory attitudes on this issue are changing, PwC member firms do not and cannot currently operate as a corporate multinational. The PwC network is not a global partnership, a single firm, or a multinational corporation.

For these reasons, the PwC network consists of firms which are separate legal entities.

(b) PricewaterhouseCoopers International Limited

The firms, including PwC UK, that make up the network are committed to working together to provide quality service offerings for clients throughout the world. Firms in the PwC network are members in, or have other connections to, PricewaterhouseCoopers International Limited (PwCIL), an English private company limited by guarantee. PwCIL does not practise accountancy or provide services to clients. Rather its purpose is to act as a coordinating entity for member firms in the PwC network. Focusing on key areas such as strategy, brand, and risk and quality, the Network Leadership Team and Board of PwCIL develop and implement policies and initiatives to achieve a common and coordinated approach amongst individual member firms where appropriate.
Member firms of PwCIL can use the PwC name and draw on the resources and methodologies of the PwC network. In addition, member firms may draw upon the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. In return, member firms are bound to abide by certain common policies and to maintain the standards of the PwC network as put forward by PwCIL.

The PwC network is not one international partnership and PwC member firms are not otherwise legal partners with each other. Many of the member firms have legally registered names which contain “PricewaterhouseCoopers”, however there is no ownership by PwCIL. A member firm cannot act as agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm, and is liable only for its own acts or omissions and not those of PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm, cannot obligate any member firm, and is liable only for its own acts or omissions. PwCIL has no right or ability to control member firms’ exercise of professional judgement.

The governance bodies of PwCIL are:

- **Global Board**, which is responsible for the governance of PwCIL, the oversight of the Network Leadership Team and the approval of network standards. The Global Board does not have an external role. Global Board members are elected by partners from all PwC firms around the world every four years. The Global Board currently consists of 18 elected members. The current Global Board, with members from 13 countries, took up office in April 2017. Global Board members may serve a maximum of two terms and the normal term is four years. The Global Board meets four times a year and on further occasions as required.

- **Network Leadership Team**, which is responsible for setting the overall strategy for the PwC network and the standards to which the PwC firms agree to adhere. The NLT is made up of the Chairman of the PwC Network; the Senior Partners of the US network firm, the UK network firm and the Asia Pacific and Greater China PwC network firm; and a fifth member appointed by the Global Board, currently the Senior Partner of PwC Europe. 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**, which is made up of the leaders of the largest PwC firms and regions of the network, agrees on the strategic direction of the network and facilitates alignment for the execution of strategy. The Strategy Council meets at least quarterly and as required.

- **Global Leadership Team**, which is appointed by and reports to the Network Leadership Team and the Chairman of the PwC network. Its members are responsible for leading teams drawn from network firms to coordinate activities across all areas of our business.
(c) Size of the network

Member firms of PwCIL have a common purpose to build trust in society and solve important problems and provide industry focused assurance, tax advisory and in some territories legal services to enhance value for their clients. Over 250,000 people (FY18) in 158 countries (FY18) share their thinking, experience and solutions to develop fresh perspectives and practical advice.

For the year ended 30 June 2018, PwCIL member firms generated aggregate revenues of US$41.3 billion worldwide (2017: US$37.7 billion). Aggregate revenues for the year ended 30 June 2019 will be available from October 2019 in the PwC Global Annual Review which can be found at 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 practitioners that are statutory auditors in European Union and European Economic Area Member States can be found in Appendix 6.

Total revenue achieved by statutory auditors and audit firms from EU/EEA Member States that are members of the PwC network resulting, to the best extent calculable, from the statutory audit of annual and consolidated financial statements is approximately €3.1 billion. This represents the turnover from each entity’s most recent financial year converted to Euros at the exchange rate prevailing at that financial year end date.

(d) Key features of the network

Each PwC member firm is responsible for its own risk and quality performance and, where necessary, for driving improvements. Every PwC member firm is also exclusively responsible for the delivery of services to its clients. Each PwC member firm’s Territory Senior Partner, Kevin Ellis for PwC UK, signs an annual confirmation of compliance with our Network Standards.

These standards are regularly reviewed and updated as necessary. These cover a range of areas, including independence, ethics and business conduct, enterprise risk management, governance, anti-corruption, anti-money laundering, anti-trust, and information protection.

These confirmations are reviewed by others who are independent from the PwC member 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 member firms in applying the network standards. Major elements include:

- The way we do business;
- Sustainable culture;
- Policies and processes; and
- Quality reviews.
(i) The way we do business
PwC member 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 Code of Conduct is set out at www.pwc.co.uk/who-we-are/code-of-conduct.html.

(ii) Sustainable culture
To promote continuing business success, PwC member 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 member firms and consultation.

(iii) Policies and processes
Each PwC member firm has its own policies, based on the common standards and policies of the PwC Network. PwC member 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 member 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 member firms’ compliance with network quality expectations, and risk and quality standards and policies. This includes monitoring not only whether each PwC member firm conducts an objective quality control review programme, but also includes consideration of a member firm’s processes to identify and respond to significant risks.

In accordance with applicable regulatory requirements, each member firm may also be reviewed periodically, in some cases annually, by national and international regulators and/or professional bodies.
For Assurance, and for the Audit practice in the UK, the quality control 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 PwC Network Assurance quality review programme is to assess for each PwC member 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 quality review programme is monitored, as is the status and effectiveness of any quality improvement plans a PwC member 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 Global Assurance Quality – Methodology Group (GAQ – Methodology), (formerly the Network Assurance Methodology Group, NAMG). GAQ – Methodology 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 GAQ – Methodology 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 GAQ – Methodology via regular conference calls and review of materials prior to release to the PwC network.

The Audit Methodology Leaders Group, which includes senior representation from PwC UK, exists for the purpose 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.

(ii) Global audit technologies and tools
The governance of Global Assurance technology and tools is covered by two complimentary committees, the Global Assurance Implementation Team is responsible for oversight and implementation of assurance technology solutions. The future technology strategy and investment is overseen by the Global Assurance Project Approval Committee. Both groups include the Global Assurance Chief Operating Officer and Chief Digital Officer, along with partner representation from major territories, including the 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 audit ERP system – New features and functionality for Aura are developed at a global level to reflect technology initiatives to improve quality and efficiency, themes from external and internal quality reviews and feedback from global users. Request for new features and functionality are approved by the Assurance Working Group, which is composed of PwC partners and directors and IT specialists from across the network including PwC UK. Aura changes impacting methodology aspects involve GAQ – Methodology, 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 10 for further details) 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 member 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. See section 7 for further details on our system of quality control relating to relevant ethical requirements, including those relating to independence.

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 2019. The profit-sharing arrangements of PwC UK are set out in section 20, Remuneration of Partners and Independent Non-Executives.
Internal control and internal quality control systems

We will deliver the highest quality audits, combining passionate people with leading technology to build trust in society.

 Whilst important, quality comes from more than the systems and processes aimed at achieving compliance with standards and regulation. Quality audits come from a knowledgeable, questioning, insightful approach. Ultimately, quality depends on the firm’s culture, which is based on the ‘tone at the top’, and our ability to recruit, train and motivate well rounded and technically capable professionals who take personal responsibility to deliver consistently high-quality audit work.

Introduction

PwC UK’s Assurance internal quality control systems are based on International Standard on Quality Control (UK) 1 – ‘Quality control for firms that perform audits and reviews of financial statements and other Assurance and Related Services Engagements’ (ISQC (UK) 1). ISQC (UK) 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) 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 to compliance with ISQC (UK) 1, the FRC’s International Standards on Auditing (UK) requires PwC UK to have quality control systems.

Further:

• as a Registered Auditor regulated by the Institute of Chartered Accountants in England and 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;

• we are registered with the ICAEW as a Licensed Practitioner for the reporting on ATOL returns, and there are a number of individually Licensed Practitioners in the firm;

• we are registered with the ICAEW as a Local Auditor for the delivery of public sector audit work, there a number of individuals registered as Key Audit Partners in the firm; and

• we are 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, Public Sector Audit Appointments Limited, NHS Improvement, the Financial Conduct Authority and the Prudential Regulation Authority in the UK. PwC UK is also registered in a number of other countries and is required to comply with the relevant regulations of these countries, see section 15, for example, The Public Company Accounting Oversight Board in the USA.
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 controls systems have been documented, and are embedded as part of the firm's day-to-day activities. There is a monitoring regime in place to enable the Management Board to review the extent to which these policies and procedures are operating effectively and to respond to issues that arise. For further information on this monitoring regime, please refer to section 11 of this report.

Although this Transparency Report is focused on our Assurance practice for the year ended 30 June 2019, and especially on our audit work, many of our systems, policies and procedures operate firmwide across all parts of our business.

**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) 1, which are:

- Leadership responsibilities for quality within the firm
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

In the sections which follow, we set out how our internal control and internal quality control systems incorporate each of the above elements. We also 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 of the USA. In addition, the PwC Network monitors PwC UK's compliance with ISQC (UK) 1 and 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 policies and procedures, which form part of the internal quality control systems, are available to partners and staff via web-based technical and other repositories.
Leadership responsibilities for quality within the firm

(a) Organisational Structure

The Executive Board, on behalf of the Management Board under Kevin Ellis’ chairmanship, is responsible for the firm’s internal control and internal quality control systems.

Responsibility for implementing this system rests with management, but the day-to-day operation of these systems and monitoring of risk 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, independence, learning and development, and engagement performance are discussed below.

The firm’s Chief Risk Officer and General Counsel, Margaret Cole, is the member of the Management Board responsible for Risk and Quality, Compliance and Corporate Affairs. In addition, each Line of Service has a lead Line of Service partner, and another partner responsible for risk management and quality control.

Each partner responsible for their Line of Service’s risk management and quality control has a reporting line that is separate from Line of Service management, feeding into the Management Board through Margaret Cole rather than via the Line of Service leader.

Within the Assurance Line of Service up to 30 June 2019, Hermione Hudson was the Head of Assurance and led the Assurance Executive. With effect from 1 July 2019 Hermione is the Head of the newly created Audit Line of Service and leads the Audit Executive. Mark Gill was the Head of Assurance Risk and Quality from 1 October 2018 to 30 June 2019, and is Head of Audit Risk and Quality from 1 July 2019. The Head of Audit Risk and Quality is responsible for risk and quality matters and leads the Audit Risk and Quality (ARQ) function supporting the audit practice on a range of audit, risk management and accounting matters.

Previous to Mark, Richard Winter held this role until 30 September 2018.

The following committees, which report to the Assurance Executive, dealt with the management of risk and quality within Assurance until 30 June 2019, and continue to do so for the Audit Line of Service from 1 July 2019:

- the Audit Steering Committee, whose purpose is to discuss and agree audit methodology policy and issues. The committee provides input into the development of PwC Audit, the audit methodology and tools used by all member firms of the PwC Network, and the delivery model for assurance engagements which includes Service Delivery Centres;

- 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.
(b) Culture and tone at the top

Our purpose and values are the foundation of our success. We exist to build trust in society and solve important problems, and our values help us deliver on that Purpose. Our purpose reflects ‘why’ we do what we do, and our strategy provides us with the ‘what’ we do. ‘How’ we deliver our purpose and strategy is driven by our culture, values and behaviours. The PwC culture thrives and is supported by a framework of internal and external expectations and requirements. These help guide our behaviours and build trust:

• in how we do business;
• with each other;
• in our communities; and
• in how we use information

When working with our clients and our colleagues to build trust in society and solve important problems, we:

**Act with integrity**

• Speak up for what is right, especially when it feels difficult;
• Expect and deliver the highest quality outcomes; and
• Make decisions and act as if our personal reputations were at stake.

**Make a difference**

• Stay informed and ask questions about the future of the world we live in;
• Create impact with our colleagues, our clients and society through our actions; and
• Respond with agility to the ever changing environment in which we operate.

**Care**

• Make the effort to understand every individual and what matters to them;
• Recognise the value that each person contributes; and
• Support others to grow and work in the way that brings out their best.

**Work together**

• Collaborate and share relationships, ideas and knowledge beyond boundaries;
• Seek and integrate a diverse range of perspectives, people and ideas; and
• Give and ask for feedback to improve ourselves and others.

**Reimagine the possible**

• Dare to challenge the status quo and try new things;
• Innovate, test and learn from failure; and
• Have an open mind to the possibilities in every idea.
We take good ethical behaviour seriously and seek to embrace the spirit and not just the letter of relevant ethical requirements.

Bill MacLeod is PwC UK’s Ethics Partner, a role defined by the FRC’s Ethical Standard. 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, Jon Walters and Will Amos have acted as the firm’s Business Conduct Leader during the year. Supported by a team of specialists, the Business Conduct Leader 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 PwC Code of Conduct and must confirm annually that they are familiar and have complied with it. The PwC Code of Conduct is based on the PwC Purpose and our core set of shared values. It sets out a common framework around how we are expected to behave and do the right thing.

These help guide our behaviours and build trust:
- In how we do business;
- With each other;
- In our communities; and
- In how we use information.

The PwC Code of Conduct emphasises that Speaking Up is part of our culture, and includes a framework for helping us decide the right thing to do in specific circumstances.

The PwC Code of Conduct can be found at www.pwc.co.uk/who-we-are/code-of-conduct.html

(b) Independence

The firm has specific policies, procedures and practices relating to independence, which are explained in more detail in section 14.
(c) Speak Up helpline

The firm has an anonymous and confidential whistle-blowing helpline called 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.

The PwC UK Code of Conduct encourages partners and staff to speak up when dealing with behaviour or facing a situation that doesn’t seem right.

In addition, third parties may also call the Speak Up helpline.

The Speak Up helpline number for partners, staff and third parties is 020 721 25233.

Partners and staff have a responsibility 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. We also protect against any form of retaliation.

All calls to the Speak-Up Helpline are dealt with by trained individuals within our Professional Behaviour team, and the matters raised are discussed regularly with Jon Walters, the firm’s Business Conduct Leader, who is responsible for making sure that the issues raised are appropriately investigated and resolved. The Business Conduct Leader would discuss any significant matters with Margaret Cole, the Management Board member responsible for Risk and Quality, Compliance and Corporate Affairs, and there are annual updates provided to the firm’s Public Interest Body and the Audit and the Risk Committees of the Supervisory Board.
(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. We take the protection of confidential and personal data very seriously.

The firm’s Managing Partner and Chief Operating Officer, Warwick Hunt, is the Management Board member responsible for information security. In this role he is supported by the Cyber Committee, and the Information Management Steering Committee, which are responsible for providing oversight, policy and strategic direction on information risk and cyber security matters.

Membership of the Committees comprises representatives from Risk and Quality, Office of General Counsel, Network Information Security, Information Technology and the Lines of Service. These committees’ objectives are to:

1. Provide overall governance and oversight of the Information Management programme;
2. Act as an approval body for Information Management policies and procedures;
3. Agree and allocate Information Management accountability and responsibilities;
4. Identify and initiate Information Management remediation projects; and

The firm is bound by, and 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 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.

We also have in place an accountability framework and the appropriate technical and organisation measures to promote compliance with the EU General Data Protection Regulation (GDPR), and other relevant worldwide data protection regulation.

We are registered with the UK Data Protection authority. Our registration can be seen on The Information Commissioner’s Office website under reference Z7486412. Our standard privacy notice is available to the public at https://www.pwc.co.uk/who-we-are/privacy-statement.html.

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; and
- appropriate classification of data confidentiality to ensure it is appropriately handled.

Our policies and procedures include:

- encryption of all the firm’s laptops, PCs and removable media;
- secure and PwC managed apps for data accessed by mobile devices;
- software restricting the use of removable media;
- data is appropriately classified to ensure correct handling of data;
- access to engagement files – both electronic and hard copy paper files – is restricted to those with a ‘need to know’ and is regularly reviewed to ensure that such access remains appropriate;
- data is regularly backed up on individual laptops and PCs;
- secure workspace policy – including clear-desk, 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; and
- 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 arises. 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 Code of Conduct makes it clear that it is unacceptable for our people to solicit, accept, offer, promise or pay bribes whether directly or through a third party. Policies, training and procedures designed to prevent bribery and disciplinary procedures if bribery is detected, are in place.

(f) Preventing facilitation of tax evasion

We are opposed to tax evasion and the facilitation of tax evasion. In accordance with the PwC Code of Conduct, it is unacceptable for anyone providing services for or on behalf of PwC to evade tax or to facilitate tax evasion. Policies, training and procedures designed to prevent the facilitation of tax evasion are in place.
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 the Assurance line of service for the period to 30 June 2019, and within the Audit line of service from 1 July 2019, we use two IT 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
- use automated criteria to trigger required consultations with appropriate individuals or committees within business units and/or at the firm level. 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.

These systems serve as automated tools to support engagement teams in complying with policies and responding to risks identified as they make acceptance and continuance decisions.

In addition the Client Committee, a sub-committee of the Clients and Markets Executive (CME), will convene to consider engagement or client acceptance decisions, and in some cases continuance decisions, that carry significant risks to the firm or that relate to particularly sensitive or confidential circumstances.

(b) Relationship checks and independence assessments

Before accepting a new engagement we perform:

- checks to identify relevant relationships – these checks are performed by a dedicated relationship checking team within Independence. Where potential conflicts of interest are identified, we either decline to accept an engagement or we put in place robust arrangements to make sure that the potential conflicts of interest are appropriately managed, (see (d) for further details on conflicts of interest); and

- in the case of new audit clients, an independence assessment – this is a comprehensive assessment which, depending on the nature and complexity of either the relationship or the structure of the prospective audit client, is either performed by a dedicated team within independence or by the prospective audit engagement team with advice from Independence. The assessment covers all aspects of independence in relation to a new potential audit client.
This enables us to identify existing relationships including business relationships, non-audit services and firm and personal arrangements and determine whether:

- those relationships which are prohibited by the FRC Ethical Standard can be terminated before we are appointed as auditor. Where this is possible, the relevant partners and staff are instructed to terminate the service prior to our appointment and confirm to the prospective audit engagement leader 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 relationships which are permissible or where the service can be amended to be made permissible and can therefore continue after our appointment as auditor, they may still create a threat to our independence and objectivity. Where such threats are identified and appropriate safeguards could be put in place, these are discussed and agreed with those charged with governance prior to appointment. Where safeguards are not acceptable or the nature of the service could be considered by 3rd parties to be inappropriate given our role as prospective auditors, the services would again be terminated in advance of our appointment.

Our policies in this area 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. This may include informing our and/or the entity’s regulators of the reasons for our resignation.

We have processes in place to make sure that we notify those charged with governance in good time when mandatory firm rotation rules require the entity to rotate their auditor, or put the audit out to competitive tender.

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

(d) Conflicts of interest and Sensitive Situations

Conflicts of interest and sensitive situations arise when two or more clients have conflicting interests in a matter and the services being provided relate to that matter. Where applicable, appropriate measures (e.g. ethical walls or other separation barriers) will, with both parties’ agreement, be put in place to safeguard the confidentiality of both clients’ information and to otherwise mitigate the actual or perceived conflict. The need for specific information barriers including ethical walls is normally identified as a result of performing a relationship check, and the Relationship Checking Team within our Compliance function will coordinate and lead the process of establishing these.

It is important that engagement leaders are alert to whether conflict of interest or sensitive situations exist and that engagement leaders and staff recognise they need to be dealt with carefully and sensitively to protect the best interests of the firm and its clients. Policies, guidance and training are provided to engagement leaders and staff to facilitate this.

If a conflict of interest or sensitive situation is identified, engagement leaders are responsible for implementing the relevant information barrier or ethical wall instructions that relate to their team, and ensuring they are followed, and for promptly providing Compliance and their line of service risk management team with details of the engagement, as well as for keeping Compliance apprised of updates to the scope of the engagement or composition of the team.

(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. We have previously resigned from audit appointments for a variety of reasons, which include:

- threats to our independence being, in our judgement, too great to apply effective safeguards;
- where we have been provided evidence in the course of our audit that our testing has revealed to have been falsified;
- where management has, without reasonable cause, failed to provide us with information that we have requested or has otherwise obstructed our audit; or
- because we are required to under the UK’s mandatory firm rotation rules.
Our global PwC values and behaviours have been communicated across the global PwC Network during the year.

They define the shared aspirations and expectations we have for working with our clients and each other. The common values and behaviours guide how we behave, make decisions, treat each other and serve our clients to: act with integrity, make a difference, care, work together and reimagine the possible. These values and behaviours are present in every aspect of the way we manage Human Resources within our firm, the key aspects of which are set out below.

(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 in the FY19, we recruited over 5,000 new people, including 1,345 graduates and school leavers. We invest in a range of approaches to recruit talented students at any stage of their academic life, In FY19, places offered included:

<table>
<thead>
<tr>
<th>Across the firm in the FY19, we recruited:</th>
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<tbody>
<tr>
<td>109 FT and 376 shorter placements</td>
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<tr>
<td>109: 83 full time Flying start Graduates from our degree partnership with the ICAEW</td>
</tr>
<tr>
<td>30: 36 first and second year students attended our two day residential Talent Academy</td>
</tr>
<tr>
<td>536: 577 paid intern and placement opportunities</td>
</tr>
<tr>
<td>201: 146 school leavers, including Higher apprentices, into full time paid and professional roles</td>
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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. However, we recognise that the traditional graduate entry route to a professional career at PwC UK does not suit every talented 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:

<table>
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<td>5,084 new people, including</td>
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<td>30: 36 first and second year students attended our two day residential Talent Academy</td>
</tr>
<tr>
<td>201: 146 school leavers, including Higher apprentices, into full time paid and professional roles</td>
</tr>
<tr>
<td>9: 29 students of all year groups participated in our ‘Tech Academy’ work experience events</td>
</tr>
<tr>
<td>536: 577 paid intern and placement opportunities for students</td>
</tr>
</tbody>
</table>
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 and any previous employment is verified. Graduate and student recruits also pass through an internal assessment centre before joining the firm.

Our recruitment process is closely aligned to The PwC Professional 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 in to our organisation. This has included recruiting 176 students onto our ‘Women in Business’ programme. We also recruited 249 people onto our ‘Business Insight Week’ work experience programme for sixth form students, focused on improving access to the profession. Included in this was this year’s winner of the NSEC (National Schools Employability Challenge). This is a competition run by PwC in partnership with Rate My Apprenticeship, challenging school students to demonstrate their employability skills across a number of stages. The top prize is a week-long placement at PwC. 2018 also saw us extend our Employability outreach into secondary schools with careers related visits to 328 schools.

Our commitment to apprenticeships also expanded with the introduction of Technology Degree Apprenticeships at Queen’s University Belfast and The University of Glasgow. This supplemented our existing Technology Degree Apprenticeships at the Universities of Birmingham and Leeds.

(b) 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. In July 2018, we held a one-day flagship development event called ‘Tomorrow, Today’ for all of our career coaches with coaching skills and handling difficult conversations embedded in the day.

We expect feedback to be provided regularly throughout the year by all staff and partners. We continue to focus on real time feedback using our ‘Snapshot’ tool which enables our people to take a snapshot of their progress during the year. Snapshot is used to document how others observe an individual’s skills and capabilities against the PwC Professional framework and is designed to help our people reflect on their strengths, what they’ve learned and areas for focus as they move forward.

In 2018, we introduced Workday as a new global people system and Workday is additionally used for documenting feedback, including from colleagues across the global network.

Feedback evidence is a key element of our annual performance review process. All partners and staff assess their performance against their agreed goals with reference to the PwC values and the grade-related skills and capabilities of The PwC Professional. The review process covers technical competence and quality, and consideration is given not only to what an individual has achieved, but also how they achieved it.

We continue to place particular focus on the contribution and impact each person has made to the firm. Our focus is on supporting our people to have meaningful conversations with their career coach about their contribution and how they have demonstrated the PwC Professional attributes. A robust moderation takes place to ensure fair outcomes for our people.

Individuals with lower performance will progress more slowly, and where performance is unsatisfactory corrective action is taken.

Our bonus plan is aligned to an individual’s impact and contribution with higher performers receiving more. Individuals with sustained higher performance also have the opportunity to progress more quickly.

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(c) Career development

We develop our people through the 70/20/10 model, which is premised on successful and effective individuals learning lessons from a combination of 70% on-the-job experience, 20% coaching and 10% formal training programmes. 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. Detail on our training programmes, our commitment to the learning and development of our people, and how the role of “career coach” stimulates this development, is available within Appendix 5 of this report.

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.

In addition to regular informal meetings, our people are expected to have mid-year conversations with their career coach focusing on their development, performance and wellbeing. Following the mid-year conversations, people leaders in each of our business units identify talent by reviewing the learning agility, aspiration and sustained performance of their managers to directors, with stretch development opportunities discussed.

We continue to recognise that completing our Graduate Programme represents a key decision point in our people’s careers. To support our people at this point in their career, we continue to promote the “Senior Associate Transfer Window” which provides clear visibility of, and access to, opportunities to move to new or different career paths within the firm.

(d) 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 Partner Affairs Committee, a subcommittee of the Supervisory Board, conducts and manages the overall assessment validation process for all Line of Service partner candidates. All potential admissions to partnership are considered by the Executive Board and the Partner Affairs Committee and are put to the full partnership for consideration.

Within Assurance (Audit from 1 July 2019), the process for promotion to director and admission to partnership involves a formal assessment of the quality of the individual’s work and their adherence to ethical requirements and professional standards. The process includes a written assessment against the PwC Professional framework and the proposed business case for promotion, and an interview with a panel of partners who seek to corroborate that assessment and business case. 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.

(e) Remuneration

In determining remuneration for our staff, we carefully balance several elements including: the economic climate, the external market; engagement and recognition of people’s hard work, including the quality of the work they deliver; the performance of the firm; and investment for the future. We have common firm-wide reward principles, but in rewarding our people we reflect different markets and skills. We have a firm-wide bonus plan, but individual bonuses are determined by each Line of Service.

We review pay and bonus by gender, ethnicity and different working patterns (full time to part time).

We have conducted Equal Pay Reviews for more than 10 years. We continue to publish our gender and BAME pay gaps both on a regulatory basis and on a total income basis including our partners.

In 2019 our single figure mean regulatory gender pay gap was 9.7% (April 18: 12.2%). Our single figure mean BAME pay gap is 10.8% (April 18 13.5%). 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 demographic across the grades; this adjusted pay gap figure for gender is 1.6% (April 18: 2.1%) and for BAME is less than zero.

We voluntarily publish our earnings gap including partners. This data, unlike the regulatory pay gap data is based on actual pay and bonus for employees and financial year distributable income for partners. Our mean gender pay gap was 40.9% (2018: 43.2%) and mean BAME pay gap 34.7% (2018: 35.7%). While the majority of our gender and BAME pay gaps have improved, they still reflect the fact that we have more non-BAME men in senior roles within the business.
We continue to take actions to address the gaps and also to take action through wider policies and activities to make sure our policies and practices are fair. This includes actively reviewing decisions on out of cycle payments, experienced recruitment and during our pay and bonus rounds.

Pay differences reflect the proportion of women and ethnic minorities in senior roles and we are committed to doing more to reduce these differences.

(f) 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 assignments 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.

(g) Diversity

Our goal is to empower all our people to be the best they can be, seeking to ensure they can all fulfil their potential, whatever their background.

As we look to the future and our plans to grow our business, based on the delivery of high quality products and services, we recognise the value that different types of people, bringing diverse skills, experiences and perspectives, bring to our firm.

Leveraging these assets demands a highly inclusive working environment and the actions we have been taking during 2019 have been designed with that in mind. Now, more than ever, diversity is critical to the success of our business.

Our approach is based on a range of interventions to create an inclusive working environment. Progress is measured and based on our performance against grade pool targets for gender and ethnicity at manager grade and above. Interventions fall under three priority areas:

- Leadership sets the tone from the top.
- Visibility of diverse role models in leadership positions.
- Minorities have equal opportunities to progress their careers.

We continue to focus on ensuring that all of our talent processes are inclusive, that our work opportunities are allocated fairly and proportionately, and that we closely manage our talent pipelines. We are achieving greater leadership accountability for diversity by requiring our business leaders to set, own and deliver their gender/ethnicity targets out to 2020 with success recognized financially as part of partner remuneration.

Progress is reviewed by our Executive Board on a quarterly basis as part of our Balanced Scorecard report. Our diversity targets were again published in our Annual Report according to our obligations under HM Treasury’s Women in Finance Charter. In 2018 we once again published our ethnicity pay gap alongside our gender pay gap despite the fact this is not yet a regulatory requirement. As a further measure of our progress, we are pleased to see a year on year reduction.

Our Diversity Council (the ‘Council’) is 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.

The work of the Council has seen our #Colourbrave campaign – to support open conversations about racial equality – go from strength to strength. We see this as a vital element in breaking down barriers and in building the skills and confidence of all our people in addressing blindspots and becoming more inclusive leaders.

Wellbeing is a top priority and during the year we launched our Be Well Work Well microsite to support a holistic approach to workplace wellbeing. In this context, mental health continues to be a focus:

- We rolled out Mental Health Awareness and First Aid Training.
- We have twenty Mental Health Advocates (Partners & Directors) who are on hand to talk and signpost people to the various sources of support.
- We had our fourth Green Light To Talk day during a packed Mental Health Awareness Week when we encourage our people to talk about their mental wellbeing.
- We continued to build resilience as a core skill through our onboarding and key leadership & development programmes.
The quality and effectiveness of audit is critical to all of our stakeholders. We therefore invest heavily in the effectiveness of our audits, in the skills of our people, in our underlying audit methodology, the technology we use, and in making the right amount of time and resources available.

We pay close attention to what our various stakeholders 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 15. 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 consistent high quality 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 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, the work of 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 audit documentation 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, controls 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 global, territory and 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;
- real time monitoring of engagement quality and progress – anytime, anywhere and on any device (e.g. laptop, iPad, iPhone and other mobile devices); and
- safety checks on audit quality built into the system.

Aura is regularly enhanced. New Aura features and functionality are developed at a global level to reflect technology initiatives to improve quality and efficiency, themes from external and internal quality reviews and feedback from global users.

In summer 2019, we implemented Aura Platinum, a new wholly online version of Aura. This will improve speed of access and of upgrades. It will also add new features that help the auditor to carry out a quality audit, such as visualisation of sampling populations and the automatic creation of lead schedules to highlight trends in financial balances. Aura Platinum also includes enhanced dashboards to help the auditor plan and project manage the audit more effectively.
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 increasingly integrate with Aura, populating audit evidence directly into the Aura audit working papers. The main tools include:

- **Connect** – a web-based portal designed to provide fast, efficient and secure sharing of documents and information with our clients. Connect monitors the status of information flows on a real-time basis – it’s simple to use and allows both the client and audit team to track status at an overall engagement and individual level anytime, anywhere. There are currently over 7,000 Connect sites created in the UK with some 186,000 internal and external users given access to those sites. The latest version has improved performance and introduced a cross-site dashboard. Client documents are now sent directly to the appropriate working papers within Aura, ensuring the auditor has the right evidence to hand when doing the work.

- **Connect Audit Manager (CAM)** – a global internal workflow tool for multi-location audit coordination. CAM helps group audit teams communicate more effectively and consistently with component teams, including shared service and regulatory teams. It automates the coordination workflow on multi-location audits, from creating and issuing instructions to signing off and returning inter-office reporting, sending documents directly to Aura.

- **Instructions Tool** – a global tool that enables group audit teams to use a consistent base for creating group instructions and then add any territory-specific requirements. It standardises the creation and format of group instructions across the practice, and highlights to component teams any modifications to the standard templates (e.g. additional non-standard requirements) making it much easier for component teams to review and meet the group audit needs.

- **Halo** – data assurance tools that allow us to better identify and assess risks and determine where to focus audit efforts. The analytical and visualisation capabilities allow us to analyse patterns and trends, identifying unusual and high-risk transactions, and providing invaluable insight to both our engagement teams and our clients. There are three main Halo products being used by our engagement teams, with over 7,500 UK instances being created for our most mature product, Halo for Journals. Halo for Funds has been used over 1,000 times this year, and Halo for Investments on over 800 audits.

- **GL Revenue** – a digital web based application and process for streamlining revenue testing by applying computer-assisted audit techniques. It provides a standard global methodology and toolset for revenue testing; this increases consistency on multinational audits, which in turn makes it easier to train engagement teams on how to audit revenue effectively.

- **Count** – a web based portal and mobile/smartphone application that facilitates the end to end process for inventory counts for both cycle and year-end inventory counts, the results of which are then sent directly into Aura. Count drives quality by:
  - guiding the counter through a standardised process which includes all required steps by auditing standards so nothing is missed;
  - helps get the count right first time by providing the counter with detailed information ahead of the count from the client’s stock listing which is pre-uploaded; and
  - enables the count to be completed on-site, which avoids duplicate documentation (and errors) and follow up questions.

Count is now used on over 3,000 UK stock counts annually which represents approximately 65% of all stock counts and we expect this to continue to increase.
• PwC’s Confirmation System (PCS) – a secure, web-based portal that facilitates an automated and standardised global end-to-end (paperless) confirmations process (excluding bank confirmations). Auditing standards encourage the auditor to seek third party evidence to support balances, so external confirmations are an important technique, but postal confirmations can suffer from poor response rates. PwC’s Confirmation System has made it easier for our auditors to obtain responses from third parties and so increased the number of external confirmations we do on our audits, increasing our audit quality. It includes safe and secure handling of confidential data, real time status of confirmations and reports which identify who did what and when throughout the process. The tool is now fully embedded into our audit with over a thousand audit teams (roughly one in three) now using it.

• Create! – a document generation tool that automatically generates the right wording for auditor’s reports, audit engagement letters and other audit-related documents, based on input parameters that the auditor specifies. The use of Create! reduces the likelihood that the auditor might make a mistake in tailoring a document to the specific engagement circumstances, particularly in areas that are complex, for example the detailed additional reporting obligations associated with EU Public Interest Entities, or those that are relatively infrequently carried out by the auditor.

Global development on our audit tools continues, with the UK firm being a leading contributor and implementor. We continue to focus on standardising activities to enhance effective and efficient working practices for our teams and clients in respect of data extraction. Standardisation then enables us to increase our levels of automation in the process, and extend the applications and data analysis functionality available.

The Halo suite was awarded the prestigious ‘Audit Innovation of the Year’ from The Accountant & International Accounting Bulletin in 2016, and our application of machine learning to journals analysis (GL.ai) received the same award in 2017. GL.ai is being used on a supplementary basis on a number of our audits and is a great example of how we are augmenting our auditors with intelligent technologies to perform activities which are challenging or even impossible for either to perform alone.

We are continuing to invest in our machine learning and AI capabilities to increase quality by testing ever greater populations of data, performing non-judgemental activities consistently and accurately, and bringing matters of greatest risk to the attention of our people, allowing them to resolve them effectively.

The main 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 and where auditor judgement is needed. In addition, Aura’s underlying database allows us to view the status across our audit portfolio, so we can pick up teams whose audit planning is unusual.

Aura can also be used for many of the non-audit engagements carried out by our Assurance practice, such as internal audit engagements and service organisation controls assurance engagements performed in accordance with ISAE 3402, AT-C 320 (SSAE 18) and AAF 01/06. Aura also caters for various types of engagements, including capital markets and sustainability.

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 and regulators. 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, databases and on web based applications. These are readily accessible to our people remotely at any time.
(c) Evolving Our Delivery Model

We continue to evolve the way we deliver our services so that we give our people and our clients an even better experience, improve the quality of what we do and create the economic capacity to invest in the future. We recognise that the way we currently operate needs to evolve, as the technological world around us changes. We cannot afford to stand still – our clients and our people are expecting us to make some big changes.

Our Distributed Delivery Model supporting our front line delivery teams is formed of three key elements, with increasing levels of complexity of work performed in support of our Assurance engagements, namely:

1. Service Delivery Centres: Delivering tasks that do not require auditor judgement, from offshore locations;
2. Competency Centre: Delivering lower complexity areas, where some judgement is required, from Bradford; and
3. Centres of Excellence: Delivering highly complex technical and judgemental areas, from primary locations in Manchester, Glasgow and Belfast.

The Distributed Delivery Model enables us to deliver on our ambitions by:

- Enhancing the quality of the work we do, by creating centres to deliver our work in specialist areas and in turn drive increasing levels of standardisation;
- Automating as much of what we currently do manually, through standardisation;
- Adding further value to our clients; and
- Improving the working experience of our partners and staff.

(i) Service Delivery Centres

Under our Distributed Delivery Model, we reallocate certain administrative and common audit procedures to offshore Service Delivery Centres, based on Poland and India. 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 our front line delivery teams 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.

The firm uses delivery centres to carry out a variety of procedures, the most common of which are:

- casting, cross-referencing, internal consistency and quality review of financial statements;
- assisting audit teams with detailed testing, including vouching to supporting documentation, reconciliations and recalculation of amounts;
- managing the preparation of requests for, and subsequent receipt of, external confirmations;
- assistance with data extraction and transformation for use in the audit of journals; and
- related parties searches and other client knowledge management.

The centralisation and standardisation of work in these areas (which are prerequisites to our offshoring process) have improved the consistency and quality of the work done. Specific steps that we take to ensure quality in our offshored work are:

- The onshore front-line delivery team retains overall responsibility for the quality of any work that is done by offshore delivery. The onshore front-line delivery team reviews all work done by the delivery centre on their audit, and interacts with the delivery centre teams to the extent needed for the services being performed;
- Delivery centres are permitted to carry out only specific procedures that have been authorised by the UK firm’s audit governance bodies;
- Staff in delivery centres are recruited in accordance with the firm’s standards, and receive training in the specific audit activities they carry out;
- The delivery centre carries out quality checks on the work they do before outputs are returned to front line delivery teams;
• Service Delivery Centres are also subject to annual quality reviews that assess the design and operating effectiveness of controls and procedures within the delivery centres’ quality management system and ultimately concludes on their compliance with the Network requirements; and

• Service Delivery Centres invest heavily in driving continuous improvements, including the automation of certain standardised activities, automatic allocation of work to appropriate staff to drive efficiencies, as well as adopting latest behavioural methodologies to change the ways staff engage to be even more effective and continue to drive excellence in performance.

(ii) Competency Centre

Our Competency Centre, called Nexus internally, was launched in January 2019 to complete the audit work of financial statement line items in less complex and judgmental areas of our audit engagements. The Competency Centre currently performs aspects of the audit of Cash and Property, Plant and Equipment, but with ambitions to grow the number and scale of services to realise the benefits of this model.

PwC took the decision to open the new Assurance Competency Centre in Bradford. Last year the Government launched twelve Opportunity Areas in social mobility ‘coldspots’, where businesses and schools come together to offer business skills, training and experience to young people in areas of disadvantage. This is to help improve young people’s employment and education outcomes. Bradford is one of these Opportunity Areas. We have already recruited eighty members of staff from the local area who will be based in Bradford, with the potential to increase this number to 225 creating further job opportunities in the city over the next few years. Whether someone is ready for a career change; at the start of their working life or just after a new challenge, the Competency Centre helps develop skills and boost employability irrespective of background.

While delivering lower complexity areas of the audit, having Competency Centre staff specialise in delivering these areas is driving increasing levels of standardisation.

The centre will help PwC continue to provide quality and exceptional client service in changing times, standardising work in key areas of their engagements to be able to use technology effectively through automation.

(iii) Centres of Excellence

Centres of Excellence were established in 2017, to deliver the audit in more complex technical and judgmental areas of our audit engagements. Centre of Excellence staff members specialise in delivering areas that engagement teams may come across less frequently, enabling them to drive a more standardised approach and ultimately further enhance quality in delivery.

Centre of Excellence team members are specialist staff based in the UK, who have completed additional in-depth training in these more complex areas. They interact directly with clients, but do so virtually from primary locations in Belfast, Glasgow and Manchester.

To further capitalise on the potential for enhanced quality in these more complex technical areas, the Centre of Excellence has expanded its portfolio of activities in 2019 to include Earnings per Share and the Audit of Tax, in addition to its Pensions, Share Based Payment and Controls testing activities.

(d) Consultation and support

Consultation is a key element of quality control. The firm has policies setting out the circumstances under which consultation on accounting, auditing and risk management matters is mandatory.

The firm’s technical experts track new developments in relevant areas and provide updates to the appropriate professional staff.

Our strong 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 Audit, 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 Audit Risk and Quality group (ARQ) is in accordance with relevant professional standards.

ARQ, whose remit is to establish the Audit Practice’s technical risk and quality framework, supports engagement teams in a number of areas, including accounting and corporate reporting, risk management and audit methodology. ARQ also helps teams to meet professional standards, regulatory and legal requirements and in some instances, provides support to clients when the need arises.

For example, ARQ performs quality reviews on interim review reports, preliminary announcements and annual IFRS financial statements of certain audit clients prior to issue. For a selection of audits, ARQ reviews certain aspects of the audit work on a real time basis, as the audit progresses.

These reviews aim to be primarily a coaching exercise focusing on risk assessment, the resolution of judgmental matters and our reporting to Those Charged with Governance. They are flexible and will, on occasion, involve a more in depth review of detailed audit working papers.

During the year ended 30 June 2019, a total of 4,532 consultations were dealt with (FY18: 3,878) in addition to 7,286 enquiries (FY18: 7,340) covering audit, accounting and risk management issues.

Where an engagement has particular complexities, risk characteristics or auditing or accounting areas requiring significant judgement (e.g. in some situations where uncertainty exists around a client’s going concern or impairment assessment), engagement leaders may consult a panel of experienced client-facing partners, technical experts and, in some cases, specialists in particular audit or industry areas (‘technical panel’). During the year ended 30 June 2019, 77 (FY18: 55) technical panels took place on audit clients, the majority of which related to the consideration of a client’s going concern status.

(e) Supervision and review

The engagement leader and senior engagement team members 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;
- 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.
Senior engagement team members support 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 senior engagement team members, 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 or higher profile. During the prior year we revised the definition of Higher Profile Clients to include those private companies which employ 10,000 or more individuals in the UK (excluding subsidiaries of a UK listed company which is audited by PwC UK) or:

- any entity with a significant risk over going concern and either:
  - more than 5,000 UK employees, or
  - a pension deficit agreement exceeding 15 years; and
- any entity with more than 5,000 UK employees and a pension deficit funding agreement exceeding 15 years.

QRPs are experienced individuals, usually partners, 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 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 discusses the results of their review with the Key Audit Partners (which include those engagement leaders of material components in group engagements which are involved in the group audit) on EU Public Interest Entity engagements defined by the FRC Ethical Standard.

The QRP will 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

Protocols 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.

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 audit report date, but can be as long as 12 years after the balance sheet date where required by applicable law/standards.
(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 a timeline that is more stringent than that required by professional standards.
In the case of the electronic audit file, the act of archiving prevents any further amendments being made to the file.
The hard copy paper file is similarly archived and retained in a secure access controlled filing system either within the office or off-site, with an electronic logging system used to manage the archive.
Unless required for legal, regulatory or internal review purposes, electronic and hard copy paper files are only accessible by members of the engagement team or by specific individuals for risk management, quality review and compliance purposes 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 audit report date, but can be as long as 12 years after the balance sheet date where required by applicable law/standards.

(i) Audit reporting
We are acutely aware that the effectiveness of our work as auditors is directly linked to the effectiveness of our reporting to audit committees and boards of directors, and in the role we play in external 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 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 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.

This includes highlighting judgements made by management in preparing the financial statements that we believe are important to an understanding of the performance and position being presented. The nature of accounting and the need to make judgements and estimates means that there is often not a precise answer, and this is reflected in our reporting.

It is also our role to inform the audit committee whether we can conclude that what is reported externally is 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 committed to making our reports clear and unambiguous. Enhanced audit reports provided to a range of organisations, including all listed entities, include descriptions of: how our audit was scoped; how we addressed the risks of material misstatement that we identified; and our application of materiality in determining the nature, timing and extent of our audit procedures and evaluating the effect of misstatements.
These enhanced audit reports 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.
For EU public interest entities as defined by the FRC Ethical Standard the enhanced audit reports also include increased transparency on our independence including:
- a declaration that the non-audit services prohibited by the FRC’s Ethical Standard were not provided and that the firm remained independent of the entity in conducting the audit;
- an indication of any services, in addition to the audit, which were provided by the firm to the entity and its controlled undertaking(s) and which have not been disclosed in the annual report or financial statements; and
- disclosure of our period of tenure.
We welcome, fully support and embrace the moves towards greater transparency over the audit process that results from these enhanced audit reports.

Sometimes it is necessary for us to modify our audit opinion, or to include details of a material uncertainty in respect of going concern. In such cases, engagement teams consult with others, including technical specialists, to help ensure that the modification/emphasis is warranted and that the audit report wording is clear.

In addition to our audit report, in certain situations we also have reporting obligations to regulators and to other organisations specified by auditing standards, UK law and regulation 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 team, 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.
Internal 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 15.

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 our accountability framework, an assurance engagement leader’s remuneration can be impacted by quality failings as well as where they deliver exceptional quality.

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.

(a) ISQC (UK) 1 and the Audit Compliance Review

Our monitoring program in Audit is based on the PwC Network’s Global Assurance Quality Review (GAQR) Program. This program which is based on professional standards relating to quality control including ISQC1 (in the case of the UK firm, ISQC (UK) 1), contains policies, procedures, tools and guidance which are used by PwC Network firms. The GAQR program is coordinated by a central team which consists of a GAQR Leader with a group of International Team Leaders (ITLs) who are senior partners seconded to the GAQR central team by PwC member firms.

 Provision of oversight by the ITLs and their continuous involvement and support enable a consistent and effective performance of reviews across the PwC network.

PwC UK’s monitoring program is also designed to meet the requirements of ISQC (UK) 1, the ICAEW Audit Regulations and requirements of our other registrations including the Crown Dependencies’ Audit Rules and PCAOB regulations and include the requirement to undertake an annual Audit Compliance Review (ACR).

This monitoring program is comprised of two parts:

1. Engagement compliance review (ECR) program is used to assess whether engagements are performed in accordance with relevant standards; and

2. Whole firm review of policies and procedures adopted by PwC UK in respect of Audit quality and ISQC (UK) 1 compliance. The firm conducts its own review of its compliance with policies and procedures each year as part of its Quality Management for Service Excellence (QMSE) review program.

This process is reviewed annually by the firm’s regulators, and also by the PwC Network as part of the Quality Management Review (QMR) programme.

Partners and employees of our firm are informed on a timely basis about the review results and the actions taken to enable them to draw the necessary conclusions for the performance of engagements. In addition, the GAQR Leader informs engagement partners of our firm who are responsible for group audits involving cross-border work about relevant quality review findings in other PwC firms which enables our partners to consider these findings in planning and performing their audit work.
Further details about the QMSE, QMR, and ECR can be found in Appendix 4, including a description of what constitutes a “best in class”, “compliant”, “compliant with review matters” or “non-compliant” rating. Details of the coverage and results of the 2019 ECR are as follows:

- 142 audit engagements (FY18: 136) were reviewed in FY19, covering 41% (FY18: 39%) of the firm’s Responsible Individuals. 43 non-audit assurance engagements (FY18: 50) were also reviewed.

- In FY19, 119 audit engagements (FY18: 121), representing 84% (FY18: 89%) of the audit engagements reviewed were classified as ‘compliant’. Twenty audit engagements (FY18: 5), representing 14% (FY18: 4%) of the audit engagements reviewed were classified as ‘compliant with review matters’.

- In addition, in FY19 a further 8 audit engagements (FY18: 0) were subjected to limited scope, targeted reviews of a specific aspect of the overall audit engagement. Six were found ‘compliant’, and two ‘compliant with review matters’.

- 39 non-audit assurance engagements (FY18: 38) representing 91% (FY18: 76%), of the 43 reviewed non-audit assurance engagements were classified as ‘compliant’. Three non-audit assurance engagements (FY18: 6) representing 7% (FY18: 12%) of the 43 reviewed non-audit assurance engagements were classified as ‘compliant with review matters’.

(b) Quality key performance indicators and Audit Quality Indicators (AQIs)

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 2019, 11 audit quality KPIs were assessed, covering various aspects of the audit from planning to execution and completion; nine non-audit quality KPIs were also assessed, covering various aspects of non-audit engagements.

The KPIs are assessed quarterly through the 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 a national level. The overall audit quality KPI score for the year ended 30 June 2019 was 96.3% (FY18: 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 are making changes to the audit quality KPIs for the year ending 30 June 2020 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 2019 was 96.8% (FY18: 97%) against a target score for both years of 95%.

Issues identified by these quality KPI reviews are communicated to the practice through the mandatory External Auditor Training programme webcasts, briefings and additional guidance. The overall assurance quality KPI scores are reported to the Executive Board.

Throughout the year to 30 June 2019, we monitored 21 separate Audit Quality Indicators (AQIs) ranging from engagement management to people metrics, on a quarterly basis to identify trends in audit quality.
(c) Root cause analysis

We hold our reputation for quality in the highest regard. We perform analyses to identify potential factors contributing to our firm’s audit quality so that we can take actions to continuously improve. One of our primary objectives when conducting such analyses is to identify how our firm can provide the best possible environment for our engagement teams to deliver a quality audit. We look at audits both with and without deficiencies—whether identified through our own internal review processes or through external inspections—to help identify possible distinctions and learning opportunities. Our analyses cover matters arising from both individual engagement file reviews as well as those relating to the firm’s systems of quality control.

Our analyses are conducted in two ways; first by monitoring themes as they arise during the inspection process and, second, by then applying more formal root cause procedures. A team of reviewers that is independent from the engagement team or function identifies potential factors contributing to the quality of the audit. We consider factors relevant to technical knowledge, supervision and review, professional scepticism, engagement team behaviours and resources, and technical training, among others.

Potential causal factors are identified by evaluating engagement information, performing interviews with engagement team members and specialists, holding focus groups on specific audit areas which are supported by behavioural specialists, reviewing training and guidance, and reviewing audit working papers, as appropriate to understand the factors that may have contributed to audit quality utilising the ‘5 whys’ approach (an iterative technique used to explore the issue until its underlying root cause has been found).

In addition, the data compiled for audits both with and without deficiencies is compared and contrasted to identify whether certain factors appear to correlate to audit quality. Examples of this data include the hours incurred on the audit, whether key engagement team members are in the same geography as the client, the number of years that key engagement team members have been on the engagement, the number of other audits that engagement partners are involved in, and the timing of when the audit work was performed.

Our goal is to understand how quality audits may differ from those with deficiencies, and to use these learnings to continuously improve all of our audits. We evaluate the results of these analyses to identify enhancements that may be useful to implement across the practise. We believe these analyses contribute significantly to the continuing effectiveness of our quality controls.
(d) FRC Investigations

The FRC is the ‘competent authority’ for audit in the UK under the EU Audit Regulation and EU Audit Directive. The FRC deals with cases that appear to raise important issues affecting the public interest in the UK, and investigates whether there is evidence of misconduct (under the Accountancy Scheme) or breach of a relevant requirement (under the Audit Enforcement Procedure) by an accountant or accountancy firm.

We have an FRC investigation in respect of the audit of the financial statements of BT Group plc. We have other FRC investigations which remain confidential.

A settlement was reached in May 2019 (published June 2019) following the FRC’s investigation of our 2015 and 2016 audits of Redcentric plc. The firm received a severe reprimand, was fined, and agreed to supplement its existing monitoring and support of the Leeds Audit Practice.

In relation to the Redcentric plc audits the two engagement partners were fined, severely reprimanded, and undertook additional training around supervision and professional scepticism.

We regret that our work fell below the professional standards expected of us and that we demand of ourselves. Since the work in question was completed, we have undertaken numerous steps to strengthen processes, particularly with regard to the supervision and review of our audits.

(e) Lessons learned

We recognise and accept shortcomings in our audit work where these arise, and are sorry whenever our work falls below the professional standards expected of us and that we demand of ourselves.

We acknowledge mistakes when they are made and ensure that lessons are learned. Audit quality is of paramount importance to us and, as outlined in Section 2, we are investing an additional £30m annually as part of a wide ranging action plan to provide greater focus on the quality and public interest responsibilities of PwC’s statutory audit services.

When investigations are commenced and the FRC makes enquiries about our audit work, we undertake reviews of our internal processes and procedures and take action, where necessary, to improve them. We also focus our training for the audit practice on the findings from the cases. Everyone in the firm has a personal responsibility to make sure that our audit methodology is followed correctly and that we all live up to our values.

Acting with integrity, which in the context of an audit means with objectivity, independence and professional scepticism, is fundamental to what we do. All partners and staff are regularly reminded of the need to speak up if they see something not quite right, or think we might have made an error.
(f) 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, Compliance and Corporate Affairs, 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 of which the individual PwC UK partner or member of staff is a member, may also be contacted directly.
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 internal control systems, covering all material controls such as financial, operational and compliance controls, and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.

The Management Board takes overall responsibility for establishing systems of internal control, and internal quality control, and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these systems and for ongoing monitoring of risk and the effectiveness of controls rests with senior management. One of our independent non-executives has been involved in the review and the results of the review are reported to all the independent non-executives.

In respect of the year ended 30 June 2019, we have carried out a robust assessment of the principal risks facing the firm, including those that would threaten the firm’s business model, future performance, solvency or liquidity, and included consideration of the sustainability of the audit practice within the UK.

We have also carried out a robust assessment of the principal risks facing the audit practice, including those that would threaten its business model, future performance, solvency or liquidity.

We describe the risks which apply to both our firm and specifically our audit practice in our FY19 Annual Report, and explain how they are being managed or mitigated.
The key risks faced by our business and the management response, are summarised below:

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<th>Risk</th>
<th>Response</th>
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| **Regulatory threats to business model:** | • Regular engagement and direct interaction, where possible, with governmental bodies and regulators to understand objectives and provisions of changes and the implications for our businesses.  
  • Regular/continuous monitoring of the cumulative impact of changes in the regulatory environment on the firm’s ability to provide services to audit clients.  
  • Regulatory affairs specialists who lead the firm’s efforts to track all changes in applicable regulatory regimes, of whatever origin, under which the UK firm operates.  
  • Regular updating of firm processes and procedures to ensure compliance by all our people, on all our clients, with all applicable regulations.  
  • Business contingency planning.                                                                                                           |
| **Quality (audit and non-audit):**        | We have announced a programme to enhance audit quality. The programme has three key areas:  
  • additional investment in training, people and technology;  
  • further alignment of PwC’s audit business behind audit quality; and  
  • a reinforced focus on culture and quality control.  
  This is in addition to our existing internal quality management systems, which are designed to maintain and enhance quality, including:  
  • Recruitment standards and staff development procedures.  
  • Client engagement and acceptance processes.  
  • Client engagement standards supported by methodologies and tools.  
  • Quality reviews of PwC network firms, including the UK firm.  
  • Monitoring and review of key performance indicators by the Executive Board.                                                              |
| **Instability caused by Brexit negotiations:** | The Executive Board, supported by the Brexit Project Team, manage the impacts based on contingency planning undertaken pre-referendum.  
  • We work closely with our clients to help them adapt to, and thrive in the new environment.  
  • We provide support and practical advice to European Economic Area (EEA) staff working in the UK and UK staff on overseas assignments in the EEA. |
| **Public perception and reputation:**      | • Embedding a culture of ‘doing the right thing’ from the top to the bottom of the organisation.  
  • Engage in open and serious debate with relevant stakeholder groups on trust-related and public interest issues to inspire change.  
  • Sharing of knowledge and insights on trust to sustain, widen and enrich the discussion.  
  • More actively promote the firm’s positive contributions including those to our clients, to broader society and as a significant employer. |
| **Litigation and regulatory enforcement:** | • In-house legal team with specialised resources in litigation, contract law, regulation, data privacy, compliance, sanctions and technology.  
  • Development of efficient discovery processes using e-Discovery tools.  
  • Incident management protocols across all areas to allow rapid deployment of specialist resources. |
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| Information and Cyber Security: | • Cyber Committee chaired by a member of the Executive Board, which provides overall strategic direction, framework and policies for information security.  
• The firm operates an ISO/IEC 27001:2013 certified information security management system which includes:  
  − Governance – including policies, processes, leadership (Cyber Committee) and assessment for client data and other information.  
  − Physical, technical and human resource controls.  
  − Threat intelligence.  
  − Incident response capability.  
  − Regular monitoring and independent review systems.  
  − Continual investment in established cybersecurity controls. |
| Data as an asset:               | • Development of a Data Use Policy and Data Governance model to enable the firm to commercialise data and data products safely.  
• Initiate project to consider best structures and frameworks for the management of risk issues related to various aspects of use/misuse of data. |
| Regulatory compliance:         | Established compliance and independence management systems including:  
• Clear policies, procedures and guidance.  
• Mandatory annual training for all partners and staff.  
• Client and engagement acceptance procedures.  
• Annual independence and compliance submissions for all partners and staff enforced by penalties for non-compliance.  
• Regular monitoring and reporting to the Executive Board.  
• Increased education to spread awareness of the role of the client committee, which considers matters potentially giving rise to such issues. |
| Criticality of IT to service delivery: | • Recovery of critical systems is secured by the use of two geographically distant data centres. If required, failed systems are reinstated at the second data centre, in line with Business Impact Analysis priorities.  
• Continuing programme of testing provides indicators of assurance of our ability to rebuild systems from backups.  
• IT Incident management procedures identify key systems to determine the real time criticality of impacted systems to ensure appropriate prioritisation of actions.  
• Review of business critical systems. |
| New business models and technology: | • Firmwide process for reviewing new business so that relevant risks are identified promptly and addressed.  
• Internal focus on relevant on-boarding and operating processes and procedures. |
| Technological relevance:       | • Significant investment in new and innovative digitising technology solutions for existing services.  
• Commitment to new platforms to allow efficient delivery of quality services. |
### Client assets:
Failure to appropriately manage client assets, including major client administrations.

Well-established procedures for dealing with client assets and related matters including:
- Portfolio diversification policy.
- Daily monitoring of credit and related ratings and maturities.
- Internal controls and procedures.
- Monitoring and independent review.
- A Treasury Committee which receives regular updates on the above.

### People and talent:
Failure to attract, develop and retain key talent.

- Regular reviews of the market for student and experienced talent to understand the firm’s relative competitive position ensuring agile management of resources.
- Use of various communication and discussion channels to engage with our people.
- Continued practical focus on building people engagement and supporting retention.
- Monitoring and review of key performance indicators by the Executive Board, including staff surveys, external Brand Health Index and regular client feedback.
- Appointment of external Wellbeing advisors and internal Mental Health champions as part of an overall wellbeing programme.

### Physical security:
Failure to secure the physical security of all our people wherever deployed on the firm’s business including within our own premises in the UK.

- Firmwide travel policy and processes for all our people, incorporating 24/7 tracking and, where appropriate, consultation with a dedicated security team.
- Comprehensive security infrastructure covering all our premises.
- Continuous monitoring of threat levels and issues in overseas travel destinations, and potential threats to our premises.

In addition, the Executive Board reviewed the systems of internal control, which have been in place throughout the financial year and up to the date of approval of this Transparency Report, using a process that included the following bodies and activities:

- The Risk Council, a senior management level committee reporting to the Executive Board, is responsible for making sure 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 are carried out independently by the PwC network;
- Our internal audit team reviews the effectiveness of the financial and operational systems and controls throughout the Group and reports to the Executive Board and the Audit Committee;
- Our risk and quality functions oversee our professional services risk management systems and report to the Executive Board;
- Discussions with the firm's regulators; and
- Discussions between the Audit Committee, the Risk Committee and the external auditors.

We confirm that there were no significant failings or weaknesses identified from that review which required the firm to take necessary remedial actions.

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.
Statement on the effectiveness of the firm’s internal quality control system

PwC UK’s internal quality control systems for Audit and Risk Assurance are a subset of the firm’s internal control systems and are outlined throughout this report.

On the basis of the reviews performed, as outlined in section 11 above, the Executive Board, on behalf of the Management Board, is satisfied that PwC UK’s internal quality control systems for Audit and Risk Assurance are operating effectively. Any matters identified through the various monitoring and review processes are actioned and changes implemented as appropriate.
Independence policies and practices

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.

Similar incremental restrictions apply as a result of the rules applied by UK professional bodies, such as the Ethical Standard issued by the Financial Reporting Council (FRC) in relation to UK audit clients and their related entities.

The Independence 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; and
- The rotation of audit engagement personnel.

Even with the rigorous independence rules which apply across our business and the importance that we place on compliance with these, we recognise that ensuring that the public have confidence in our independence as statutory auditors is of paramount importance.

As such, Kevin Ellis announced at the BEIS Parliamentary Select Committee on 30 January 2019 that the entire PwC network would no longer provide services that do not meet our definition of “independent assurance with or without an opinion” to UK companies in the FTSE 350 index that we audit, and their related entities around the world, by 2020.

This commitment is intended to help contribute to restoring trust and confidence in the UK audit profession and the wider professional services sector. We, as a firm, are committed to this and recognise the need to demonstrate through action our willingness to change. This was reinforced by Bob Moritz, our Global Chairman, who following Kevin’s announcement, reaffirmed the Network’s support of our position to all Territory Senior Partners.

This commitment is already in force for new services and, for on-going services, is scheduled to be fully implemented by 31 December 2019.
Systems

Global 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 of all PwC network firms. CES assists partners and staff in determining the independence status of clients of the firm and the network when they are considering new non-audit engagements or business relationships;

- 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; and

- 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.

Revisions to Global Systems
- Both the CES and AFS systems have been redesigned to ensure that the technology that they are built on is consistent with industry best practice and to ensure that the functionality is flexible to accommodate the needs of the business in the longer term.

- The revised and updated systems were deployed across the PwC network during August 2019.

UK Systems
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. It also has the capabilities now to track entities subject to the mandatory firm rotation rules and calculate when we are required to rotate off an audit engagement; and

- 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 tenure is set at five years, with a five year cooling off period and key partners involved in the audit engagement tenure is seven years with a two year cooling off period. The QRP on SEC engagements has a five year tenure with five year cooling off period. For listed entities that are subject to FRC independence rules the tenure of the QRP is set at seven years with a five 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 partners involved in the audit is set at seven years with a two year cooling off period.

For EU PIE audit engagements, those individuals who meet the definition of Key Audit Partner have a tenure of five years, with a cooling off period of five years.

Key Audit Partners are engagement leaders on any material component of an EU PIE group that are involved in the group audit. For all other entities our policy sets tenure for engagement leader, QRP and key audit partner at a maximum of 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 Management teams, as required. The independence team also regularly visit PwC offices to provide briefings and drop in sessions to advise on specific issues Partners and staff may have.

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.

We have supplemented our annual training programme this year with our Personal Independence: A Walk in the Park awareness campaign. This campaign is focused on the times when changes occur in your personal and work life and it is important to stop and consider personal independence – consulting with the relevant experts where necessary, who can provide the appropriate advice.
**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 up to and including dismissal.

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;
- procedures to review partners at least once every 5 years (3 years for those in the chain of command), as well as procedures to review a selection of staff and all partner candidates; annual independence confirmations by partners and staff;
- compliance testing of independence controls and processes;
- central monitoring of independence KPIs; and annual assessment of the firm’s adherence to the PwC Network’s risk management standard for independence.

Our firmwide procedures are also subject to an annual review by the FRC and a triennial review by the PCAOB, and any potential issues or recommendations arising from these reviews are carefully considered and action taken in order to address them.

In addition, policies and guidance are reviewed and revised to reflect updates to laws and regulations, 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 at the end of each quarter, and any partner independence breaches are reported to the Partner Affairs Committee.

Based on the reviews outlined above, we confirm that we have conducted an internal review of independence practices during the year ended 30 June 2019. Actions are developed to respond to issues identified by our internal review processes or external regulatory inspections.
a) UK regulators

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. They also review aspects of the firm’s policies and procedures supporting audit quality.

The full scope of independent inspection by the AQR can be found at www.frc.org.uk. The QAD inspects 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). 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 AQR issued its 2018/19 Audit Quality Inspection Report on PwC UK on 10 July 2019. A full copy of the report is available on the FRC website at www.frc.org.uk. The FRC report focuses on the key areas requiring action by the firm to safeguard and enhance audit quality, and is not intended to provide a balanced scorecard of the quality of the firm’s audit work.

The report covers matters arising from their inspection of both individual audit engagements and the firm’s policies and procedures which promote audit quality. Inspected on a cyclical basis, their firmwide reviews focused on internal quality monitoring, engagement quality control reviews and independence and ethics.

In their individual audit inspections, the AQR paid particular attention to changes in auditor appointment, the audit of fair value investments (including goodwill impairment), the use of auditor’s experts and specialists and the audit control. They focused on audits in specific industries, including general retailers, oil and gas producers, support services and financial services.

The AQR publish the names of all entities whose audits are subject to inspection on their website, with the final list for the 2018/19 inspection published in June 2019.

The 2018/19 inspection comprised reviews of 26 (2017/18: 28) individual audit engagements relating to FTSE 100, FTSE 250 and other listed and major public interest entities. Of the 26 audits reviewed in the 2018/19 cycle, the AQR concluded that:

- 20 audits (23 in 2017/18) were assessed as ‘good or limited improvements required’,
- Four audits (Five in 2017/18) were graded as ‘improvements required’, and
- Two audits (None in 2017/18) had ‘significant improvements required’.

The AQR also analysed the results by entity type, distinguishing between those within the FTSE 350 and other entities. This enabled comparison with the 90% target they set firms for 2018/19. Of the 17 FTSE350 audits (19 in 2017/18) reviewed by the AQR:

- 11 audits (16 in 2017/18) were assessed as ‘good or limited improvements required’,
- Four audits (Three in 2017/18) were graded as ‘improvements required’, and
- Two audits (None in 2017/18) had ‘significant improvements required’.

We are disappointed with the results of the latest AQR inspection and regard the issues raised in this cycle to fall below the high standards we aim to achieve on all our audits. We have not met the FRCs target of 90% of audits, being assessed as good, or limited improvements required. We expect high standards in all our audits, and have committed through our Programme to Enhance Audit Quality, to improving the consistency of our audit quality.
The AQR report highlighted the following key findings in respect of their individual file reviews:

- Improve the audit team’s challenge and supporting evidence in relation to the audit of long-term contracts.
- Improve the consideration and challenge of growth assumptions in relation to the impairment of goodwill and other assets.
- Strengthen the consideration and challenge in relation to management’s estimation of certain provisions; and
- Enhance the audit work performed for aspects of revenue and inventory for retailers.

The AQR had no significant findings arising from their firm-wide work on internal quality monitoring, and engagement quality control reviews. The following key finding was included in respect of their review of independence and ethics:

- Strengthen the firm’s systems and procedures relating to non-audit service approval.

The AQR has recognised the root cause analysis (RCA) performed by the firm and the development of responsive actions. The AQR has reminded all firms that continuing to develop RCA techniques, with a further focus on systemic issues will support necessary quality improvement.

The RCA undertaken identified that audit culture and auditor behaviour were causal factors in our inspection results. This analysis has helped inform the investment by the firm in the Audit practice, and the Programme to Enhance Audit Quality.

We also identified, and agreed with the AQR, a number of specific actions relating directly to their key findings including aspects of audit methodology and guidance, as well as enhancements to specific policies and procedures that support audit quality.

Underpinning three of the AQRs key findings is the sufficiency or evidence of challenge when auditing forecast cash flows or data. Our mandatory auditor training programme, External Auditor Training, has been enhanced and redesigned for 2019, with auditor challenge, behaviours and mindset, key themes underpinning the programme.

Simulating engagement team environments, our auditors will receive both technical accounting and auditor skills including project management and strategic audit planning.

The AQR identified enhanced policies and procedures including initiatives in effective coaching, supervision and review, increased involvement in the audit from engagement leaders at the planning stage of the audit, and improved articulation of audit conclusions.

The AQR have continued to draw out areas of good practice identified during the course of their work. These were:

- The extent of the group audit team’s oversight and interaction with the component audit teams, in particular in areas of significant audit risk;
- The quality of the firm’s summaries of audit responses to significant risks and related findings, including the involvement of audit partner and quality control reviewer;
- The use of, and interaction with the firm’s internal specialists and experts including in areas such as property valuations and tax;
- Effective use of data analytic techniques in the audit of revenue and journals; and
- The enhanced approach to the firm-wide testing and internal quality monitoring procedures.
During the year, the AQR completed its thematic review into ‘Other information in the Annual Report’ (December 2018). Thematic reviews focus on specific aspects of the audit process across all the major audit firms. “Other information” is defined as any financial or non-financial information included in the Annual Report, except for the financial statements, and the independent auditors’ report. The thematic review resulted in the issuance of some reminders to the audit practice, but did not raise any substantive issues with our methodology.

The AQR is currently in the process of conducting two further thematic reviews, into the ‘Audit Quality Indicators’ and ‘The use of technology in audits’ with findings anticipated later in 2019. We also anticipate the 2018 thematic review into ‘Transparency Reporting’ will be published imminently.

We will continue to use the output of these thematic reviews to enhance our policies and procedures supporting audit quality, and future years’ Transparency Reports.

(ii) QAD inspection
The QAD provides us with confidential reports summarising their findings. These reports are not publicly available.

Statutory audit monitoring
In summary, the QAD concluded that generally the audit work was of a good standard across the files reviewed in 2018, despite a slightly higher incidence of weakness in this inspection than in 2017. In addition, the QAD performed a re-review of the ‘required significant improvements’ file from the 2017 inspection, assessing it as ‘required improvements’ in the re-review. Both assessments outcomes related to disclosures in the statutory accounts relating to the potential impact of an ongoing VAT case, and the evidence of audit challenge recorded on the file.

Of the 10 (2017: 12) audit files reviewed:
- Four (2017: seven) were assessed as satisfactory with a small number of documentation matters identified;
- Four (2017: three) were assessed as generally acceptable, with more isolated findings including audit procedures around the completeness assertion in relation to revenue, going concern, and the evaluation of experts and specialist input.
- Two files (2017: one) were assessed as improvements required, one relating to the consideration of material asset reclassification and the other sufficiency of evidence for stock and property valuations.
- No files (2017: one) required significant improvements.

The QAD also found scope for improved documentation in isolated areas in each audit file. Three principal findings (including the follow up review), and minor findings on four other audits all related to presentation and disclosure in the financial statements. In direct response we have enhanced our financial statement reviews policies and procedures, and developed further detailed financial statement training, to refocus our engagement teams in this area.

The QAD noted that the firm had taken action following the 2017 inspection including delivered training to all qualified staff focusing on team and planning behaviours and specific actions relating to the audit of financial statement disclosures. The QAD expect to see improvements in these areas in their 2019 inspection cycle.

(iii) Other UK regulators
Local audit monitoring
The Local Audit and Accountability Act 2014 (LAAA) introduced new arrangements for regulating auditors of local bodies in England (principally local authorities and health bodies, other than Foundation Trusts). Audit monitoring under the LAAA 2014 has a phased implementation.

- Audits of larger public health bodies were completed and monitored under contract with Public Sector Audit Appointments Ltd for the year ended 31 March 2018, following the abolition of the Audit Commission. PwC UK was not subject to monitoring under the PSAA regime in the current period.
- Monitoring of all non-major local audits (health and local government) was the responsibility of the recognised supervisory bodies (for PwC, the QAD) for the audits of years ended 31 March 2018.
In 2018, the first year of monitoring by QAD under the LAAA, the scope was limited to local health body audits of years ended 31 March 2018. The firm had four local audit clients subject to monitoring under the scope of the LAAA, all of which were health bodies.

One audit of our NHS Trust audits for the 2017/18 inspection cycle was reviewed. No key issues were raised, with the QAD concluding that the quality of the firm’s audit work on the financial statements was generally acceptable with some improvements noted in relation to the firm’s work on employee benefits. The work on the VFM conclusion was satisfactory.

NHS Improvement

NHS Improvement (formerly Monitor) is the regulator of NHS Foundation Trusts. Annually, NHS Improvement requests that QAD review a sample of audits of NHS Foundation Trusts.

QAD reports the results of its reviews privately to NHS Improvement. NHS Improvement writes to each engagement leader reviewed to inform him/her of the outcome. NHS Improvement 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 2018.

One of our NHS Foundation Trust audits for that year was reviewed. NHS Improvement advised the engagement leader and the Trust that there were no significant issues arising from the review that it wished to raise.

ATOL reporting

As an ATOL reporting accountant, the firm is subject to inspection as part of the Licensed Practice Scheme. The procedures performed in respect of five ATOL returns were selected for review. The review concluded that the work programme was based on the ICAEW technical release and while there were isolated areas of improvement needed, the work performed was generally acceptable.

(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 to the PRA and FCA in respect of matters set out in the Financial Services and Markets Act 2000 (communications by Auditors) Regulations 2001 and to report to the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for Northern Ireland matters required by applicable charities legislation.

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 also 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 (Isle of Man Financial Services Authority);
- Canada (Canadian Public Accountability Board);
- Japan (Japanese Financial Services Agency);
- Kazakhstan (Kazakhstan Stock Exchange's JSC (‘KASE’));
- New Zealand (New Zealand Companies Office);
- Norway (Finanstilsynet); and
- South Africa (the Johannesburg Stock Exchange).

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

(i) Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board (‘PCAOB’) is the regulator for the audits of public companies with securities listed in the US. Engagements covered by the scope of the PCAOB inspection include any US registrant including Foreign Private Issuers (‘FPIs’) as well as UK components of groups listed in the US.

As we disclosed in our 2017 Transparency Report, the PCAOB, in cooperation with the AQR, inspected PwC UK in 2017 and reviewed the audit files of two FPI engagements and one UK component of a US listed engagement together with the firm’s related quality control procedures.

In January 2019, the PCAOB published its final report in respect of its 2017 inspection of PwC UK.

The 2017 inspection of PwC UK 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, or to fulfil 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. A full copy of the report in respect of the 2017 inspection of PwC UK can be found at https://pcaobus.org/Inspections/Reports/Documents/104-2019-065-PricewaterhouseCoopers-LLP-United%20Kingdom.pdf

(ii) The Crown Dependencies

Under arrangements with the relevant regulatory authorities in the Crown Dependencies, the AQR undertakes the review of relevant audits performed by PwC UK of the financial statements of certain entities registered in the Crown Dependencies.

In their 2018/19 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 use PwC global methodology to undertake RCA on each external inspection to establish the underlying reasons why findings have arisen which helps inform the development of our action plans to address those findings, together with a clear time frame for their resolution, and appoint specific named individuals to be responsible for making sure that those actions are achieved.

We consider the RCA findings from the external inspections alongside the internal review RCA to consider whether further correlations or information are present against which actions should be developed.

The agreed action plans typically involve the inclusion of specific technical training and behavioural expectations in mandatory training events and revisions to the firm's guidance. The Head of Audit, the Head of Audit Risk and Quality and other partners responsible for the regulatory process within the firm, monitor progress against agreed action plans on a regular basis. The firm's Public Interest Body is kept appraised of progress against the action plan periodically via the Audit Leader's Quality Update.
Audit Quality Information

The quality of our audits is of paramount importance, yet audit quality remains difficult to define and measure since it is driven by many different factors.

However, understanding what audit quality means to us, the profession, our clients and the investment community enables us to focus on and continually work to improve it. It also enables regulators to focus their supervisory efforts on these important areas and audit firms to compete increasingly on the basis of audit quality.

Three years ago, the Policy and Reputation Group (PRG), a group with representatives from the 6 largest audit firms and professional bodies in the UK, agreed a number of factors that contribute to audit quality and determined a set of metrics that each firm would report against annually to enable observers to assess the results of each firm and make comparisons between them. Our results for the year ended 30 June 2019 are set out below. Feedback on the usefulness of these metrics and opportunities to further enhance them would be welcome as we continue to develop our assessment and measurement of audit quality.

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; and
3. I have sufficient time and resource to deliver quality audits.

The questions are applicable across all lines of service and the results feed into our global reporting on people engagement. Items focus primarily around drivers of engagement, alignment to PwC’s values & behaviours. The People Engagement Index reported in our annual report is based on an index of four items.

Respondents are able to score on a scale of 1-5 where 1= strongly disagree; 2=disagree; 3=neither agree nor disagree; 4=agree; and 5= strongly agree.

Results are reported on a percent favourable basis which is the percent of responses that are a 4 or 5 (Agree and Strongly Agree) – the higher the value, the more favourable the result.

To meet PRG requirements on reporting audit quality, information is provided for these questions, the results of which are provided in respect of the UK Assurance line of service.

We take the workloads of our partners and staff very seriously and recognise the issues highlighted by the responses to the question in relation to sufficiency of time and resources below. While there is still work to be done in relation to “I have sufficient time and resources to do my work”, there was a 5% increase on prior year, a result of steps we are taking to address this issue, which include the introduction of a new approach to resourcing projects within External Audit and a focus on ensuring we are able to redistribute headcount capacity from areas with over-supply to areas with recruitment needs. We also announced our Programme to Enhance Audit Quality (PEAQ), which is set out in section 3 of this report, to assist in addressing this.
We also have a Flexible Associate programme which provides contingent capacity to Assurance should an unexpected need occur, and phase the start of our Flying Start graduate programme to provide capacity at our time of peak demand. Future headcount needs are reviewed each month with the objective to ensure that sufficient recruitment is in place to meet the forecasted headcount needs and demands from the volume of client work ahead. Regular reviews also take place of forecast chargeable hours with the objective being to balance workload levels across Assurance more evenly.

We have been promoting guidance on how to run and project manage engagements, in a quality way, with greater efficiency. This guidance has been highlighted through the annual external audit training, through weekly communications and through specific in-depth client team reviews. We are pleased to see that partners and staff continue to prioritise the delivery of quality work to our clients, as reflected in the high score for “the leaders I work with encourage me to deliver high quality services” below.

### Constituent items of the People Engagement Index for the Assurance line of service

<table>
<thead>
<tr>
<th>Component</th>
<th>FY19</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>The leaders I work with encourage me to deliver high quality services</td>
<td>89%</td>
<td>89%</td>
</tr>
<tr>
<td>The learning and development I receive from PwC (including on the job development, self study and e-learns) has prepared me for the work I do</td>
<td>69%</td>
<td>71%</td>
</tr>
<tr>
<td>I have sufficient time and resources to do my work</td>
<td>37%</td>
<td>32%</td>
</tr>
<tr>
<td>The leaders I work with act with integrity</td>
<td>82%</td>
<td>81%</td>
</tr>
</tbody>
</table>

**Key**

- **FY19**
- **FY18**
External investigations

Number of audit 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 2019 there was one case in respect of our audits of the financial statements of Redcentric PLC for the year ending 31 March 2015 and 2016 (2018: two cases) found against the firm by the Enforcement division of the FRC. The two previous cases were in respect of our audits of the financial statements of RSM Tenon PLC for the year ending 30 June 2011 and of BHS Limited and Taveta Group for the year ending August 2014.

Full details of the decision notices and settlement agreements can be found on the FRC website in the enforcement section.

Number of audit cases in the last 12 months in which the disciplinary committee of the firm’s lead recognised professional body, the ICAEW, has found against the firm or one of its members.

In the year to 30 June 2019 there were no audit cases (2018: nil) found against the firm by the Audit Registration Committee of the ICAEW. In the year to 30 June 2019 one former employee was severely reprimanded and had a cost order made (in 2018 two individuals consented to severe reprimands, fines and cost orders made by the Investigation Committee of the ICAEW).

In terms of our audit practice we have a number of ongoing regulatory investigations as set out on page 63, 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 – refer to section 11 for further information on lessons learned.

Engagement performance – internal and external

Further information in relation to audit quality reviews conducted both by the firm and its regulators is available in section 11 and 15 of this report.

Investment

We take our responsibilities to provide audit and audit related services very seriously and are committed to continuing to invest in our audit 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 in section 19. We also announced further planned investment in the training of our people and technology within the our Programme to Enhance Audit Quality (PEAQ), set out in section 3 of this report.

Investment in training

In a world where political, economic and regulatory change and uncertainty is becoming the ‘new normal’, and technology and transformation drive the rapid pace of change, it is critical that we continue to focus on our people and their professional development. We recognise that our people are key to delivering exceptional client service and performing high quality audits and we continue to invest in them to support consistent delivery in an environment that has a culture of challenge at its heart.

Our people develop technical knowledge and professional skills through practical experience, coaching, and from formal and informal learning activities. We continually invest in our training curriculum, informed by an annual training needs analysis (TNA) identifying new areas of technical and non-technical training, or areas needing reinforcement and focus. Our PEAQ, set out in section 3 of this report, also includes further investment in the training of our people. We also actively encourage individuals to take personal responsibility for their own development needs and each individual has a dedicated Career Coach to support them with their career development.
Our investment in training is set out in the below table:

<table>
<thead>
<tr>
<th>Metric</th>
<th>2018 (calendar year)</th>
<th>2017 (calendar year)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The minimum structured training hours provided to qualified audit partners and staff within the annual mandatory audit, accounting and compliance update programme.</td>
<td>21 hours per person</td>
<td>23 hours per person</td>
<td>There was less independence training in 2018 than 2017 and the annual audit training was also 0.5 hours shorter. This was partly offset by an increase in other additional compliance training on information security and GDPR.</td>
</tr>
</tbody>
</table>
| The range of possible structured mandatory training hours required by qualified audit partners and staff based on their grade, experience and role (defined by their learner profile responses). | 21–118 hours per person | 23–121 hours per person | Reasons for the slight decrease at the higher end of the range of hours include:  
  • Less independence training in 2018; and  
  • More focused industry update training for those in Financial Services in 2018, along with no requirement to run the additional IFRS 9 for FS workshops which ran in 2017 in advance of the new standard becoming effective  
These decreases were partly offset by an increase in US training and further mandatory training for practitioners working on a range of specific industry audits. |
| The average time charged to training time codes by qualified (and equivalent grade) partners and staff in Assurance during the calendar year, including mandatory and elective training. | 88 hours per person   | 79 hours per person   | Given the variety of learning needs of our practitioners, movements year-on-year of hours charged to training are expected.  
Items that will have impacted the 2018 hours include:  
  • New bespoke one day event for all Career Coaches; and  
  • The significant number of Experienced Hires that were onboarded into External Audit and required substantial training (a trend that is set to continue). |
| 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. | 1.4 million hours     | 1.4 million hours     | Given the variety of learning needs of our practitioners, movements year-on-year of hours charged to training are expected.  
The total hours is consistent with prior year despite the average hours for senior staff increasing because the average hours charged by more junior and support staff decreased. |
Investment in Research and Development in Assurance

The PwC network invests heavily in the development of our Assurance products, which include Aura, Connect and Halo. We continue to make significant progress on the creation, development and implementation of pioneering technology that is changing the way we deliver our audits, and is also helping us to further improve audit quality, insight and efficiency. Further details of the technologies and tools we use on our audits, such as Aura and Halo, can be found in Section 3 of this report.

Our technology investment is focused on digitising our business. Increased use of automation is a key component of our digital journey and its associated standardisation also enhances audit quality. We have also invested heavily in standardised data acquisition and automation of data handling, building a platform on which to grow.

To further drive the use of technology we have launched the Ideas Refinery. This initiative crowd sources ideas internally on how we can use technology to enhance our ways of working to improve efficiency and quality. Technology driven solutions are then built.

To date we have produced a number of solutions for use on our audits and within our own internal processes. We are also exploring how best to use emerging technologies in our audits, for example, the use of drones in inventory counts to help improve audit quality.

As reported in January, we conducted a pilot flight in 2018 over a coal reserve owned by one of Europe’s largest energy firms, RWE. The main objective of the flight was to assess the accuracy, efficiency and logistical benefits of using drones when compared to traditional surveying methods. The results showed benefits in all areas of efficiency and accuracy with the drone capturing c.900 data points per cubic metre compared to c.1,200 readings taken across the whole site using the traditional method. This combined with the logistical benefits highlighted the true potential of using drones in our inventory counts.

Investment community engagement

We have a dedicated investment team that works with shareholders and other members of the investment community, ranging from asset managers, analysts, corporate governance and stewardship professionals to credit ratings agencies.

Through this engagement we are able to get their views on a range of reporting, business and governance issues facing UK companies, as well as their thoughts on assurance matters and the role of the audit profession in their work. This dialogue ensures that we understand the needs and expectations of this important stakeholder group, which enables us to help our client engagement teams, as well as our clients' executive and non-executive directors, to better respond to shareholder needs.

Some highlights of our investor engagement team’s work this year include the following:

**Future of Audit initiative**

Following the release of the findings from the CMA Review, and Kingman Review during the last 12 months, and the ongoing Brydon Review, we have seen a greater focus on the role of audit. As the primary stakeholder of audit, understanding the views of investors is vital. By utilising our investor network, we have been able to engage with this group at a critical time for the profession. This has helped us to understand their perspectives, which in turn has helped inform our response to the ongoing reviews. See section 3 for further information on this.

We also sought the views of the investment community in our future of audit initiative. Investors of varying roles (e.g. private shareholders, fund managers and governance professionals) were invited to participate in our round tables around the country and in our online survey. The results of our engagement are summarised in our report on the future of audit, which is available at pwc.co.uk/futureofaudit.
Research into enhancing the credibility of non-financial information for investors

In November 2018 we published our joint research with the World Business Council For Sustainable Development (WBCSD) on the investor perspective of how to enhance the credibility of non-financial information. Following a series of roundtables around the globe that were attended by more than 50 investment professionals, we explored what value non-financial information has for investors, what could make it more reliable and the role assurance plays in this.

Fourth annual PwC Investor Update event

We held our annual half day educational event for shareholders and analysts in September 2018, which was well attended. Both institutional and retail investors were present, and the event provided an overview of new accounting standards and developments in corporate reporting, insights into the rise of disruptive technologies and the related risks that arise from these risks for corporates. We also covered how technology could shape audits of the future through the use of artificial intelligence, data analytics, drones and blockchain.

Ongoing dialogue between institutional and retail investors, analysts and senior partners in audit and other lines of service

We met with shareholders and analysts across a number of sector specialisms through one-on-one meetings, roundtables and workshops to discuss various topics. The strong relationships and open dialogue we have with the investment community enables high quality engagement across a range of areas. The main topics covered in the last year have been audit, Environmental, Social and Governance (ESG) and in particular how ESG information is used in investment analysis and the impact climate change can have on financial reporting.

Whereas in the past, engagement had been predominantly with institutional investors, this year we further increased our engagement with individual retail shareholders.

We have achieved this through engagement, meetings and events with representatives and members of the UK Shareholders’ Association (UKSA) and the UK Individual Shareholders Society (ShareSoc). Environmental reporting and interpreting company reporting have been key topics and we held an event on environmental reporting which was well attended.

In April 2019, our Public Interest Body (PIB) met with the Company Reporting and Auditing Group (CRAG), a group of investors in UK companies drawing on members of The Investment Association and the Pensions and Lifetime Savings Association. Topics discussed included audit quality, audit reporting, and the future of audit.

We continue to participate in the Global Auditor Investor Dialogue (GAID), which is an informal forum comprising major global auditing networks and global institutional investors. Topics of discussion ranged from the impact of climate change on financial statements of oil and gas companies and how this is assessed as part of the audit, to various audit reviews into the audit UK market.

PwC continues to provide secretariat support to the Corporate Reporting Users’ Forum (CRUF) in the UK and across their global network. As secretariat we provide administrative support for meetings, liaise with standard setters and regulators to allow the submission of comment letters and provide technical support when needed.

This year we have also helped the CRUF to complete a brand refresh, which included a new website and digital newsletter to help them to increase the profile and awareness of the group and to help CRUF territories engage professionally with the investment community in their regions.
EU Public Interest Entities and Major Local Audits

In Appendix 7 we include a list of EU public interest entities (as defined in EU Directive 2014/56/EU) for which we carried out statutory audits between 1 July 2018 and 30 June 2019.

In Appendix 8 we include a list of Major Local Audits (as defined in the Local Audit and Accountability Act 2014) for which we carried out statutory audits between 1 July 2018 and 30 June 2019.
Compliance with the Local Auditors (Transparency) Instrument 2015

Introduction

Where an audit firm is also a local auditor, as defined by the Local Auditor and Accountability Act 2014 (the Act), the audit firm is required to prepare and publish a transparency report which meets the requirements of the Local Auditors (Transparency) Instrument 2015 (the 2015 Instrument) issued by the FRC. Regulation 3(5) of the 2015 Instrument permits the inclusion of the disclosures relating to local audits in the transparency report required by Article 13 of the EU Regulation No. 537/2014 such that we are not required to publish a separate transparency report relating solely to local audits.

In the year to 30 June 2019, PwC UK signed the audit report on one local major audit and we are therefore required to comply with the 2015 Instrument.

Many of the requirements of the 2015 Instrument are the same as those of Article 13 of the EU Regulation No. 537/2014 but there are some requirements which are specific to local audits or local major audits as defined by the Act and the Companies Act 2006. The disclosures made throughout this report therefore apply equally to local audits (and major local audits) as they do to any other audit because our systems, policies and procedures operate either across the whole Assurance practice and apply to any audit or assurance service we deliver, or operate across the entire firm. The table below sets out the requirements of the 2015 Instrument where the disclosures required by the 2015 Instrument would be identical and provides details as to where such disclosures can be found in this report:
<table>
<thead>
<tr>
<th>Requirement of the 2015 Instrument</th>
<th>Reference to where the disclosures can be found and additional comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>A description of the legal structure, governance and ownership of the transparency reporting local auditor</td>
<td>The governance structures of PricewaterhouseCoopers LLP, the transparency reporting local auditor, are set out in Section 1, along with the content of Appendices 2 and 3. The legal structure and ownership of PricewaterhouseCoopers LLP is set out in Appendix 1.</td>
</tr>
<tr>
<td>Where the transparency reporting local auditor belongs to a network, a description of the network and the legal, governance and structural arrangements of the network</td>
<td>PricewaterhouseCoopers LLP, the transparency reporting local auditor, is part of the PwC Network. A description of the network and the legal, governance and structural arrangements of the PwC Network can be found in Section 4.</td>
</tr>
<tr>
<td>A description of the internal quality control system of the transparency reporting local auditor and a statement by the administrative or management body on the effectiveness of its functioning in relation to local audit work</td>
<td>The internal quality control system established by PricewaterhouseCoopers LLP as outlined in Sections 5 to 11 and Appendices 4 and 5, applies equally to all audits undertaken by the firm including any local audit work that it performs. Section 12 outlines the review conducted by the firm of its internal quality control systems. Section 13 includes confirmation by the firm’s Executive Board, on behalf of the firm’s Management Board, that the internal quality control system is operating effectively. As the firm’s internal quality control system covers any local audit work it performs, that confirmation applies equally in relation to local audit work.</td>
</tr>
<tr>
<td>A description of the transparency reporting local auditor’s independence procedures and practices including a confirmation that an internal review of independence practices has been conducted</td>
<td>Section 14 outlines describes the independence procedures and practices of PricewaterhouseCoopers LLP, the transparency reporting local auditor, which apply to all audits including local audits. Section 14 also includes confirmation that an internal review of independence practices has been conducted.</td>
</tr>
<tr>
<td>Confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained</td>
<td>Part (b) of Section 9 outlines our performance evaluation policies and procedures for all partners and staff in the firm irrespective of the engagement they undertake. Appendix 5 sets out how our people learn and develop through practical experience and coaching, formal and informal learning, maintaining capabilities and technical competency and career development. The policies and procedures outlined in Part (b) of Section 9 and Appendix 5 seek to ensure that partners and staff involved in audits (including local audits) are competent, remain so and are suitably trained. In addition, Section 11 outlines our internal monitoring processes covering all audits and Part (a)(iii) of Section 15 outlines the external monitoring of local audits which seek to identify issues as to the competency of engagement leaders. We confirm that engagement leaders and staff involved in local audits are considered to be competent and suitably trained.</td>
</tr>
<tr>
<td>A statement of when the last monitoring of the performance by the transparency reporting local auditor of local audit functions, within the meaning of paragraph 23 of Schedule 10 to the Companies Act 2006, as applied in relation to local audits by Section 17 and paragraphs 1, 2 and 28(7) of Schedule 5 to the Act, took place</td>
<td>Within Section 15 on page 77, we outline the external monitoring arrangements that the firm is subject to in respect of local audits within the scope of the Local Audit and Accountability Act 2014 (“LAAA”). As noted in Section 15, during 2018 one audit of our NHS Trust audits was reviewed as part of the 2017/18 inspection cycle by the Quality Assurance Department of the ICAEW. None of the other local audits within the scope of the LAAA had been reviewed by 30 June 2019.</td>
</tr>
<tr>
<td>A list of major local audits in respect of which an audit report has been made by the transparency reporting local auditor in the financial year of the auditor; and any such list may be made available elsewhere on the website specified in regulation 4 provided that a clear link is established between the transparency report and such a list</td>
<td>The list of major local audits in respect of which an audit report has been issued by the firm in the years ended 30 June 2018 and 2019 is set out in Appendix 8.</td>
</tr>
<tr>
<td>A statement on the policies and practices of the transparency reporting local auditor designed to ensure that persons eligible for appointment as a local auditor continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level</td>
<td>Appendix 5 sets out the policies and procedures that are designed to ensure that individuals approved to act as the engagement leader on local audits continue to maintain their theoretical knowledge, professional skills and values following their approval by the ICAEW to act as an engagement leader on local audits. The policies and procedures outlined in Appendix 5, which are no different for any individual acting as an engagement leader on any audit undertaken by the firm, include those covering formal and informal learning, practical experience, together with maintaining capabilities and technical competence. Section 9 also outlines policies and procedures around performance evaluation (part (b)) and career development (part (c)) as well as part (v) of Appendix 5 which seek to identify, amongst other things, professional skills and other gaps which the Career Coach and the individual will agree how any gaps will be addressed.</td>
</tr>
<tr>
<td>Turnover for the financial year of the transparency reporting local auditor to which the report relates, including the showing of the importance of the transparency reporting local auditor’s local audit work</td>
<td>The revenue for the years ended 30 June 2018 and 2019 in respect of local audits is set out in Section 19, which also shows the relative importance of local audit work to the Assurance business and the firm as a whole. In addition, the revenue for the year ended 30 June 2019 in respect of the audit of our sole major local audit client was £100,000 (2018: £110,000).</td>
</tr>
<tr>
<td>Information about the basis for the remuneration of partners</td>
<td>Information about the basis for the remuneration of partners is set out in Section 20. The basis for the remuneration of partners responsible for the audits of local audits and local major audits is no different from that of any other audit partner.</td>
</tr>
</tbody>
</table>
Consolidated financial information

The following information is extracted from the consolidated financial statements of PwC UK for the year ended 30 June 2019:

- consolidated profit for the financial year before members’ profit share was £1,016m (FY18: £935m); and
- consolidated profit available for division among members was £875m (FY18: £818m).

A commentary on the firm’s performance, position and prospects can be found in our digital annual report at www.pwcanualreport.co.uk, and which forms part of this Transparency Report.

Relative importance of statutory audit work

An analysis of the UK and total group revenue of PwC UK for the financial year ended 30 June 2019, which shows the relative importance of UK-related statutory audit work, is shown below:

<table>
<thead>
<tr>
<th>Services</th>
<th>FY19 £m</th>
<th>FY18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory audits and directly related services for audit clients (EU PIE and subsidiaries of EU PIE)</td>
<td>350</td>
<td>365</td>
</tr>
<tr>
<td>Statutory audits and directly related services for audit clients (Major Local Audits)</td>
<td>0*</td>
<td>0*</td>
</tr>
<tr>
<td>Statutory audits and directly related services for audit clients (other entities)</td>
<td>363</td>
<td>308</td>
</tr>
<tr>
<td>Statutory audits and directly related services for audit clients</td>
<td>713</td>
<td>673</td>
</tr>
<tr>
<td>Non-audit services to audit clients</td>
<td>239</td>
<td>273</td>
</tr>
<tr>
<td>Services to audit clients</td>
<td>952</td>
<td>946</td>
</tr>
<tr>
<td>Services to clients we do not audit</td>
<td>2,508</td>
<td>2,164</td>
</tr>
<tr>
<td>UK firm revenue</td>
<td>3,460</td>
<td>3,110</td>
</tr>
<tr>
<td>Revenues from statutory audits and directly related services for audit clients as a percentage of UK firm revenue</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>Revenue from non-UK subsidiary undertakings</td>
<td>773</td>
<td>654</td>
</tr>
<tr>
<td>Group revenue</td>
<td>4,233</td>
<td>3,764</td>
</tr>
</tbody>
</table>

1. If an entity met the definition of an EU PIE (or a subsidiary of) as at 30 June 2019 we have included related revenues in this category.
2. If an entity met the definition of a Major Local Audit as at 30 June 2019 we have included related revenues in this category.
3. 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 the FRC Ethical Standard and PwC Network and PwC UK policies.

* During each of the years ended 30 June 2019 and 30 June 2018, we performed one major local audit (listed in appendix 8). The revenues from this major local audit were FY19: £100,000 and FY18: £101,000. When presented in £m in the above table, these numbers round to zero.
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:

<table>
<thead>
<tr>
<th></th>
<th>FY19 £m</th>
<th>FY18 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>713</td>
<td>673</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>127</td>
<td>119</td>
</tr>
</tbody>
</table>

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; and

- 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.
Remuneration of Partners and Independent Non-Executives

Partners are remunerated solely out of the profits of PwC UK 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, promoted or remunerated for the selling of non-audit services to their audit clients.

The expectations of audit partners are set out in section 9, and audit quality forms a key part of the partner performance appraisal process.

In addition, the Audit Risk & Quality partners input into the assessment of performance in respect of risk and quality matters for the audit partners in their teams, and are 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 and, as applicable, the Talent and Remuneration Committee, 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 two interrelated profit-dependent components:

- Performance income – reflecting how a partner and their team(s) have performed (FY19: 35%, FY18: 38%); and
- Responsibility and equity unit income – reflecting the partner’s sustained contribution and responsibilities (‘responsibility income’) and the partner’s capital contribution (‘equity unit income’) (FY19: 65%, FY18: 62%)

Each partner’s performance income, which in the year ended 30 June 2019 represented on average approximately 35% of their profit share (FY18:38%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the partner’s role. These objectives take account of our public interest responsibilities by ensuring 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. The Accountability Framework also seeks to reward good quality audit work delivered by engagement leaders.

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, on behalf of the Management Board, with the approval of the Supervisory Board, sets the level of partners’ monthly drawings, based on a percentage of their individual responsibility income.

Tax
Our distributable profit per partner is calculated on a pre-tax basis and the taxes borne individually by our partners include both income tax as well as corporation tax on subsidiary profits. The total tax charged in respect of partners’ distributable profits represents approximately 48% (2018: 48%) of distributable income.

Independent Non-Executives
Our INEs are paid an annual fee of £100,000 for their services. The chair of the PIB receives an additional £40,000. Where an INE is also a member of a Supervisory Board Sub-Committee, they receive a further £20,000 for this role.
Appendix 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:

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>PwC UK partners</td>
<td>899</td>
<td>887</td>
</tr>
<tr>
<td>Partners on secondment overseas</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>913</td>
<td>915</td>
</tr>
</tbody>
</table>

b) UK office structure

PwC UK operates out of 22 (FY18: 22) offices throughout the United Kingdom – a full list can be found at www.pwc.co.uk.

c) Related firms, entities and investments

Set out below are details of PwC UK’s related firms, interests and investments. Further details can be found in the PricewaterhouseCoopers LLP Members’ report and financial statements for the year ended 30 June 2019, within our Annual Report 2019, which can be found at www.pwcannualreport.co.uk.

(i) Subsidiary undertakings

PwC UK’s trading subsidiary undertakings located in the United Kingdom are shown in the table below. A full list of all subsidiary undertakings is shown in the PwC Financial Statements 2019. All entities listed in the table are 100% owned.

The non-controlling interest in profits and capital attributable to the members of PricewaterhouseCoopers CI LLP are shown as non-controlling interests in the PricewaterhouseCoopers LLP Members’ report and financial statements for the year ended 30 June 2019, within our Annual Report 2019, which can be found at www.pwcannualreport.co.uk

(ii) Jointly controlled entities and associates

The Group held interests in four significant jointly controlled entities and associates at 30 June 2019:

- Bolt Partners Limited, which offers mobile applications for healthcare organisations;
- PricewaterhouseCoopers Mobility Technology Services LLC, which offers international mobility services;
- PricewaterhouseCoopers Service Delivery Centre Holdings (Katowice) B.V., which provides shared services for PwC Network firms; and
- PwC Poland Services Limited, which offers specialised cloud-based solutions and transformational services.

(iii) Other investments

PwC UK also holds a number of investments, including repayable interest-bearing preference shares issued by PwC Poland Services Limited, preference shares issued by the PwC Central and Eastern European and PwC Central and Southern Africa firms as part of a strategic investment plan, and repayable interest-bearing subordinated loan notes from entities in the PwC global network. Further details are provided in the PwC UK Financial Statements 2019.


**UK registered trading subsidiary undertakings**

<table>
<thead>
<tr>
<th>Companies</th>
<th>Country of Incorporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beyond Food Community Interest Company</td>
<td>England</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Advisory Services Limited</td>
<td>England</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Assurance UK Limited</td>
<td>Scotland</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Consulting Services UK Limited</td>
<td>England</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Overseas Limited</td>
<td>England</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Services Limited</td>
<td>England</td>
</tr>
<tr>
<td>PRPi Consulting Limited</td>
<td>England</td>
</tr>
<tr>
<td>PwC Change Management Limited</td>
<td>England</td>
</tr>
<tr>
<td>PwC Consulting Associates Limited</td>
<td>England</td>
</tr>
<tr>
<td>PwC Digital Services (UK) Limited</td>
<td>England</td>
</tr>
<tr>
<td>PwC Holdings (UK) Limited</td>
<td>England</td>
</tr>
<tr>
<td>PwC Strategy&amp; (UK) Ltd</td>
<td>England</td>
</tr>
<tr>
<td>PwC Tax Information Reporting Limited</td>
<td>England</td>
</tr>
<tr>
<td><strong>Limited Liability Partnerships</strong></td>
<td></td>
</tr>
<tr>
<td>PricewaterhouseCoopers CI LLP</td>
<td>England</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Legal Middle East LLP</td>
<td>England</td>
</tr>
</tbody>
</table>

**Principal lines of business**

Throughout the year, PwC UK operated through four principal Lines of Service (LoS), being Assurance, Consulting, Deals and Tax. Support services were provided by Internal Firm Services.

Programmes to develop expertise and to share knowledge in all key industries are also in place.

As of 1 July 2019, PwC UK established the Audit LoS and Risk Assurance LoS, replacing the Assurance LoS. The Audit LoS has a singular focus on external audit, as part of its commitment to continually improve and strengthen audit quality.
Assurance (to 30th June 2019)

Audit, regulatory and other similar assurance services: Statutory and non-statutory audit, financial accounting, corporate reporting, compliance with new and existing regulations and remediation, risk and regulatory monitoring and listings and assurance on non-financial information.

Risk assurance: Technology Risk, data and analytics assurance, cyber security, governance, risk and compliance (GRC), commercial assurance, performance assurance, treasury and commodity services and internal audit.

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

Capital Markets, Accounting Advisory and Structuring Services: Assurance on capital market transactions and listings, raising debt or equity capital, accounting advisory, GAAP conversions, structuring services, equity advisory and navigating deals and mitigating risk.

As of 1 July 2019 Assurance evolved into two lines of service: Audit and Risk Assurance. Audit includes audit, regulatory and other similar assurance services. Risk Assurance includes risk assurance, risk modelling services and capital markets, accounting advisory and structuring services.

Tax

Tax: Corporate tax advisory, tax on transactions, transfer pricing, corporate and international tax, 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).

People and Organisation: Providing solutions to people related challenges across performance and employment, Global Mobility Services, pensions and workforce benefits, people services including HR transaction/deals advice, people analytics and benchmarking, HR technology and HR transformation.

Legal: Corporate law, International Business Reorganisations, M&A, banking and finance, employment and pensions law, real estate advice, immigration law, intellectual property law, sourcing, technology and intellectual property law, general commercial and contractual law, tax, commercial and regulatory dispute resolution, financial services regulatory law, cyber security and data protection law, government and public sector law, managed legal services, legal function consulting and legal entity management and governance advice.

Consulting

Consulting, including delivering deal value: Combines industry and functional expertise to help our clients address complex business issues from strategy through to execution, with specialists in strategy (including Strategy&), operations, finance, people and change, risk, portfolio and programme management, and technology consulting. Delivering deal value has dedicated specialists with backgrounds of working in and alongside the deals channel with specific insight and delivery capabilities in i) carve out/separation activities (vendor assistance, sell-side vendor due diligence, buy-side diligence), ii) operational due diligence (buy-side and sell-side vendor due diligence), iii) M&A integration, and iv) rapid value creation pre or post deal.

Sustainability and climate change: Specialists in sustainable development; total impact measurement and management; climate policy, risk modelling and disclosures; low carbon transition; green finance and investment; deforestation, natural resources and ethical supply chain; smart cities and urbanisation; technology for good; and responsible business.
PwC Research: Providers of Consumer, Business and Employee research, data and insight services that help our clients develop strategy, drive performance improvement and support change.

Deals
Transaction services: Buy and sell-side financial 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, infrastructure finance advisory, 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 and corporate simplification, accelerated mergers and acquisitions, Insurance Liability Restructuring and Pension Liability Restructuring and distressed property advisory.
Forensic services: Disputes including commercial litigation and international arbitration, transaction and shareholder disputes, expert determination and early neutral evaluation, construction and insurance claims and eDisclosure; investigations including asset tracing, 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, capital projects reviews and delivery, financial crime risk, monitoring and regulatory compliance, fraud prevention, project delay analysis, litigation readiness, revenue leakage, forensic technology, data analytics, cyber response and contract governance and compliance.
Appendix 2

Membership of the Firm’s governance bodies - Biographies, meeting attendances and other matters

The Management Board

The following partners are all members of the Management Board. Those with an (E) next to their names are also members of the Executive Board. Those with (CME) next to their name are members of the Clients and Markets Executive.

1 Kevin Ellis (E)  
Chairman and Senior-Partner  
Kevin joined the UK firm’s Executive Board in 2008 as Head of Advisory, and was made Managing Partner in 2012. Kevin was elected as Chairman and Senior Partner of the UK and Middle East alliance in 2016. He joined the firm in 1984 on the graduate training programme and qualified as a chartered accountant (ICAEW). Kevin specialised in providing turnaround and crisis management support to businesses in the public and private sectors for over 25 years.

2 Marco Amitrano (CME)  
Head of Consulting  
Marco is PwC’s UK and EMEA Head of Consulting and was previously PwC’s Global and UK Risk Assurance Services Leader. He has 27 years of international experience in Advisory and Assurance services, serving major clients in the UK and around the world across a range of industries, including technology, engineering and consumer products. Marco is a Chartered Accountant with the Institute of Chartered Accountants in England and Wales and has also served on the board of British American Business. Prior to joining PwC, he qualified with a Masters degree in Electrical and Electronic Engineering at the University of Newcastle-upon-Tyne and is a graduate of Columbia Business School in New York.

3 Jon Andrews (E)  
Head of Technology and Investment  
Jon graduated from the University of Nottingham with a Psychology degree and he joined the firm as a partner in 2007 from Accenture. Prior to joining the Executive Board in 2016 he led our People and Organisation Network in the UK and globally. He has worked with clients across several industry sectors including high tech, FMCG, financial services, government and pharmaceuticals and has spent time working and living abroad in Kuala Lumpur and Zurich.

4 Kevin Burrowes (CME) (E)  
Head of Clients and Markets  
Kevin is responsible for Clients and Markets. He is also the Global Relationship Partner for a global bank and UK Lead Relationship Partner for a global technology company. Previous roles include the Global Banking & Capital Markets Leader and Financial Services Leader in the UK. He was an audit partner on JP Morgan and Barclays. He has subsequently focused on advising and delivering local and global transformation projects for Banks and Insurance companies across a broad agenda from strategy, process improvement, controls implementations, Front Office transformations to culture change. His clients have included RBS, UBS, Aviva, Deutsche Bank, HSBC and HM Government. He has previously worked at IBM, Credit Suisse and The Royal Bank of Scotland and has been based in London, New York and Frankfurt. He is a member of the Institute of Chartered Accountants in England and Wales.

5 Margaret Cole (E)  
Chief Risk Officer and General Counsel  
Margaret is the UK firm’s Chief Risk Officer and General Counsel. Prior to joining PwC, Margaret was Managing Director of Enforcement and Financial Crime and a Board member of the FSA. Margaret has over 20 years’ experience in private practice, specialising in commercial litigation with an emphasis on financial services. She was formerly a partner at Stephenson Harwood and White & Case. She is a Trustee of the Institute for Fiscal Studies and graduated from Cambridge with a degree in law.

6 Laura Hinton (E)  
Head of People  
Laura graduated from King’s College, London with a Business Management degree. She trained in audit prior to moving into HR Consulting where she set up and led a mid-tier practice. She joined PwC in 2005 and made partner in 2006. Before joining the Executive Board, Laura was a member of the Tax Leadership Team as Head of People. She continues to work with global clients to support them with culture change, performance management and talent related challenges.

7 Hemione Hudson (CME)  
Head of Assurance (Hemione became the Head of Audit from 1 July 2019)  
Hemione was the UK Head of Assurance in the year and is a member of the UK Management Board. She has over 20 years of experience, having joined PwC in 1995 and became a partner in 2007. She specialises in auditing and advising clients in the banking and capital markets sectors. She has worked with a range of Global, European and UK based clients.

8 Warwick Hunt (E)  
Managing Partner and Chief Operating Officer  
Warwick graduated from the University of the Witwatersrand in Johannesburg with a Bachelor of Accountancy (with honours), in addition to holding FCA (Australia and New Zealand), ACA (ICAEW) and CA (SA) designations. He chairs the Management Board’s International Committee and Partner Matters Committee in addition to leading the Finance and Operations functions. Before joining the Executive Board in October 2013, he completed a four year term as PwC Middle East Senior Partner. Prior to that he was a partner in PwC New Zealand where he led the firm as Territory Senior Partner and Chief Executive Officer from 2003 to 2009. Warwick, in addition to his management responsibilities, leads the provision of services to a range of clients.

9 Kevin Nicholson (CME, to 30 June 2019)  
Head of Tax  
Kevin graduated from Newcastle Polytechnic with a degree in English and History. He joined the firm in 1991 and became a partner in 2000. He has spent time in the North East, New York and Hong Kong. He joined the Executive Board in 2008 as Head of Regions, and before that he headed our Entrepreneurs and Private Clients division. In 2011, Kevin became the Head of Tax.
10 Sam Samaratunga (CME, from 1 July 2019)
Head of Risk Assurance
Sam is PwC’s UK Risk Assurance leader. During his career, Sam has primarily been focused on banking, capital markets and financial services market infrastructure, advising clients on the analysis of risk, control and change within complex information systems. He has specialised in financial services and led client engagements with a range of major banks, clearing houses, regulators and stock exchanges. Sam is a Chartered Accountant with the Institute of Chartered Accountants in England and Wales.

11 Dan Schwarzmann (CME)
Head of Market Initiatives and Industries
Dan has been a Partner since 1998 and involved in company restructuring and insolvency work from 1990 with a focus on Financial Services, acting on high profile companies such as Lehman. Prior to becoming responsible for Market Initiatives & Industries in July 2016 he spent two years on the Executive Board and was also responsible for the Business Recovery Services team for six years. He has a Masters degree in Business Administration from City University and is a member of the Institute of Chartered Accountants in England and Wales.

12 Paul Terrington (CME)
Head of Regions
Paul sits on PwC’s UK Management Board as Head of Regions. He has also been Regional Chairman of PwC in Northern Ireland since 2011 and has led the establishment and growth of our Belfast office as an innovation, technology and service delivery hub for the firm in the UK and globally. It is now our largest office outside London, with over 2,000 people. Paul holds an LLB (Hons) Degree in Law from University of Reading and a Postgraduate Diploma in HR Management from University of Ulster. His client-facing background is in large-scale public sector transformation programmes and organisational governance and change across private businesses. He is a member of the Council of the Institute of Directors in the UK and past Chair of Institute of Directors in Northern Ireland. He is current Chair of Ulster Rugby Management Committee and previous Chair of NI Hospice capital appeal fund. He is now a Northern Ireland Hospice Ambassador.

13 Marissa Thomas (CME)
Head of Deals (Marissa became the Head of Tax from 1 July 2019)
Marissa was the UK firm’s Deals Leader in the year, and has over 22 years’ experience of advising private equity, sovereign investors and large corporate clients on deal structures and various aspects of fund manager set-up and ongoing operation (including deal and fund structuring advice, viability assessment of establishing investment platforms and implementation of such platforms and operations). Marissa previously led the PwC UK private equity and sovereign wealth/investment fund business, and was the Clients and Markets Leader for Tax. As UK Deals Leader, Marissa leads and is responsible for our Transaction Services, Corporate Finance, Forensics and Restructuring businesses.

14 Ken Walsh (CME, from 1 July 2019)
Head of Deals
Ken is PwC’s UK Deals Leader. Ken has over 22 years’ experience of working with larger private equity and corporate clients in buying and selling businesses in the UK, Continental Europe and North America. Ken joined the firm in 1990 on the graduate training program, in Jersey and qualified as a chartered accountant (ICAEW). He subsequently completed a three year secondment in Toronto. Ken has been a Partner in the UK Transaction Services business since 2004. Along with a strong client focus, Ken has been the Chief Operating Officer for Deals and People Leader for Transaction Services. As UK Deals Leader, Ken leads and is responsible for, our Transaction Services, Corporate Finance, Forensics and Restructuring businesses.

Management Board FY19 Meeting Attendance

<table>
<thead>
<tr>
<th></th>
<th>Length of service</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kevin Ellis</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Marco Amitrano</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Jon Andrews</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Kevin Burrowes</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Margaret Cole</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Laura Hinton</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Hemione Hudson</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Warwick Hunt</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Kevin Nicholson*</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Dan Schwarzmann</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Paul Terrington</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Marissa Thomas</td>
<td>1 year, 11 months</td>
<td>14</td>
<td>10</td>
</tr>
</tbody>
</table>

A = Number of meetings held in the year
B = Number of meetings actually attended.

*Kevin Nicholson was appointed to the Management Board until 1 July 2019. Sam Samaratunga and Ken Walsh were appointed to the Management Board on 1 July 2019.
The Supervisory Board

The following partners are all members of the Supervisory Board

1 Chris Burns* – Chair (elected to the SB on 01 January 2017, elected as Chair of the SB on 18 January 2019)
Chris was elected Chair of the Supervisory Board from 18 January 2019, became Chair of the Alliance Supervisory Board on 9 May 2019, is a member of the Talent and Remuneration Committee and also a member of the firm’s Public Interest Body. He is an Audit partner based in London with lead responsibility for a portfolio of listed clients, having joined the firm in 1992 and becoming a partner in 2005. Chris was formerly Deputy Chair of the Supervisory Board, Chair of the Strategy and Governance Committee and a member of the Audit and Risk Committee until 31 December 2018.

2 Dave Allen* (initially elected to the SB on 01 January 2013)
Dave is a Consulting global relationship partner with experience in the TMT, energy and government sectors in London. He joined the firm in 1989 and became a partner in 1997. He is a member of the PwC Middle East Board, Partner Affairs Committee and Talent and Remuneration Committee. Dave was re-elected onto the Supervisory Board on 1 January 2017 and was a member of the Strategy and Governance Committee until 31 December 2018.

3 Glen Babcock (elected to the SB on 01 January 2019)
Glen is a Deals partner in Business Recovery Services with experience in legal entity and operational restructuring, cost reduction and cash generation. Glen works with local and international clients across all sectors and industries. He joined the firm in San Francisco in 1993 and became a partner in the UK in 2007. Glen was elected to the Supervisory Board on 1 January 2019 and was appointed Chair of the Country Admissions Committee on 5 February 2019 and is also a member of the Partner Affairs Committee and Talent and Remuneration Committee.

4 Pauline Campbell (initially elected to the SB on 01 January 2010)
Pauline is an Audit partner in Audit Risk & Quality. She joined the firm in 1985 and became a partner in 1996. She became a member of the Global Board, the body responsible for the governance of the PwC Network, in April 2017. Pauline was a member of the Audit and Risk Committee until 31 December 2018.

5 Stuart Hatcher (elected to the SB on 01 January 2019)
Stuart is a solicitor and partner within PwC’s legal business. He first joined the firm in 1999, leaving in 2004 and re-joining in 2007. He became a partner in PwC’s then legal business in 2013 and formally a partner in PwC LLP in 2016 when the legal business was combined with PwC LLP. He was elected to the Supervisory Board with effect from 1 January 2019 and is a member of the Audit Committee and the Risk Committee.

6 David Kenmir* (elected to the SB on 08 May 2019)
David is a Risk Assurance partner specialising in the authorisation and operationalisation of new Bank start-ups. He is a member of PwC’s Financial Services Risk and Regulation practice. He joined the firm in 2010 and became a partner in 2011. He was elected to the Supervisory Board on 8 May 2019 and is a member of the Audit Committee and Partner Affairs Committee.

7 Andy Key (elected to the SB on 01 January 2019)
Andy is a Consulting partner with experience primarily across aerospace, defence and security clients in the public and private sector. He was part of PwC’s management consulting practice from 1995-2000, spent five years growing technology start-up businesses, then rejoined the firm in 2005. Andy was admitted to the partnership in 2009 and is now a member of our Government & Public Sector leadership team with a range of client and market responsibilities. He was elected to the Supervisory Board from 1 January 2019 and is a member of the Audit Committee and Risk Committee.

8 Bill MacLeod (initially elected to the SB on 01 January 2015. Stepped down from the SB on 31 December 2018)
Bill is the Ethics Partner and Partner Responsible for Independence. He joined the firm in 1983 and became a partner in 1995. Bill was Chair of the Audit & Risk Committee and also a member of the Partner Affairs Committee and Talent and Remuneration Committee to 31 December 2018 when he retired from the Supervisory Board.
9 John Minards (elected to the SB on 01 January 2017. Stepped down from the SB on 2 April 2019)
John is an Audit partner in St Albans. He joined the firm in 1984 and became a partner in 1996. He is a practising audit partner, having served clients across the whole spectrum of our portfolio from FTSE 100 and Mid Cap, private companies, private equity, public sector and inbound. John currently leads Private Business as a growth priority for the firm. John was Protector of the PwC Channel Island partners from 1 January 2019 to 2 April 2019, was a member of the Partner Affairs Committee and was appointed Chair of the Audit Committee on 5 February 2019 until 2 April 2019. John stepped down from the Supervisory Board on 2 April 2019.

10 Mary Monfries* (elected to the SB on 01 January 2017)
Mary is a Tax partner in London. She joined the firm in 1989 and became a partner in 2005. She was a member of the firm's tax leadership team for eight years, firstly as Market Leader for Private Business and then leading across the firm's tax practice on policy, reputation and regulation. She now leads the UK firm's Private Client practice and leads our thinking on tax reputation for PwC's global tax network. She has always retained a client-facing relationship partner role alongside her leadership responsibilities, focussing primarily on private business owners, families and trustees. She joined the Supervisory Board on 1 January 2017 and is Chair of the Talent and Remuneration Committee and was appointed Deputy Chair of the Supervisory Board on 5 February 2019. Mary was also a member of the Strategy and Governance Committee until 31 December 2018.

11 Teresa Owusu-Adjei* (elected to the SB on 01 January 2017)
Teresa is a Tax partner in London and is the Clients and Markets leader for Financial Services Tax. She joined the firm in 1995 and became a partner in 2008. Teresa joined the Supervisory Board on 1 January 2017 and was formerly the Supervisory Board engagement and communication leader and also a member of the Partner Affairs Committee. Teresa was appointed Chair of the Partner Affairs Committee on 5 February 2019.

12 Zafar Patel* (elected to the SB on 01 January 2017)
Zafar is a Tax partner in London specialising in deals, infrastructure and restructuring. He joined the firm in 1989 and became a partner in 2001. Zafar joined the Supervisory Board on 1 January 2017. Zafar is a member of the Risk Committee and became Protector of the PwC Channel Islands partners from 2 April 2019. Zafar was a member of the Strategy and Governance Committee until 31 December 2018.

13 Nick Rea (elected to the SB on 01 January 2019. Stepped down from the SB on 08 May 2019)
Nick is a Deals partner in London and leads the Valuations practice. He joined the firm in 1992 and became a partner in 2006. He joined the Supervisory Board on 1 January 2019 and he was a member of the Audit Committee and Risk Committee until 8 May 2019 when he stepped down from the Supervisory Board in order to become the Chief Risk Officer in the Middle East firm.

14 Anne Simpson – Chair (elected to the SB on 01 January 2015. Stepped down from the SB on 31 December 2018)
Anne was Chair of the UK Supervisory Board and the Alliance Supervisory Board until 18 January 2019 when she retired from the Supervisory Board. She was an Assurance partner in London Banking & Capital Markets where she was a senior regulatory partner. She joined the firm in 1981 and became a partner in 1993. Anne joined the Supervisory Board on 1 January 2015 and was also a member of the Senior Management Remuneration Group and the firm's Public Interest Body until 31 December 2018. Anne retired from the firm on 30 June 2019.

15 Duncan Skailes (initially elected to the SB on 01 January 2007)
Duncan is a Deals partner in London. He joined the firm in 1987 and became a partner in 1999. Duncan joined the Supervisory Board in April 2017 when he became a member of the Global Board, the body responsible for the governance of the PwC Network, and is a member of the PwC Middle East Board. He was a member of the Strategy and Governance Committee until 31 December 2018.

16 Jim Stidham (elected to the SB on 01 January 2015. Stepped down from the SB on 31 December 2018)
Jim was a Tax partner in London specialising in Global Mobility. He joined the firm in 1983 and became a partner in 1996. Jim retired from the firm, Supervisory Board, Audit and Risk Committee, Partner Affairs Committee and stepped down from the Protector of the PwC Channel Island partners on 31 December 2018.
Heather Swanston (elected to the SB on 01 January 2015. Stepped down from the SB on 31 December 2018)

Heather is a Deals partner in Business Recovery Services in London where she leads the Refinancing and Restructuring team and is a member of the Business Recovery Services Executive. She joined the firm in 1988 and became a partner in 2002. She was Chair of the Partner Affairs Committee until 31 December 2018 when she retired from the Supervisory Board.

Lorna Ward (elected to the SB on 01 January 2019)

Lorna is a Consulting partner specialising in Retail and Consumer Products industries based in Bristol. She joined the firm in 2011 and became a partner in 2015. She joined the Supervisory Board on 1 January 2019 and is a member of the Partner Affairs Committee and was appointed the SB engagement and communications leader on 5 February 2019.

Kenny Wilson (elected to the SB on 04 April 2019)

Kenny is an Audit partner with experience of working with both listed and privately owned companies and is Office Senior Partner in Glasgow. He joined the firm in 1993 and became a partner in 2007. Kenny joined the Supervisory Board on 2 April 2019 and was appointed Chair of the Audit Committee and is a member of the Risk Committee.

Kate Wolstenholme (elected to the SB on 01 January 2019)

Kate is an Audit partner based in London. Kate leads our Law Firms Advisory Group and has a particular focus on professional partnerships. She joined the firm in 1991 and became a partner in 2011. Kate joined the Supervisory Board on 1 January 2019, was appointed Chair of the Risk Committee on 5 February 2019, and is also a member of the Audit Committee and the firm’s Public Interest Body.

Kevin Ellis (elected to the SB as Alliance Senior Partner on 01 July 2016)

The Senior Partner also sits on the Supervisory Board (as an ex officio member).

Kate Wolstenholme †

†Kevin Ellis is appointed as an ex officio SB member and does not typically attend SB meetings convened on an ad hoc basis.

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Supervisory Board FY19 Meeting Attendance

<table>
<thead>
<tr>
<th>Name</th>
<th>Length of service</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chris Burns</td>
<td>2 years, 6 months</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Dave Allen</td>
<td>6 years, 6 months</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Glen Babock</td>
<td>6 months</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Pauline Campbell</td>
<td>9 years, 6 months</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Stuart Hatcher</td>
<td>6 months</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>David Kenmir</td>
<td>2 months</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Andy Key</td>
<td>6 months</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Bill MacLeod</td>
<td>4 years</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>John Minards</td>
<td>2 years, 3 months</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Mary Monfries</td>
<td>2 years, 6 months</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Teresa Owusa-Adjei</td>
<td>2 years, 6 months</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Zafar Patel</td>
<td>2 years, 6 months</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Nick Rea</td>
<td>4 months</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Anne Simpson</td>
<td>4 years</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Duncan Skales</td>
<td>8 years, 2 months</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Jim Stidham</td>
<td>4 years</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Heather Swanston</td>
<td>4 years</td>
<td>7</td>
<td>6</td>
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<tr>
<td>Lorna Ward</td>
<td>6 months</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Kenny Wilson</td>
<td>3 months</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Kate Wolstenholme</td>
<td>6 months</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Kevin Ellis †</td>
<td>3 years</td>
<td>15</td>
<td>11</td>
</tr>
</tbody>
</table>

A = Maximum number of formal meetings which could have been attended. In addition to this number, there were a further six meetings held solely for the purpose of considering certain partner matters. There were also two informal joint meetings held with the PIB.

B = Number of meetings actually attended.
Public Interest Body (PIB)
The Public Interest Body (PIB) comprises Independent Non-Executives and, as at 30 June 2019, four representatives from the firm (two from the Management Board and two from the Supervisory Board).

1 Lord Gus O’Donnell
Lord Gus 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. 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. In 2014 he chaired a group which produced a report for the Legatum Institute on Wellbeing and Policy. He became President of the Institute of Fiscal Studies in 2016 and Chairman of the Trustees of Pro Bono Economics. He is honorary fellow of the British Academy and a fellow of the Academy of Social Sciences.

2 Samantha Barrass
Samantha Barrass was appointed on 2 Samantha Barrass 10 years with the Financial Services Commission and has been a Director at the London Investment Banking Association.

Samantha began her working career at the Reserve Bank of New Zealand as an economist focusing on monetary policy strategy and economic reform.

3 Sir Ian Gibson
Sir Ian is Chairman of Norbrook Laboratories Ltd. Previously his 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.

4 Dame Fiona Kendrick
Fiona Kendrick was appointed 1 July 2019. She became Chairman of Nestlé UK and Ireland on 1 July 2017, having previously served as Chairman and CEO from 2012. From January 2015 to December 2016 Fiona was President of the Food and Drink Federation. In the 2015 New Year’s Honors’ list Fiona was created Dame Commander of the British Empire for services to the food industry and support for skills and opportunities for young people. In recognition of this, Fiona was awarded an honorary degree by Sheffield Hallam University in 2015, followed by a further honorary degree from York University in 2017. In January 2017 Fiona was appointed as Deputy Chair of the Institute for Apprenticeships Board and in January 2018, appointed to Chair the new University of Hereford for Engineers. Fiona has also been awarded the Chartered Management Institute Gold Medal for Leadership 2017.

5. Justin King
Justin King stepped down as CEO of Sainsbury’s 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, a member of the Prime Minister’s Business Advisory Group from 2010–2012 and Justin acted as interim Chairman of Manor Marussia F1 Team from 2014-2015, reflecting a lifelong interest in the sport. In October 2015 Justin joined Terra Firma Capital Partners, the leading private equity firm, as Vice Chairman and Head of Portfolio Businesses. Justin became a non-executive director of Marks and Spencer Group plc in January 2019 and was appointed as a senior adviser by Atrato Capital, the Investment Advisor to Supermarket Income REIT Plc, in March 2019.

6. Paul Skinner CBE
Paul Skinner recently completed a 5 year term as Chairman of Defence Equipment and Support, a trading entity within the Ministry of Defence responsible for defence procurement and related support activities, and was a member of the Defence Board of MoD. 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 and of Infrastructure UK, H.M. Treasury. He has held non-executive roles on the boards of Standard Chartered plc, Air Liquide S.A., and the Tetra Laval Group.
### Public Interest Body FY18 Meeting Attendance

<table>
<thead>
<tr>
<th>Length of service</th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lord Gus O’Donnell – INE</td>
<td>4 years, 11 months</td>
<td>5</td>
</tr>
<tr>
<td>Samantha Barrass – INE</td>
<td>1 year</td>
<td>5</td>
</tr>
<tr>
<td>Sir Ian Gibson CBE – INE</td>
<td>8 years, 8 months</td>
<td>5</td>
</tr>
<tr>
<td>Justin King CBE – INE</td>
<td>5 years</td>
<td>5</td>
</tr>
<tr>
<td>Paul Skinner CBE – INE</td>
<td>8 years, 8 months</td>
<td>5</td>
</tr>
<tr>
<td>Kevin Ellis</td>
<td>3 years</td>
<td>5</td>
</tr>
<tr>
<td>Chris Burns</td>
<td>4 months</td>
<td>2</td>
</tr>
<tr>
<td>Pauline Campbell</td>
<td>8 years</td>
<td>4</td>
</tr>
<tr>
<td>Anne Simpson</td>
<td>2 years, 5 months</td>
<td>3</td>
</tr>
<tr>
<td>Hemione Hudson</td>
<td>1 year, 10 months</td>
<td>5</td>
</tr>
<tr>
<td>Kate Wolstenholme</td>
<td>4 months</td>
<td>1</td>
</tr>
</tbody>
</table>

A = Number of formal meetings held in the year.
B = Number of meetings attended.

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1. Kevin Ellis (from July 2016)
2. Hemione Hudson (from 5 August 2017)
3. Chris Burns was appointed to the PIB on 5 February 2019
4. Kate Wolstenholme was appointed to the PIB on 20 February 2019
5. Anne Simpson stepped down from the PIB on 31 December 2018
6. Pauline Campbell stepped down from the PIB on 20 February 2019

### PIB – INE appointment process

The Independent Non-Executives are nominated by the Senior Partner and approved by the Supervisory Board. Each INE has a letter of appointment that sets out their rights and duties. The Senior Partner and Supervisory Board respectively decide which members of the Management and Supervisory Boards will sit on the Public Interest Body. Terms of office for the INEs are not coterminous, to facilitate rotation in future years. No INE may hold office for more than nine years in aggregate.

Each INE letter of appointment includes obligations and restrictions on the INEs in order to ensure they remain independent of the firm. In developing these conditions, the firm considered the Audit Firm Governance Code, issued by the Financial Reporting Council, and the FRC’s Ethical Standard, as well as considering what a reasonable third party would expect of an Independent Non-Executive.

Each INE has to go through a thorough independence check and clearance process before they can be appointed. Under the letter of appointment, no INE can be a director, or hold a material financial interest, in a restricted client of the firm. Each INE must confirm compliance with this letter of appointment in respect of their financial, business and personal relationships before being appointed and, thereafter, annually.
Appendix 3

Committees of the Management Board

The executive structure of the UK firm primarily comprises of a Management Board consisting of members of the Executive Board and Clients and Markets Executive, responsible for policies, strategy, direction and management of the UK firm.

The Management Board is assisted by:

- An Executive Board (a Committee of the MB) responsible for execution of the policies, strategy and management of the UK firm;
- An Executive Risk Committee (a Committee of the MB) responsible for establishing a risk framework, overseeing and challenging the management of risk across PwC UK;
- A Clients and Markets Executive (a Committee of the MB) responsible for overseeing the UK firm’s client facing and market activities;
- An International Committee (a Committee of the MB) responsible for decision making in relation to and oversight of the UK firm’s strategic alliances (currently Africa, Central and Eastern Europe and Middle East), matters relating to regionalisation and/or EMEA and approval of any matters on behalf of the MB relating to network issues;
- An Investment Committee (a Committee of the MB) whose purpose is to conduct acquisitions, joint ventures, disposals and investments to support the growth of the firm i.e. the strategic technology portfolio and similar commercial deals;
- A Partner Matters Committee (a Committee of the MB) responsible for certain Partner HR matters on behalf of the MB; and
- A Client Committee (a Committee of the CME), which considers engagement or client acceptance decisions that carry significant risks to the firm or that relate to particularly sensitive or confidential circumstances, including commercial and other conflicts.

The Strategic Change Committee (a Committee of the MB) responsible for the strategic change programmes on behalf of the MB was dissolved on 31 December 2018. From 1st January 2019, responsibility for the strategic change programmes was taken on by the Executive Board.
Committees of the Supervisory Board

There are four committees of the Supervisory Board: the Audit Committee, the Risk Committee, the Partner Affairs Committee, and the Talent & Remuneration Committee.

Audit Committee

The Audit Committee assists the Supervisory Board in fulfilling its legal and fiduciary obligations with respect to matters involving the external audit, internal controls, internal audit and financial reporting functions of the firm. This includes monitoring the effectiveness and independence of the firm’s statutory auditor as well as the statutory auditor’s reappointment, remuneration and engagement terms, and the policy in relation to, and provision of, non-audit services. In addition, the Audit Committee reviews the effectiveness of the firm’s internal control framework; the scope, results and effectiveness of the firm’s internal audit function; the integrity of the Group’s Financial Statements and digital annual report and the significant reporting judgements contained in them; and the firm’s Transparency and Sustainability reports.

Risk Committee

The Risk Committee reviews management’s risk framework, assessment and recommendations on enterprise wide risks including financial, operational and reputational risk. Amongst other responsibilities, this includes reviewing the risk framework, policies and procedures within the context of the firm’s strategy; reviewing the firm’s approach to Audit Quality and Non-Audit Services Quality; and overseeing the effectiveness of the firm’s whistleblowing procedures.

Partner Affairs Committee

The Partner Affairs Committee ensures that all partners are treated fairly, which includes monitoring and overseeing the annual partner income moderation process, reviewing partner medical provision, development, changes to benefits, flexible working and diversity. It also ensures that appropriate processes and procedures are in place to provide robust governance, including for direct partner admissions, the retired partner programme and involuntary retirements.

Talent & Remuneration Committee

The Talent & Remuneration Committee reviews the remuneration, talent development and, where appropriate, succession plans for the T&RC population. The T&RC population comprises the UK Senior Partner, members of the Management Board, and any UK partners on the Global Leadership Team or EMEA Leadership Team.
Additional information regarding our internal monitoring processes

(i) Quality Management for Service Excellence (QMSE) review
The PwC Network has established a quality management approach to each member firm’s self-evaluation of quality. This involves the setting of Quality Objectives by the network, supplemented as necessary by the member firm. A risk assessment is then performed by the member firm, identifying and assessing all quality risks that might prevent the quality objective from being achieved. Design effectiveness and operating effectiveness of identified responses to risks that are present within the business are then evaluated as necessary as part of the member firm’s self-evaluation. Where additional responses are necessary, they are raised with the relevant functional area leader to be established. This allows the member firm to conclude with reasonable assurance on the ability for their system of quality management to deliver quality assurance engagements.

(ii) Engagement Compliance Reviews (ECR)
The key features of the annual ECR programme are:
- a cold 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 significant deficiencies are identified;
- adverse findings, and exceptional quality, are taken into consideration in determining the reward and promotion of engagement leaders; and
- the results are reported to the Assurance Executive, the Public Interest Body, and to PwCIL. The Financial Reporting Council also obtain these results as part of their annual inspection.

(iii) Quality Management Review (QMR)
Each PwC Network firm completes their internal monitoring procedures, the ECR and QMSE, annually. These processes are then reviewed annually by the PwC Network as part of the Quality Management Review (QMR) programme.
A full QMR is performed every three years with a targeted update being performed in both of 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 subject to a full QMR in 2017, and was subject to a targeted QMR in 2018 and 2019. Whilst the most recent targeted QMR identified a few improvements that we could make to systems, none of these were assessed as likely to lead to engagements not being compliant with relevant standards.

Each engagement reviewed is assessed using the following categories:
- ‘Best in class’ – All relevant auditing, assurance, accounting and professional standards have been complied with in all material respects, and key aspects of the work made the engagement stand out from others as an example of best practice that the Quality Review Leader wishes to recognise.
- ‘Compliant’ – 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 relating to a significant account or area not performed or not documented substantially in accordance with standards, but it is determined that due to the audit evidence in other sections of the archived workpapers no additional procedures are required to be performed;
  - assurance procedures that failed to detect a departure from applicable accounting standards that was considered both quantitatively and qualitatively insignificant; and
evaluation of control weaknesses was not performed substantially in accordance with professional standards, but the impact was not considered to be sufficiently significant to require modification to the audit report on internal control over financial reporting if applicable and/or adequate consideration was not given to any necessary modifications to the substantive approach applied due to the control weaknesses;

- but in all cases, sufficient audit work has been performed in all other respects.

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

In the case of a best in class engagement, the root cause analysis process described in section 11 seeks to understand the key factors present that led to this success, with an aim to promoting facilitation of these success factors in other engagements. There is a mechanism to ensure this engagement’s success is recognised as part of key personnel’s annual performance appraisals.

In the case of a non-compliant engagement, follow up reviews are undertaken immediately, the engagement leader will be reviewed again in the subsequent year’s ECR and there are financial implications for the individual Engagement Leader. Following root cause analysis, consideration is also given as to whether additional support, training or monitoring of the engagement leader is required.

The circumstances giving rise to non-compliant findings are also considered in order to assess whether additional work is needed to support the report, or if the auditor’s report needs to be withdrawn.

For engagements which were found Compliant with Review Matters, the engagement leader is included in the following year’s ECR, and may also lead to financial implications depending on that engagement leader’s previous track record.

Following root cause analysis, an action plan is developed to respond to significant matters arising from the ECR, and to promote the facilitation of identified “best in class” success factors in other engagements. Specific individuals are made responsible for implementing the action plan within agreed time frames. The action plan is monitored by the Audit Risk and Quality leadership, the Audit Executive and the Public Interest Body, 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 fortnightly technical update emails. We also issue additional or revised guidance to assist teams, where we consider this is necessary. This is reinforced by designated partners and champions in each business unit using a variety of mechanisms including breakfast briefings and group meetings.

**(iv) The Member Firm Report**

A Member Firm Report is prepared annually by the international team leader assigned to PwC UK. 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 FY18 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 June 2019 Member Firm Report will be issued in October 2019 to the head of Audit, the Audit Risk and Quality leader, the governance bodies of the firm, and PwCIL. The Financial Reporting Council also read the Member Firm Report as part of their annual inspection.
Learning and development of our people

We set out below how our people learn and develop through:

• practical experience and coaching;
• formal learning;
• informal learning and personal responsibility;
• maintaining capabilities and technical competence; and
• career development.

(i) Practical experience and coaching

We recognise that learning from others as part of performing our day-to-day roles is incredibly powerful. We deploy people to engagements and projects to support continuous development. Each engagement leader is responsible for building a team to ensure partners and staff have appropriate professional competence and experience, and also to provide growth opportunities with coaching and supervision.

(ii) Formal learning

Our PwC Professional career progression framework underpins a training curriculum which provides a wealth of opportunities for our people to learn and develop. Our formal audit curriculum represents a development journey which starts with induction and onboarding activities when an individual joins the firm and continues throughout their career, tailored to the grade, role and experience. Our annual training programmes run for a calendar year to match the typical audit cycle, and the training curriculum includes talent and milestone programmes as well as mandatory and non-mandatory technical and business skills training programmes.

In the year to 31 December 2018, our annual mandatory audit update training for qualified audit staff comprised remote access training and classroom training. The remote access training allowed messages to be delivered in a timely manner and included an innovative interactive online simulation tool. The simulation was designed to focus on effective team work, which is critical as our operating model and ways of working continue to evolve, and empowering staff to get the right answer even when experiencing push back. It put the learner at the heart of a number of challenging scenarios, providing real time feedback on the decisions that they make.

As part of the package of measures designed to ensure that the firm delivers consistently high quality audits the firm has committed to make further significant additional investment in training as outlined in the Programme to Enhance Audit Quality. The 2019 audit update programme includes a two day residential classroom event in summer 2019, with a further one day of classroom training in local Business Units in autumn 2019. This classroom training is again supplemented by additional remote access training that delivers timely messages throughout the year. As referenced in our Programme to Enhance Audit Quality, we are also investing in other areas of training. For example, the training requirements for our Experienced Hires are being refined and made more specific for each individual joiner to reflect the increase and variety of entry routes to the firm.

(iii) Informal learning and personal responsibility

We encourage our partners and staff to complete additional non-mandatory training based on their own individual needs. This includes technical training and non-technical training. In 2018 we launched Vantage, our new enhanced learning system. It provides a personalised, holistic learning experience, from the initial search through to managing and tracking learning. As well as accessing all content hosted on our internal learning management system it allows all learners to access other curated content, create and share playlists with others, and actively manage their learner pathway and training. Vantage supports our culture of continuous development and encourages individuals to take personal responsibility for their learning. Much of the training, including the professional skills curriculum which continues to be available for all staff, is mobile-enabled and can be completed at any time and when on the move.
(iv) Maintaining capabilities and technical competence

Our training practices to develop and maintain capabilities and technical competence include:

- all partners and staff complete annual risk and quality update training spanning matters relating to compliance, independence and ethics;
- all partners and staff confirm that they have complied with the firm’s development policy within the general annual confirmation including completing and retaining appropriate records; any exceptions are investigated;
- all relevant partners and staff are required to complete a learner profile to identify their individual annual mandatory technical training requirements based on the experience, grade and role;
- the consideration of training needs on an on-going basis. We release guidance and/or training materials as appropriate throughout the year. This allows us to respond to emerging performance gaps promptly when they are identified;
- the provision of a mandatory technical training programme which comprises both foundation and update training as well as specific training for auditors of US PCAOB or AICPA and industry clients.
- monitoring the completion of mandatory training. Failure to complete mandatory training by set deadlines results in disciplinary steps being taken which can ultimately lead to dismissal from the firm;
- reviewing the training curriculum for compliance with PwC network standards;
- equipping our tutors with effective instructor skills and having processes in place to measure the effectiveness of our training; and
- the assessment of our programmes through a number of evaluation techniques.

(v) Career development

The learning that comes from on-the-job experience, coaching and training programmes 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 Career Coach assigned to them, who supports them with career planning and development. The Career Coach supports individuals through the performance management process; reflecting on feedback received; understanding their individuals’ unique strengths and areas for development; and exploring opportunities for growth and progression.

The Career Coach is a critical role, recognised in 2018 when all Career Coaches were invited to attend a bespoke one day event that focused on equipping them to confidently lead people through change.

All employees also have access to an in house Careers Service. The Careers Service consists of a team of professional coaches who provide impartial, confidential and personalised careers support and coaching. The service is accessible to anyone in the firm, up to and including Director. This service will typically offer individual employees the opportunity to explore how an individual can enrich their current role, gain an insight into other opportunities, work towards promotion or through a transitional phase of their career, or discuss how to overcome personal barriers that may hinder their progression. The service also provides CV and Interview support.
List of EU and EEA member state statutory auditors that are members of the PwC network as at 30 June 2019

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<tr>
<th>Member State</th>
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<td>Austria</td>
<td>PwC Wirtschaftsprüfung GmbH, Wien</td>
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M. Philippe Aerts
M. Jean-François Bourrin
M. Jean-Laurent Bracieux
M. Didier Brun
Expertise et Audit Lafarge
M. Pierre Blanquart
Mme Elisabeth L'Hermite
M. François Miane
M. Yves Moutou
M. Claude Palméro
M. Pierre Pégaz-Fiornet
M. Antoine Priollaud
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<td>James Chalmers</td>
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<td>Katharine Finn</td>
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## List of Public Interest Entities

Below is a list of EU public interest entities (as defined in EU Directive 2014/56/EU) for which we carried out statutory audits (i.e. issued an audit report) between 1 July 2018 and 30 June 2019.

<table>
<thead>
<tr>
<th>Entity Name</th>
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<tr>
<td>4IMPRINT GROUP PLC</td>
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HUNTSWORTH PLC
HYDE HOUSING ASSOCIATION LIMITED
ICG ENTERPRISE TRUST PLC
IG GROUP HOLDINGS PLC
IMPERIAL BRANDS FINANCE PLC
IMPERIAL BRANDS PLC
INDIVIOR PLC
INTEGRATED ACCOMMODATION SERVICES PLC
INTERNATIONAL BIOTECHNOLOGY TRUST PLC
INTERTEK GROUP PLC
INTU (SGS) FINANCE PLC
INTU DEBENTURE PLC
INTU METROCENTRE FINANCE PLC
INTU PROPERTIES PLC
INVECSO PENSIONS LIMITED (FORMERLY INVECSO PERPETUAL LIFE LIMITED)
ITAU BBA INTERNATIONAL PLC
J.P. MORGAN EUROPE LIMITED
J.P. MORGAN SECURITIES PLC
JARDINE LLOYD THOMPSON GROUP PLC
JOHNSON MATTHEY PLC
JPMORGAN ASIAN INVESTMENT TRUST PLC
JPMORGAN CHINESE INVESTMENT TRUST PLC
JPMORGAN EMERGING MARKETS INVESTMENT TRUST PLC
JPMORGAN EUROPEAN SMALLER COMPANIES TRUST PLC
JPMORGAN GLOBAL GROWTH & INCOME PLC
JPMORGAN INDIAN INVESTMENT TRUST PLC
JPMORGAN JAPANESE INVESTMENT TRUST PLC
JPMORGAN LIFE LIMITED
JPMORGAN MID CAP INVESTMENT TRUST PLC
JPMORGAN MULTI-ASSET TRUST PLC
JUPITER FUND MANAGEMENT PLC
JUPITER US SMALLER COMPANIES PLC
KEYSTONE INVESTMENT TRUST PLC
KIER GROUP PLC
KINDRED GROUP PLC
KINGDOM BANK LIMITED
KINGSWOOD MORTGAGES 2015-1 PLC
LADBROKES GROUP FINANCE PLC
LANGTON SECURITIES (2008-1) PLC.
LANGTON SECURITIES (2010-1) PLC
LINGFIELD 2014 I PLC
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LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED
LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED
LIVERPOOL VICTORIA LIFE COMPANY LIMITED
LLOYDS BANK CORPORATE MARKETS PLC
LLOYDS BANK GENERAL INSURANCE LIMITED
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<td>VESUVIUS PLC</td>
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Appendix 8

Major local audits

Below is a list of Major Local Audits for which we carried out statutory audits (i.e. issued an audit report) between 1 July 2018 and 30 June 2019, and also in the period 1 July 2017 to 30 June 2018

UNITED LINCOLNSHIRE HOSPITALS NHS TRUST
Appendix 9

AC – Audit Committee
A&RC – Audit and Risk Committee
AFGC – Audit Firm Governance Code
AICPA – American Institute of Chartered Public Accountants
AQR – Audit Quality Review team of the FRC
Assurance – the line of service responsible for delivering assurance including audit, risk assurance, capital markets work and actuarial services.
Assurance Services – assurance services include statutory audits, non-statutory audits, local audits under the Local Audit and Accountability Act 2014, ISAE 3000 (Revised), ISAE 3402, and certain Capital Markets transaction work.
ATOL – Air Travel Organiser’s Licence
BAME – Black, Asian and Minority Ethnic
CMA – Competition and Markets Authority
CME – Clients and Markets Executive
The Code – the PwC UK Code of Conduct
CRAG – Company Reporting and Auditing Group
Crowe – Crowe UK LLP, PricewaterhouseCoopers LLP’s statutory auditor
EB – Executive Board
ECR – Engagement Compliance Review
ERC – Executive Risk Committee
ERP – Enterprise Resource Planning
Ethical Standard – the Ethical Standard issued by the FRC in June 2016
The firm – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales
FPI – Foreign Private Issuer
FRC – Financial Reporting Council
GB – the Global Board of PricewaterhouseCoopers International Limited
GDPR – EU General Data Protection Regulation
GLT – Global Leadership Team
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
IESBA – International Ethics Standards Board for Accountants
IFRS – International Financial Reporting Standards
INE – Independent Non-Executive (as described in the AFGC)
ISAs (UK) – International Standards on Auditing (UK)
ISQC (UK) 1 – International Standards on Quality Control (UK) 1: ‘Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements’
KPI – Key Performance Indicator
MB – Management Board
NAMG – Network Assurance Methodology Group
NET – Network Executive Team
NLT – Network Leadership Team
NSEC – National Students Employability Challenge
PAC – Partner Affairs Committee
PCAOB – Public Company Accounting Oversight Board of the United States of America
PEAQ – Programme to Enhance Audit Quality
PIB – Public Interest Body
PMC – Partner Matters Committee
The Policy and Reputation Group (the PRG) – 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 (or PwC 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 2019 – The PricewaterhouseCoopers LLP Members’ report and financial statements for the year ended 30 June 2019, which can be found at 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
QMR – Quality Management Review
QMSE – Quality Management for Service Excellence
QRP – Quality Review Partner
RC – Risk Committee
RIs – 'Responsible Individuals' are the individuals in the firm allowed to sign audit reports
SB – Supervisory Board
SEC – Securities and Exchange Commission of the United States of America
SOPS – Statements Of Permitted Services
T&RC – Talent and Remuneration Committee
'us' – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales
'we' – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales
## Appendix 10

### Audit Firm Governance Code

This Transparency Report’s compliance with the Audit Firm Governance Code has been set out below with details of relevant disclosures are made that comply with each individual principle and provision of the Code.

<table>
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<tr>
<th>Principles and Provisions of the 2016 AFGC</th>
<th>Where information on how the principles and provisions have been addressed can be located</th>
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</thead>
<tbody>
<tr>
<td><strong>A.1 Ownership accountability principle</strong>&lt;br&gt;The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.</td>
<td>Governance structure and leadership – section 1</td>
</tr>
<tr>
<td><strong>A.1.1</strong> The firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of the management team.</td>
<td>Governance structure and leadership – section 1</td>
</tr>
<tr>
<td><strong>A.1.2</strong> The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code’s purpose is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of the audit is undertaken and the Code’s purpose achieved in the UK.</td>
<td>Governance structure and leadership – section 1</td>
</tr>
<tr>
<td><strong>A.1.3</strong> The firm should state in its transparency report the names and job titles of all members of the firms’ governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year and relevant biographical details.</td>
<td>Governance structure and leadership – section 1; and Appendix 2</td>
</tr>
<tr>
<td><strong>A.1.4</strong> The members of a firm’s governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.</td>
<td>Governance structure and leadership, including the governance review update – section 1</td>
</tr>
<tr>
<td><strong>A.2 Management Principle</strong>&lt;br&gt;A firm should have effective management which has responsibility and clear authority for running the firm.</td>
<td>Governance structure and leadership – section 1</td>
</tr>
<tr>
<td><strong>A2.1</strong> Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm’s website.</td>
<td>Governance structure and leadership – section 1</td>
</tr>
<tr>
<td><strong>B.1 Professionalism Principle</strong>&lt;br&gt;A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behavior in a way that properly takes the public interest into consideration and meets auditing and ethical standards.</td>
<td>The way we do business – section 4; Relevant ethical requirements – section 5</td>
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<td><strong>B1.1</strong> The firm’s governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm’s public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm’s policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.</td>
<td>Introduction from the Chairman and Senior Partner Pg 1; Update from the Chair of the Public Interest Body – Pg 3; and Governance – section 1</td>
</tr>
<tr>
<td><strong>B1.2</strong> Firms should introduce KPI’s on the performance of their governance system and report on performance against these in their transparency reports.</td>
<td>Compliance with the AFGC – Pg 19</td>
</tr>
<tr>
<td><strong>B1.3</strong> The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The board and independent non-executive should oversee compliance with it.</td>
<td>The way we do business – section 4; and Professional conduct – section 7</td>
</tr>
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<td><strong>B2 Governance Principle</strong>&lt;br&gt;A firm should publicly commit itself to this Audit Firm Governance Code.</td>
<td>Governance – section 1</td>
</tr>
<tr>
<td><strong>B2.1</strong> The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct.</td>
<td>Governance – section 1; and Professional conduct – section 7</td>
</tr>
<tr>
<td><strong>B3 Openness Principle</strong>&lt;br&gt;A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration.</td>
<td>Update from the UK Head of Assurance – Pg 7; and Consultation and support – section 10</td>
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<td>Principles and Provisions of the 2016 AFGC</td>
<td>Where information on how the principles and provisions have been addressed can be located</td>
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<tr>
<td>C1 Involvement of independent non-executive principle</td>
<td>Update from the Chair of the Public Interest Body – Pg 3</td>
</tr>
<tr>
<td>C1.1 Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matters relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risks to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.</td>
<td>Update from the Chair of the Public Interest Body – Pg 3; and Appendix 2</td>
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<tr>
<td>C1.2 The firm should disclose on its website or in its transparency report information about the appointment, retirement and resignation of independent non-executives, their remuneration, their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way that it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.</td>
<td>Update from the Chair of the Public Interest Body – Pg 3; and Remuneration of partners and Independent Non-Executives – section 20</td>
</tr>
<tr>
<td>C1.3 The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the code as defined as: – Promoting audit quality; – Helping the firm secure its reputation more broadly, including in its non-audit businesses; – Reducing the risk of firm failure.</td>
<td>Update from the Chair of the Public Interest Body – Pg 3</td>
</tr>
<tr>
<td>C1.4 Independent non-executives should have regular contact with the ethics partner, who should under the ethical standards have a reporting line to them.</td>
<td>Update from the Chair of the Public Interest Body – Pg 3; and Governance structure and leadership – section 1</td>
</tr>
<tr>
<td>C2 Characteristics of independent non-executives principle The independent non-executives’ duty of care is to the firm. They should command the respect of the firm’s owners and collectively enhance shareholder confidence by virtue of their independence, number stature, experience and expertise. They should have a balance of relevant skills and experience including audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company’s finance function, as an investor or at an audit firm.</td>
<td>Update from the Chair of the Public Interest Body – Pg 3; and Appendix 2</td>
</tr>
<tr>
<td>C2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm’s independence as auditors and their independence from the firm and its owners.</td>
<td>Appendix 2</td>
</tr>
<tr>
<td>C3 Rights and responsibilities of independent non-executives principle Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</td>
<td>Update from the Chair of the Public Interest Body – Pg 3; and Governance structure and leadership – section 1</td>
</tr>
<tr>
<td>C3.1 Each independent non-executive should have a contract for services setting out their rights and duties.</td>
<td>Appendix 2</td>
</tr>
<tr>
<td>C3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.</td>
<td>Appendix 2</td>
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</tbody>
</table>
We have prepared this Transparency Report, in respect of the financial year ended 30 June 2019, in accordance with the requirements of Article 13 of the EU Regulation No. 537/2014 and the Local Auditors (Transparency) Instrument 2015.

In addition to the Regulation's requirements, we have included those matters specified to be included in the Transparency Report by the Audit Firm Governance Code, issued by the Financial Reporting Council ('FRC') in July 2016.

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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