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Delivering audit quality.

2010 UK Audit Quality and Transparency Report

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We have published this Transparency Report, in respect of the financial year ended 30 June 2010, in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the 'Instrument') made by the Professional Oversight Board ('POB') of the Financial Reporting Council ('FRC'). This report also incorporates the key drivers of audit quality set out in the Audit Quality Framework issued by the FRC in February 2008.

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

This Transparency Report is solely in respect of the UK limited liability partnership of PricewaterhouseCoopers LLP and does not relate to any subsidiary undertaking, associate or fellow member firm of PricewaterhouseCoopers International Limited.

This report was approved by the Executive Board of PricewaterhouseCoopers LLP and signed on its behalf by Ian Powell and Richard Sexton on 30 September 2010.

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Ian Powell

Chairman and Senior Partner

Welcome to PwC's latest Audit Quality and Transparency Report, for the year to the end of June 2010.

While publication of a Transparency Report is a statutory obligation, I firmly believe that as the leading audit firm PwC has a responsibility not just to comply with the regulation but to attempt to set best practice in this, as in other areas of, public reporting. Our decision to go further in this report than is required by law is consistent with our view that high quality, transparent and accountable reporting is the cornerstone of building and maintaining public trust in business. Put simply we have to practice what we preach to our clients. I believe this report achieves that objective.

Audit quality begins with the tone from the top. For that reason the PwC culture has been set out in a document called 'Who we are' which has been shared with all our staff and is publicly available on our website. It stresses our unwavering commitment to quality and to doing the right thing for our people, our clients and our communities.

We believe that audit quality will continue to improve as audit clients, auditors, regulators and other market participants maintain a constructive dialogue about the key drivers of audit quality. From a PwC perspective I am happy to emphasise our commitment to play an active part in these discussions.

Ian Powell

A message from the Head of Assurance

Richard Sexton
Head of Assurance

Audit quality remains the number one priority for me as the head of PwC's UK audit practice. I firmly believe that audit quality comes from more than adherence to standards and regulation, important though both are. Ultimately it depends on our ability as a firm to recruit, train and motivate highly intelligent professionals and provide the support and infrastructure for them to operate in a business environment that is as challenging as any I have experienced in my career.

This is our fourth annual Transparency Report. Our first report was produced ahead of the statutory requirement and indeed ahead of the formal UK guidelines being published. However, I felt then, as I do now, that as the largest audit firm in the UK we have a public interest responsibility to be transparent and accountable for the way that we undertake audits for many of the UK's largest companies and public sector bodies.

The content, style and tone of our reports have evolved over the course of the four years. I am very grateful for the constructive feedback and guidance we have received over this period from our regulator, clients and other stakeholders and we have strived to reflect the comments we have received on previous reports in this latest version.

This report has deliberately been written to give a comprehensive overview of the way that our firm manages audit quality. However, if you would like further information about PwC and our wider practice, people management and community affairs programme then do please read our 2010 Annual Report (www.pwc.co.uk/annualreport).

Once again this report has been designed to:

- provide context to the market conditions that we and our clients have faced during the year;
- describe what we see as the key drivers of audit quality and link to the framework set out by the Financial Reporting Council (FRC); and
- provide the information necessary to meet the regulatory requirement to present a Transparency Report.

The last two years of economic turbulence and crisis in our capital markets have posed significant challenges for auditors. I believe the profession in general, and my own firm in particular, have performed well in these testing circumstances. However, this period of economic uncertainty has inevitably led to questions about the long-term relevance of auditing and the value it delivers to the marketplace. I welcome these debates and we have made a concerted effort to engage with business leaders, investors and other stakeholders to better understand their points of view. In looking to the future and in engaging in the many debates which are going to take place in the coming years, we hope that the profession has the courage and foresight to embrace a more progressive agenda. Put simply, the construct of today's audit was conceived in the past century, for a very different world from the one we face today. I believe that now is the time for the profession to consider how its role can be strengthened and enhanced.

The public interest responsibility

It is clear to me that the audit profession has not, at least to date, been effective enough in conveying our recognition of our public interest responsibility.

One particular challenge is that as auditors we have no direct contact or interaction with shareholders. In my view we cannot start to deliver against the expectations our key stakeholders have of the audit if we do not address this barrier between auditors and shareholders. This issue is particularly important given that the majority of these shareholders are pension funds, insurance companies and other long-term investors, who themselves are facing changing investment mandates. We look forward to the contribution that our new Public Interest Body will make to this debate and I look forward to working with them.

The credit crunch has been a stark reminder that the systems on which society relies are as much prone to unpredictable risk as many other aspects of life. Globalisation, climate change and the increasing inter-connectivity of business and society are likely to contribute to increased risk over the coming decades. While systemic risk has not been the historic focus of the audit profession, I believe the big firms with global reach can help to play a role in monitoring systemic risk at both a national and an international level. This requires a rethink of how we use our knowledge and market intelligence, and a collaborative approach between the relevant stakeholders.

Audit quality – focusing on the big picture

I am convinced that the increased regulatory oversight over the profession in recent years has enhanced audit quality. It is also gratifying to know that our regulator believes we have developed the policies and procedures to support audit quality given the size of our firm and nature of our clients. But audit quality remains difficult to measure, and currently the improvements we have seen result from the rigour of the inputs and the process itself. We need to remember that culture, ethics and behaviours are as important as processes. It is this culture that I, along with our leadership team, partners and managers, focus on.

In its public report on the major audit firms the Public Oversight Board observed that auditors are not always applying sufficient professional scepticism in relation to key audit judgements. This is an important observation. I believe we do put the right emphasis on applying sufficient professional scepticism, but as the reporting model increasingly moves from accounting to valuation, these audit judgements will be influenced by market values and the position in the economic cycle. Put bluntly, the audit profession should not be expected to call the top of the market.

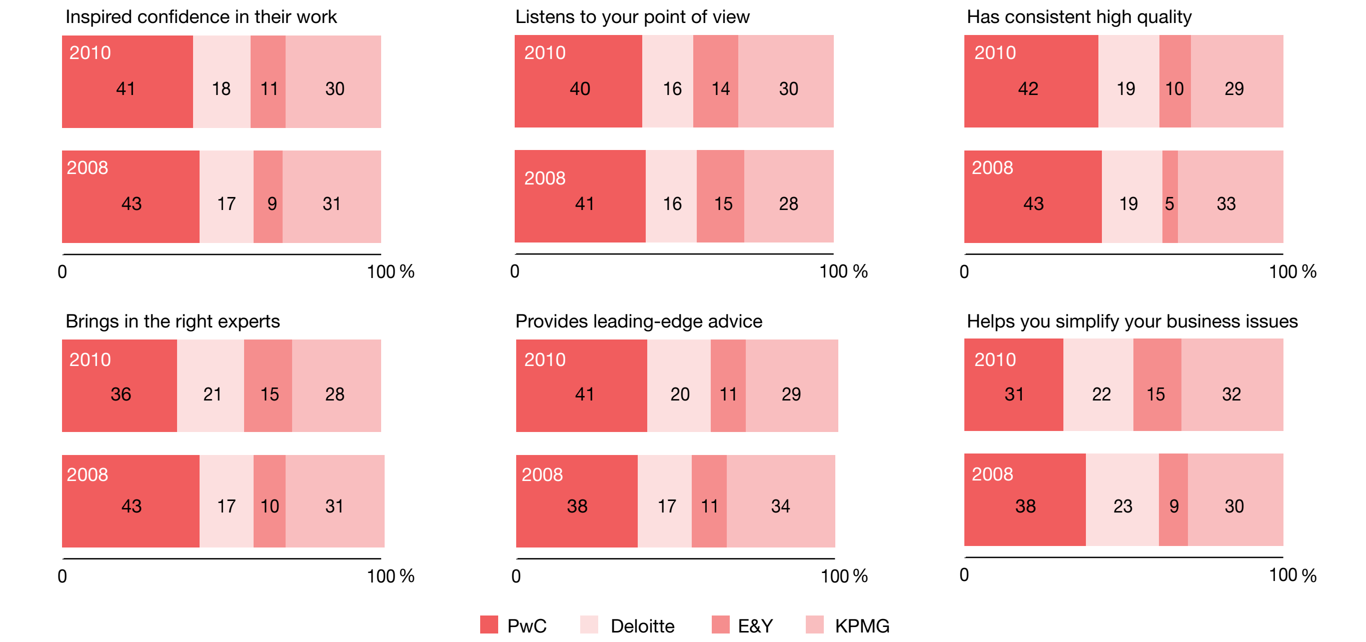
Market share and client feedback

The public's view of our firm and our services is very important to us. Every two years, the Brand Health Index helps us keep track of our performance relative to the market. It is an independent survey and includes research into the UK Big Four audit providers. Interviews are conducted with senior management at 400 organisations, including 222 people specifically involved in buying audit services. Respondents are asked which firm is most associated with a range of criteria shown in the table below.

In our 2009 Transparency Report we identified six key areas which we believe relate to our Assurance Practice.

The 2010 results continue to show PwC dominating share of mind as well as market share. We recognise, however, that we can always do better and we have strategies in place to improve our performance across the board. The firm currently leads five of the six categories and our aim is to lead all six by 2012.

Market context



Making change happen

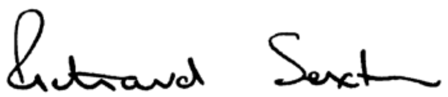
As we look to the future of audit we should also be aware of the work that is going on in many companies to move to an integrated reporting model, one where sustainability reporting is built into the mainstream model. Not only are some companies experimenting with this model but work is underway to create a global framework on which appropriate standards can be developed in the future.

It is worth remembering that the reporting model is integral to a market economy and is a critical component in broader corporate governance, the effectiveness of shareholder stewardship and the overall regulation of the economic system. Recent events have been a keen reminder that the audit's relevance and value is directly linked to the effectiveness and accessibility of the reporting model. Those in the profession, and those who wish to enhance its relevance, need to work together to improve both the current shortcomings of the reporting model and the role of the auditor.

The need for a wide-ranging review must not be used as a reason not to start the change process now. We need to discuss how auditors can extend the scope of their responsibilities beyond the back half of the annual report. What this extended scope should be needs careful consideration, but for many, assurance of information on risk, KPIs and non-GAAP financial information would be a logical start to any debate.

We must also consider how we can work with audit committee chairmen to develop ways of making more transparent the findings of the audit process which both inform and build trust with key stakeholders, while not undermining the integrity of the audit process or the position of the board and the company.

The audit profession should not be content to defend the 'status quo'. If we focus on an improved reporting landscape in shaping its future I believe we remain relevant and valuable to those that rely upon us. In so doing we will create a higher value audit which will inspire a new generation of people to join the profession and ensure its future quality and performance. At PwC we are determined to lead the drive for change.



1. Legal structure and ownership

In the UK, PricewaterhouseCoopers LLP is a limited liability partnership incorporated in England and Wales and is referred to in this report as 'the firm', 'PwC UK', 'we', 'our' and 'us'.

(a) Ownership of PwC UK

PwC UK is owned by its members, who are commonly referred to as partners.

During the year, the average monthly number of partners was:

	2010 number
UK members	820
Members on secondment overseas	25
	845

(b) UK office structure

PwC UK operates out of 38 offices throughout the UK – a full list can be found at the back of this report.

(c) Subsidiary undertakings of PwC UK in the UK and overseas

The principal subsidiary undertakings of PwC UK as at 30 June 2010 are:

All the principal company subsidiary undertakings are 100% owned by PwC UK and are incorporated in England and Wales, with the exception of PricewaterhouseCoopers (Middle East Group) Limited, which is incorporated in Guernsey and where PwC UK owns 100% of the ordinary shares and the local Middle East partners own 'B' shares.

The members of PwC UK do not share in the profits of PricewaterhouseCoopers Legal LLP. The profit and capital attributable to members of PricewaterhouseCoopers Legal LLP is shown as a non-controlling interest in the consolidated financial statements of PwC UK, as is the profit and capital attributable to members of PricewaterhouseCoopers CI LLP and to the Middle East practice partners of PricewaterhouseCoopers (Middle East Group) Limited.

(d) Principal lines of business

PwC UK operates through three Lines of Service ('LoS') in the UK: services to clients are provided through our Assurance, Advisory and Tax LoS. Support services are provided by Internal Firm Services. The primary services provided by each of the Lines of Service are as follows:

Assurance

Assurance and regulatory reporting – statutory audit, financial accounting, non-financial performance and reporting, compliance with new and existing regulations and remediation, risk and regulatory monitoring, International Financial Reporting Standards (IFRS) conversion and assurance on capital market transactions, reporting and assurance on non-financial information and waste and resource use management.

Risk assurance – risk assurance solutions, including IT risk assurance, business resilience, commercial assurance, performance assurance, treasury services and internal audit.

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

Subsidiary undertaking	Principal activity
Companies	
PricewaterhouseCoopers Services Limited	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
PricewaterhouseCoopers (Middle East Group) Limited	Holding company for Middle East practices
Sustainable Finance Limited	Advice on sustainability and climate change
PricewaterhouseCoopers Overseas Limited	Professional services
Limited Liability Partnerships	
PricewaterhouseCoopers CI LLP	Professional services in the Channel Islands
PricewaterhouseCoopers Legal LLP	Legal services

Advisory

Consulting – finance, strategy, delivering deal value, operations, people, technology, governance risk and compliance, enterprise performance management (process transformation, systems implementation, application management), project and programme management.

Business recovery services – financial and operational restructuring, working capital management, corporate and personal insolvency, independent business reviews, chief restructuring officers, interim leadership (PwC Turnaround Panel), optimised exits, accelerated M&A, corporate liability management, pension scheme credit advisory, distressed property advisory and corporate simplification.

Forensic services – disputes including asset tracing, commercial, competition, intellectual property and shareholder disputes, construction and insurance claims; investigations including anti-money laundering, fraud and corruption, anti-trust, royalty examinations and warranty compliance; and forensic advisory including contract and project risk, fraud prevention, project delay analysis, litigation readiness and revenue leakage.

Transaction services – buy and sell-side financial and operational 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, debt advisory, public to private transactions and public company advisory.

Sustainability and climate change – impact reviews, strategic and performance planning, corporate governance and business ethics, policy development and roll-out, risk management, carbon markets planning and transactions, environmental tax and regulation, environmental health and safety management and ethical supply chain management.

Tax

Tax – corporate tax advisory, tax on transactions, transfer pricing, corporate and international tax structuring, finance and treasury, indirect 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, research and development tax relief.

Human resource services – reward and compensation, employment services, pensions and retirement, international assignment solutions, HR management, including HR transaction advice, human capital metrics and benchmarking, HR function effectiveness and service delivery.

2. The PricewaterhouseCoopers network

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

(a) Legal structure of the network

In most parts of the world, the right to practice audit and accountancy is granted only to national firms that are majority-owned by locally qualified professionals. Consequently, PwC member firms are locally owned and managed. This fosters a deep understanding of local markets, and also impacts the structure of the PwC Network.

PwC is a network of separate member firms, owned and operating locally in countries around the world, connected through membership in PwC International and use of the PricewaterhouseCoopers name.

The network, which creates a platform on which member firms can share knowledge, skills and resources, enables PwC member firms to provide high-quality services on a global scale to international and local clients while operating as local businesses.

PwC International is a private company limited by guarantee incorporated in England and Wales. PwC UK is a member firm of PwC International.

PwC International does not provide services to clients. It also does not manage or control PwC member firms. Its primary activities are to: identify broad market opportunities and develop associated strategies; strengthen internal services, skill and knowledge networks; promote the PwC brand; and develop and support the application of common risk and quality standards by PwC member firms, including independence policies.

(b) Size of the network

PwC International member firms operate in 766 locations across 154 countries employing over 161,000 people and generated aggregate revenues of US$26.2 billion worldwide for the year ended 30 June 2009. The Global Annual Review, which can be viewed at www.pwc.com/annualreview, contains further financial and other information.

(c) Governance structures of PwC International

The governance structures of PwC International are as follows:

Global Board (the 'Board'): The Board, which consists of 18 elected members, is responsible for the governance of PwC International and the PwC network, and oversight of the Network Leadership Team. The Board does not have an external role. Board members are elected by partners from all member firms every four years, with the current board taking up office in April 2009. Board members may serve for a maximum of two terms of four years. The Board meets four times a year.

Network Leadership Team ('NLT'): The NLT sets the overall strategy for the PwC Network and the standards and policies to which member firms agree to adhere. The NLT is made up of the Senior Partners of the US, UK and China member firms of PwC International, together with the chairman of the PwC Network and a fifth member appointed by the Board. The chairman of the PwC Network and the fifth member may serve on the NLT for a maximum of two terms of four years in their respective capacities. The NLT typically meets monthly and on further occasions as required.

Strategy Council: The Strategy Council is made up of the members of the NLT and Senior Partners of some of the largest member firms of PwC International, who are, subject to approval by the Board, selected by the NLT. The Strategy Council, which meets between two and four times each year, agrees the strategic direction of the PwC Network and helps align its execution.

Network Executive Team: This team, which reports to, supports and is appointed by the NLT, co-ordinates key service line and functional areas across the PwC Network, including Risk and Quality, Human Capital, Operations, and Brand and Communications. The NLT meets with the NET three to four times a year.

The names of the current members of each of the above bodies can be found at www.pwc.com/corporate-governance.

(d) Key features of the network

It is the strength of the PwC Network that makes PwC distinctive amongst the leading professional services organisations in the world. The existence of this strong network enables PwC member firms to build effective relationships with clients and work with them to create value.

The PwC Network has a set of standards and policies to which all PwC member firms subscribe. These standards cover key areas such as independence, risk management, people management, and brand and communications.

In order to use the PwC name, PwC member firms agree to adopt PwC Network standards and participate in reviews. Compliance is monitored regularly.

Each PwC International member firm does not act as agent of PwC International or any other member firm. PwC International is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgement or bind them in any way. No member firm can control the exercise of another member firm's professional judgement or bind or control PwC International in any way.

Every PwC member firm is fully responsible for its own risk and quality performance and, where necessary, for driving improvements. To support transparency and consistency, each member firm's Territory Senior Partner signs an annual confirmation of compliance with certain standards. These cover a range of risk areas, including independence, ethics and business conduct, Assurance, Advisory and Tax risk management, governance and data protection and privacy.

The PwC Network has common processes to help member firms apply the standards. Key elements include:

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

(i) The way we do business

PwC member firms conduct their businesses within the framework of applicable professional standards, laws, regulations and internal policies. These are supplemented by a Code of Conduct for all PwC member firms, their partners and their staff. The PwC UK Code of Conduct (the 'Code') is set out in Appendix 2.

PwC people have an obligation to know, understand and comply with the guidelines contained in the Code, as well as the values – excellence, teamwork and leadership – on which the guidelines are based.

(ii) Sustainable culture

To promote continuing business success, PwC nurtures a culture that supports and encourages all our people to do the right thing, especially when they have to make tough decisions. PwC people have ready access to a wide array of networks within their respective member firms, both formal and informal; and technical panels to help them reach appropriate solutions. There is also a culture of co-operation between member firms, and consultation supports this culture.

(iii) Quality policies and processes

Each PwC member firm has policies based on network standards and access to a number of common methodologies and supporting materials. These methodologies and materials are designed to assist member firm partners and staff to deliver high-quality work. Each client engagement leader selects partners and staff with the appropriate professional competence and experience for a particular engagement.

(iv) Quality reviews

Each member firm is responsible for monitoring the effectiveness of its quality control systems, which includes carrying out, or arranging to be carried out on its behalf, independent reviews both at the management level of the firm's systems and procedures, and at the individual engagement level. Full details of PwC UK's quality review process are set out in Section 5.

If a member firm does not comply with its network obligations, the Network Leadership Team (and in certain instances the Global Board) will take appropriate action.

(e) Network profit-sharing arrangements

PwC UK and its subsidiary undertakings have no profit-sharing arrangements with other member firms of PwC International. Member firms operate their own partner and staff remuneration arrangements, which are independent and separate from all other member firms of PwC International. The profit sharing arrangements of PwC UK are set out in Section 9.

3. Governance structure of PricewaterhouseCoopers LLP

The governance structure of PwC UK for the year ended 30 June 2010 comprised two main elements: an Executive Board responsible for directing and implementing the policies and strategies of the firm and for its day-to-day management; and a Supervisory Board, which oversees the executive management from an internal perspective on behalf of the wider partnership or members of the firm.

Table 3.1	Length of service (years)	Board meetings	
		A	B
Ian Powell, Chairman and Senior Partner^^	4	10	9
Richard Collier-Keywood, Managing Partner	7	10	10
James Chalmers, Head of Strategy and Talent	2	10	9
Kevin Ellis, Head of Advisory	2	10	9
Owen Jonathan, General Counsel	8	10	10
Barry Marshall, Head of Tax	2	10	10
Kevin Nicholson, Head of Regions	2	10	9
Paul Rawlinson, Head of Markets and Industries	2	10	10
Richard Sexton, Head of Assurance^^	4	10	9
Keith Tilson, Chief Financial Officer	12	10	10

A = Maximum number of meetings could have attended.
B = Number of meetings actually attended.
^^ Member of the Public Interest Body

The Executive Board

The Executive Board is responsible for developing and implementing the policies and strategy of the firm, and for its direction and management. The Executive Board sets and communicates the firm's strategic priorities, which feed into the firm's business planning process. The contribution of each part of the firm is monitored by the Executive Board through scorecard reporting.

The Executive Board is chaired by Ian Powell (the Chairman), whose term of office runs for four years from 1 July 2008. The Chairman is elected by the firm's partners and he appoints the other Executive Board members, all of whom are partners in the firm.

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

Each member of the Executive Board is responsible and accountable for a specific aspect of our business. Their lengths of service on the Executive Board and attendance records in the year ended 30 June 2010 are as follows (see table 3.1).

Biographies of each Executive Board member as at 30 June 2010 are set out in Appendix 1.

The Executive Board takes overall responsibility for establishing systems of internal control and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these systems and for ongoing monitoring of risk and the effectiveness of controls rests with senior management. The systems include:

- the Risk Council, a sub-committee of the Executive Board, which is responsible for ensuring that the controls are in place to identify, evaluate and manage risk;
- our Lines of Service and our Internal Firm Services function, 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;
- our Internal Audit team, which reviews the effectiveness of the financial and operational systems and controls throughout PwC UK and reports to the Executive Board and the Audit and Risk Committee; and
- our Risk and Quality functions, which oversee our professional services risk management systems and report to the Executive Board.

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

The Supervisory Board

The Supervisory Board is independent of the Executive Board and fifteen of its members are elected by the firm's partners for three-year terms of office. In addition, the Chairman of the Executive Board and the two UK members of the Board of PwC International are ex officio members of the Supervisory Board.

The Supervisory Board generally meets monthly but may occasionally hold additional meetings as necessary. During the year a new Supervisory Board was elected and it took office on 1 January 2010.

The Supervisory Board provides the Chairman with guidance on matters of actual or potential concern to the partners. It is also responsible for approving the Annual Report, for recommending the admission of new partners, for overseeing the Chairman's election process and for checking that our policies on partners' remuneration are being properly applied. It also has the power to initiate a ballot for the removal of the Chairman from office.

The Senior Management Remuneration Committee is a committee of the Supervisory Board. It makes recommendations to the Supervisory Board, which sets the Chairman's profit share, and it approves the Chairman's recommendations for the profit shares of the other Executive Board members.

The Audit and Risk Committee (previously known as the Audit Committee) is a committee of the Supervisory Board that has the responsibility for reviewing the policies and processes for identifying, assessing and managing risks within the firm. It oversees the management of those risks, including financial control, compliance and independence. It also reviews the firm's financial statements and considers the scope, results and effectiveness of internal and external audit, including reviewing the external auditors' independence and any non-audit services and fees. The Chief Financial Officer and General Counsel, together with the internal and external auditors, attend the committee's meetings by invitation. It met seven times in the year ended 30 June 2010 (2009: six times).

The Supervisory Board members' lengths of service and their attendance at Board meetings for the year ended 30 June 2010 are as follows (see table 3.2).

Biographies of each Supervisory Board member as at 30 June 2010 are set out in Appendix 1.

Table 3.2	Length of service (years)	Monthly board meetings	
		A	B
Pam Jackson	7	12	11
Mohammed Amin	6	6	5
Clare Bolton	2	6	6
Colin Brereton	4	12	6
John Dowty	4	12	11
Roy Hodson	7	12	11
Gordon Ireland	10	6	5
Mike Karp	4	12	10
Pat Newberry	7	12	10
Ian Rankin	4	12	8
Duncan Skailes	4	12	12
Julia Smithies	3	6	5
Graham Williams	4	12	12
Pauline Campbell	1	6	5
Paul Clarke	1	6	5
Katharine Finn	1	6	6
Rob Hunt	1	6	6
Roger Marsh	1	6	6
Matthew Thorogood	1	6	5
Ex officio members:			
Gerry Lagerberg	10	12	10
Murray Legg	1	6	4
Ian Powell	2	12	10

A = Maximum number of meetings could have attended
B = Number of meetings actually attended

The members of the Supervisory Board for the period from 1 July 2009 to 31 December 2009 were:

Elected members:
Gerry Lagerberg*, Chairman
Pam Jackson, Deputy Chair
Mohammed Amin†
Clare Bolton*
Colin Brereton
John Dowty†
Roy Hodson*††
Gordon Ireland**
Mike Karp
Pat Newberry†
Ian Rankin*†
Duncan Skailes
Julia Smithies*
Graham Williams†

Ex officio member:
Ian Powell

* Senior Management Remuneration Committee member
** Senior Management Remuneration Committee Chairman
† Audit Committee member
†† Audit Committee Chairman

The members of the Supervisory Board from 1 January 2010 were:

Elected members:
Duncan Skailes*^^, Chairman
John Dowty†, Deputy Chair
Colin Brereton*
Pauline Campbell†^^
Paul Clarke*
Katherine Finn
Roy Hodson††
Rob Hunt†
Pam Jackson**
Mike Karp†
Roger Marsh
Pat Newberry
Ian Rankin*†
Matthew Thorogood
Graham Williams

Ex officio members:
Gerry Lagerberg*^
Murray Legg^
Ian Powell

* Senior Management Remuneration Committee member
** Senior Management Remuneration Committee Chairman
† Audit and Risk Committee member
†† Audit and Risk Committee Chairman
^ Member of the Board of PricewaterhouseCoopers International Limited
^^ Member of the Public Interest Body

The Public Interest Body

The firm introduced arrangements for the establishment of a Public Interest Body on 30 June 2010. This follows the introduction of the Audit Firm Governance Code (the 'Code'), which is applicable to PwC UK for the year ending 30 June 2011. The Code's purpose is to enhance stakeholder confidence in the public interest aspects of the firm's activities, through the involvement of independent non-executives.

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

The Public Interest Body presently comprises five independent non-executives and two members from each of the firm's Executive Board and Supervisory Board, as follows:

Dame Karen Dunnell*
Sir Ian Gibson*
Professor Andrew Hamilton*
Sir Richard Lapthorne*
Paul Skinner*
Ian Powell^
Richard Sexton^
Duncan Skailes †
Pauline Campbell †

* Independent non-executive
^ Member of the Executive Board
† Member of the Supervisory Board

Biographies of the independent non-executives are set out in Appendix 1.

The independent non-executives are appointed by the Supervisory Board from candidates nominated by the Senior Partner, following consultation between the Senior Partner and the Supervisory Board. The Senior Partner and Supervisory Board respectively decide which of the members of the Executive Board and Supervisory Board will sit on the Public Interest Body.

The Public Interest Body is expected to meet at least four times per year. The independent non-executives will also meet as a separate group to discuss matters relating to their remit.

The non-executives are subject to an independence policy that ensures they remain independent of the firm, its partners and staff and its assurance clients. In developing this policy the firm considered the UK Corporate Governance Code and the Ethical Standards as well as what a reasonable third party would expect of an independent non-executive. Under the policy all non-executives are required to have no personal or business relationship with a partner or member of staff of the firm, cannot be a director of an assurance client of the firm and cannot hold a material financial interest in any assurance client. Every non-executive will confirm compliance with this policy in respect of their financial, business and personal relationships before being appointed and annually thereafter.

4. Audit Firm Governance Code – a progress report

The Audit Firm Governance Code (the 'Code') was published by the Institute of Chartered Accountants in England and Wales (ICAEW) in January 2010, following a recommendation made by the Market Participants Group set up by the FRC. The ICAEW's Audit Firm Governance Working Group recommended that the Code should apply to firms that audit more than 20 listed companies for financial years starting on or after 1 June 2010. PwC UK will therefore provide a statement of compliance with the provisions of the Code for the first time in respect of the year ending 30 June 2011.

PwC UK fully supports the Code and the firm has been working during 2010 to prepare for its implementation. Many of the Code's provisions relate to areas where the firm was already in compliance, but some areas, such as the requirement to have independent non-executives, are new. A full report including a statement of compliance will be given in next year's Transparency Report.

We thought it would be useful to provide a progress report this year on our implementation of the Code:

(a) Leadership
A description of the firm's governance structures and management team and how they operate is provided in Section 3 of this report. The firm's executive is accountable to the firm's owners – the partners as a whole – and the governance structures include relevant checks and balances to ensure that no individual has unfettered powers of decision.

(b) Values
The firm's leadership is committed to quality work and has established a culture that upholds the values of integrity, independence and professional ethics, and professional competence. Further details of the internal quality control system and independence procedures and practices are given in Sections 5 and 6 of this report.

(c) Independent non-executives
A new Public Interest Body (PIB) has been established within the firm's governance structure, which comprises a majority of independent non-executives together with members of both the Executive and Supervisory Boards. The PIB is expected to meet at least four times a year. More details of the PIB and its members are given in Section 3 of this report.

(d) Operations
The firm has policies and procedures in relation to those areas specified in the Code: compliance with applicable professional standards and legal and regulatory requirements; the management of people; and whistle-blowing. The firm already conducts an annual review of the effectiveness of its internal control system.

(e) Reporting
All the matters on which disclosures are required in the Transparency Report under the Code are addressed in the other relevant sections of this report. In addition to this Transparency Report, the firm has for a number of years published an Annual Report that includes full audited financial statements in accordance with IFRS as adopted by the European Union, and a management commentary on the firm's financial performance, position and prospects.

(f) Dialogue
The firm is considering how best to implement the Code's requirements to have dialogue with companies and investors about matters covered by the Code and to keep in touch with stakeholder opinion, issues and concerns. As part of that consideration, discussions will take place with stakeholders on how to address audit firm governance matters and conduct our dialogue with stakeholders.

5. Internal control and internal quality control systems

Introduction
PwC UK's quality control system is based on International Standard on Quality Control (UK and Ireland) 1 'Quality control for firms that perform audits and reviews of historical financial information and other assurance and related services engagements' ('ISQC (UK&I) 1'), issued by the Auditing Practices Board ('APB').

ISQC (UK&I) 1, which applies to audits and reviews of financial statements, and other assurance and related services engagements, requires the firm to establish and maintain a quality control system to provide it with reasonable assurance that:

a. the firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
b. reports issued by the firm or engagement partners are appropriate in the circumstances.

In addition, compliance with International Standards on Auditing (UK and Ireland) issued by the APB requires PwC UK to have a quality control system for the audits of financial statements. The quality control system is embedded as part of the firm's day-to-day activities.

Although this Transparency Report is focused on our audit practice, many of our systems, policies and procedures operate firm-wide across all parts of our business. Consequently, the narrative below explains both our internal control system and our internal quality control system, and we have included those additional policies, procedures and practices which exist in respect of our audit practice.

High-level overview of approach to achieving quality
ISQC (UK&I) 1 requires the firm to have a framework of policies and procedures that ensure quality lies at the heart of how we are organised and managed, and that certain types of work are performed to acceptable standards. These policies and procedures have been documented, and there is a monitoring regime to enable the Executive Board to review the extent to which policies and procedures are operating effectively.

(i) Setting policies and procedures
- The Executive Board is responsible for establishing internal control systems and for reviewing and evaluating their effectiveness.
- Day-to-day responsibility for implementing these systems and for monitoring risk and the effectiveness of control is delegated to Compliance, Internal Firm Services and the Lines of Service, where appropriate.
- Partners and staff are responsible for complying with these policies and procedures.

(ii) Monitoring compliance with these procedures
- Partners and staff document, as appropriate, their compliance with the policies and procedures.
- Primary responsibility for monitoring compliance with these policies and procedures rests with each business unit/team, together with their Line of Service. In some cases other functions, such as Compliance and Internal Firm Services, also have monitoring responsibilities.
- The Lines of Service, Compliance and Internal Firm Services report the aggregated results of that monitoring to the Executive Board.
- 'External' validation of the monitoring activities is performed by Internal Audit and through the Audit Compliance Review.
- The Executive Board, considering the monitoring results, concludes on the effectiveness of our policies and procedures and on their operating effectiveness.

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

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

In parts 1 to 6 below we set out how our internal control system and internal quality control incorporate each of the above elements. Part 7 deals with factors outside of the control of auditors affecting audit quality and part 8 explains our belief of an additional key driver of audit quality. Parts 9 and 10 explain the review of the firm's internal control system and our statement on the effectiveness of the firm's internal quality control system.

1. Leadership responsibilities for quality within the firm

(a) Organisational structure

The Executive Board, under Ian Powell's chairmanship, is responsible for the firm's internal control system and quality control. The firm's leadership is committed to quality and has dedicated resources to establishing high standards in quality, independence and professional ethics. Quality has been embedded throughout the firm and the detailed policies endorsed by the leadership team, including ethical, human resources and engagement performance, are discussed below.

Owen Jonathan is the member of the Executive Board responsible for risk management and quality control. In addition, each Line of Service has a partner responsible for risk management and quality control relative to the firm's client services.

Within Assurance, Deian Tecwyn, the Assurance Risk & Quality Leader, is responsible to the Assurance Executive for risk and quality matters and is a member of the firm's Risk Council, which is chaired by Owen Jonathan. The Assurance Risk & Quality Leader also chairs the following sub-committees of the Assurance Executive:

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

(b) Culture and tone at the top

Our reputation is built on our independence and integrity. We recognise the public interest vested in our audit practice and we take an uncompromising approach to audit quality, based on our core values of excellence, teamwork and leadership. We believe that audit quality begins with the tone set by the leadership of the firm. We have developed an overview of the culture and behaviours we expect in our firm, which we describe as 'who we are' – this comprises the following components:

(i) Personal responsibility: Who we are

We need to lead by example. We will do this by living and breathing a common set of values and behaviours.

Our goal is to build the iconic professional services firm, always front of mind, because we aim to be the best. We set the standard and we drive the agenda for our profession.

We value our past but look to invest in our future to leave the firm even stronger than when we inherited it. We achieve the three pillars of our vision by living and breathing a common set of behaviours.

(ii) One firm

We are one firm, an extensively networked organisation that aims to bring the best of PwC UK to our clients each and every time. We combine rigour with fun and relish the most complex challenges. We create a flow of people and ideas. We aim to:

- deliver value to our clients;
- be agile and flexible;
- share knowledge and bring fresh insights; and
- act always in the interest of the whole firm.

(iii) Powerhouse

Our clients and people feel and benefit from the energy and power of the firm.

We have talented, enterprising and intellectually curious people who strive with our clients to achieve success. It is this purpose that enables us to attract, develop and excite the best people and inspire confidence in our clients. We will:

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

(iv) Doing the right thing

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

- put ourselves in our clients' shoes;
- never be satisfied with second best;
- treat people in a way we would like to be treated;
- always be brave enough to challenge the unacceptable; and
- act with integrity and enhance our reputation.

2. Ethical requirements

We take compliance with ethical requirements seriously and seek to embrace the spirit and not just the letter of those requirements.

- A partner within the firm, Tony Stewart-Jones, is the Chief Compliance Officer who, supported by a team of specialists, oversees the firm's adherence to ethical requirements. Tony Stewart-Jones reports to Owen Jonathan;
- Bill Morgan is PwC UK's Ethics Partner. He is a senior partner within the firm supported by a core team of independence specialists to help the firm apply robust and consistent independence policies, procedures and tools. He reports directly to Owen Jonathan; and
- All partners and staff undertake regular mandatory training and assessments so that they understand the ethical requirements under which we operate.

(a) Integrity and objectivity: The reputation and success of the firm depends on the professionalism and integrity of each and every partner and employee. Partners and staff uphold and comply with the standards developed by the PwC Network and PwC UK. The firm monitors compliance with these obligations.

On joining the firm, all staff and partners are provided with a copy of the PwC UK Code of Conduct (the 'Code') and they must confirm annually that they have read and understood it. The Code, which appears in full in Appendix 2, sets out our ethical framework covering the following overarching principles:

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

(b) Independence: The firm has policies, procedures and practices relating to independence and these are explained in more detail in Section 6.

(c) Whistle-blowing: The firm has a whistle-blowing helpline, which is available to any partner or staff member who observes bad business conduct or unethical behaviour that cannot be resolved locally or for which the normal consultation processes are not appropriate. The PwC UK Code of Conduct encourages partners and staff to report and express concerns in good faith, fairly, honestly and respectfully and we are committed to dealing responsibly, openly and professionally with any genuine concerns raised about possible malpractice. If a genuine concern is raised, the individual raising the concern will be protected from losing their job or suffering from any form of victimisation as a result. Provided that the individual acts in good faith, it does not matter if they are mistaken.

(d) Confidentiality: Confidentiality is a vital element of maintaining the firm's reputation. Misuse or loss of confidential client information or personal data may not only expose the firm to legal proceedings, it may also create a loss of reputation.

As part of PwC UK's membership of the ICAEW, all partners and staff adhere to the ICAEW's fundamental principle of confidentiality. There are also obligations on partners and staff regarding confidential information and contractual terms governing the use and disclosure of information. The firm provides training upon recruitment together with regular update training for all partners and staff in respect of our confidentiality obligations.

3. Acceptance and continuance of client relationships and specific engagements

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

Within Assurance, we use an application called Acceptance and Continuance ('A&C'). A&C enables engagement teams, business unit management and risk management specialists to determine whether the risks related to an existing or potential client are manageable, and whether or not PwC UK should be associated with the particular client and its management. A&C contains triggers that require consultation within business units and/or with the UK National Assurance Risk Management Partner. This allows the right people to make the right decisions and also enables the firm to put in place safeguards to mitigate identified risks.

In addition, business units and central functions use the data produced by A&C to manage portfolios at an engagement leader, office and business unit level, to assess risks and follow appropriate policies.

Policies and procedures are also in place for circumstances in which we determine that we should, or are required to, withdraw from an engagement. These policies include the need for appropriate consultations both within the firm and with those charged with governance (ie audit committees, clients' boards of directors, owner/managers and partners), ensuring compliance with legal and professional obligations.

Conflicts of interest

Before accepting an engagement, we perform checks to identify relevant relationships. These checks are performed by a dedicated relationship-checking team within Compliance. The team works with risk management and the Ethics Partner to put procedures in place to protect confidential information between teams, and to ensure that potential conflicts of interest are appropriately managed.

4. Human resources

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

Although we make a big effort to develop our people and help them advance their careers, a critical test is what the market says about our performance as an employer. We therefore take great pride that for the seventh year running PwC UK has come top in The Times Top 100 Graduate Employers survey and we were voted number one in the Guardian UK300 survey at the National Graduate Target GTI Awards.

(a) Recruitment:

The firm aims to recruit, train, develop and retain high-quality staff, who share in the firm's strong sense of responsibility for auditing.

We have always believed that the best audits are performed by bright and intelligent people. Accordingly, we maintain a strategy of accepting graduates into our audit business and set a high academic threshold. All recruits must pass through an internal assessment centre before joining the firm.

(b) Performance evaluation:
We have invested in equipping our partners and staff with the coaching and management skills needed to give honest feedback to continually improve performance. We expect feedback to be provided regularly by all staff and partners. This feedback then feeds into our half-yearly and annual appraisal process. Each member of staff also assesses their own performance against their agreed objectives and against the Global Core Competencies we have defined for a person of that grade. Technical competence and quality are components of the review. Based on their performance, individuals are assigned a rating that is benchmarked across the firm and which influences their remuneration and progression.

(c) Capabilities and technical competence:
Capabilities and technical competence are developed through learning, education, work experience and coaching.

(i) Learning and education: Training and development is an ongoing process. It starts when a person joins the firm and continues throughout his or her career. Our people participate in a variety of formal training courses and e-learning, and they are also trained through on-the-job coaching and supervision.

The firm's internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. Our industry groups also operate specialist training programmes relevant to their sectors. Industry expertise is a particular area of focus that enables our partners and staff to improve their understanding of our clients' businesses.

We continually review the skills, competency and seniority of our staff and align them with the needs of clients. As part of our appraisal process, partners and staff assess their ongoing personal development needs and identify any necessary development activities, including in relation to quality. Unsatisfactory work results in reduced performance-related remuneration.

On joining the firm, all partners and staff are required to complete induction training, which focuses on skills training, professional development, compliance, independence and ethical rules, as well as our culture and values.

For existing staff and partners, there are a number of mandatory and optional training courses looking at auditing, accounting, risk management and ethical issues. The firm runs Summer Schools, which are mandatory for all professional audit staff from year five through to and including partners. Staff in years one to four have core mandatory training, which equips them with the skills and knowledge to undertake the work assigned to them and develop their professional competencies. We supplement this training with mandatory Quality-in-Practice webcasts every quarter. These provide updates on quality, technical and regulatory matters. We also have a national non-mandatory training programme and run additional training sessions within offices as and when required. Training is monitored both for adherence and effectiveness.

The firm maintains online reference databases and materials that cover all aspects of policy, procedure and methodology, as well as a complete library of UK and international accounting, auditing and ethical standards. To support and keep theoretical knowledge up to date, partners and staff receive regular communications on technical and regulatory topics as they arise. The Assurance Risk & Quality group provides support to partners and staff on auditing, accounting and regulatory requirements.

Compliance with Continuing Professional Development requirements and the completion of mandatory training programmes ensure that our services are always delivered by individuals who have the right experience for the job. This includes legislative and other qualifications and accreditation policies for certain types of work, such as pensions and charities audits, capital market transactions and due diligence work.

(ii) Work experience and coaching: Each engagement leader is responsible for staffing engagements with partners and staff who have the professional competence and experience required in the circumstances. Further, each engagement leader is ultimately responsible for determining the extent of direction, supervision and review of the work of more junior staff to whom work is delegated. This process is consultative where appropriate and forms part of a culture that embraces coaching in all we do at all levels within the firm.

(d) Career development:
We seek to provide an optimal mix of client experience, coaching and training programmes, supported by additional development opportunities, such as international assignments, community partnerships and voluntary programmes.

Each member of staff has a People Manager assigned to them who is responsible for their performance management, coaching and wellbeing. The people managers work with individuals to understand their strengths and weaknesses and assess what opportunities are available to them to develop.

(e) Promotion:
Any promotion in the firm is based on an individual's performance, their skills and the business case. In the case of promotion to director or admission to partnership, the process is particularly thorough and also involves the Line of Service leadership teams. All potential admissions to partnership are considered by the Partner Admissions Committee, a sub-committee of the Supervisory Board, and are put to the full partnership for consideration.

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

(f) Remuneration:
In determining remuneration for our staff, we carefully balance several complex elements: the economic climate and the impact this has on the markets in which we operate; recognition of people's hard work and relative contribution to the business; recognition of people's career progression; the performance of the Line of Service and the firm; affordability; investment for the future; and rewarding and remunerating people competitively in a changing market.

In the year ended 30 June 2010, we introduced a 'one firm' approach to bonuses and performance ratings to provide clarity and consistency.

5. Engagement performance
The quality, effectiveness and efficiency of our audit service is critical to maintaining our registration with the ICAEW. We therefore invest heavily in the effectiveness of our audits, in the skills of our people (as noted above) and in our underlying audit methodology, as well as in making the right amount of time and resources available. We pay close attention to what our audit clients require and to the findings of our regulatory inspections on the quality of our work. Just as important are the internal indicators and processes that routinely monitor the effectiveness of our risk and quality processes.

(a) Audit methodology:
Member firms of PwC International use a common audit methodology and process, supplemented by local regulatory requirements, for their audit engagements. This common methodology allows us to respond quickly to the changing environment in which PwC member firms, and their clients, operate. The PwC UK audit approach adheres to International Auditing Standards and laws and regulations in the UK, and we continuously seek to improve the model.

(b) Comprehensive policies and procedures:
The firm has policies and procedures governing UK accounting and auditing practice. These are regularly updated to reflect new professional developments, changes in our operating environment and emerging external issues, as well as the needs and concerns of the practice. These policies cover both professional and regulatory standards and also reflect the guidance that PwC UK provides to its professionals on how best to implement them. They are available in electronic files and databases and are accessible to our people remotely at any time.

(c) Assurance Delivery Model
We appreciate and share our clients' concerns around continuous improvement, audit quality and cost containment. Therefore, we have made investments focused on further enhancing audit quality through standardisation, optimisation and increased flexibility. A key element of this investment is a sourcing model that is designed to reallocate certain administrative and common audit procedures to Assurance delivery centres. Allocating certain tasks 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.

To maintain confidentiality and security of information, we have implemented strict data security controls, and work is performed solely by PwC employees. To maintain the highest levels of quality, these changes are being made in carefully controlled stages.

(d) Consultation and support:
Consultation is a key element of quality control. The firm has policies setting out the circumstances under which consultation is mandatory. The firm's technical experts track new developments in relevant areas and provide updates to the appropriate professional staff. Our consultative culture means that our engagement teams regularly consult with experts and others beyond circumstances where this is formally required.

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

- **Audit technical –** the PwC Network is nearing completion of a major programme to enhance the risk analysis capabilities of its audit methodology, audit tools and audit documentation. PwC UK will complete this programme in late 2010, at which stage all staff will have been trained on the new audit tools. This has required significant input and investment from PwC UK over the past three years and has also involved, in 2010, a complete update of tools, templates and documentation for the adoption of the new clarity International Standards on Auditing (UK and Ireland) for periods ending on or after 15 December 2010 ('clarity ISAs').
- **Accounting consulting services** – the level of technical support given to the practice over the past year has been significant. The group has been busy with the practice and clients on financial reporting requirements through technical update seminars and through work to improve the electronic delivery of IFRS and UK GAAP knowledge and materials.
- **Technical learning and education** – the focus has been on supporting the roll-out of audit training to all members of staff and providing e-learning solutions. Particular emphasis in 2010 has been given to the implementation of clarity ISAs.
- **Risk management –** market conditions have resulted in a significant increase over recent years in the number of client-related issues that have required risk management input. This has resulted in a large increase in the guidance given to the practice through notes, webcasts and briefings.

(e) Supervision and review:

The engagement leader and audit team manager supervise the audit, review the work, coach the team and maintain audit quality.

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

The audit team manager supports the engagement leader by:

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

(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 high risk. QRPs are experienced partners who are independent of the core engagement team and responsible for reviewing key aspects of the audit, including independence, significant risks and their responses, judgements, uncorrected misstatements, documentation of work done in the areas reviewed, the financial statements, communications with those charged with governance and the appropriateness of the audit report to be issued. Their review is completed and any matters raised are resolved to the QRP's satisfaction in advance of the audit report date.

(g) Reliability and usefulness of audit reporting

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

(i) Reporting to audit committees

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

In addition, it is our role to inform the board whether we can conclude that what is reported externally is both true and fair within established norms of materiality, including considering both qualitative and quantitative aspects of accounting and reporting. We achieve this through engagement leader reviews, 'hot reviews' of the accounts of listed and public interest entities, training, use of templates and consultation procedures.

(ii) External reporting

We are also conscious that our audit reports should be clear and unambiguous. The form and content of our audit opinions are laid down by UK legislation and the APB for UK entities. Engagement leaders only conclude on the truth and fairness of the financial statements and sign an audit opinion following appropriate review of the work performed by the audit team, resolution of issues identified, clarification of any uncertainties and an assessment of uncorrected misstatements, both quantitative and qualitative, identified in respect of the financial statements. Consultation procedures are in place where a modified, or a qualified, opinion is proposed. The consultation process assists in conveying matters raised clearly and unambiguously.

In addition to the audit opinion, in certain situations we also have reporting obligations to regulators and to other organisations specified by UK law.

6. Monitoring

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

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

(a) ISQC (UK&I) 1 and the Audit Compliance Review ('ACR'):

In accordance with the ICAEW Audit Regulations, we undertake an annual ACR, which includes reviews of a sample of audit engagements (see 'Engagement quality review' below) and tests on the effectiveness of the firm's controls in functional areas such as recruitment, training and independence both centrally and at a business unit level. This work also provides testing of compliance with many of the policies and procedures established to comply with ISQC (UK&I) 1; additional testing on ISQC (UK&I) 1 is undertaken to cover other areas not covered in the ACR work. Any issues identified are followed up and an action plan developed.

(b) Engagement quality review:

PwC UK carries out independent reviews at the individual engagement level known as the Quality Evaluation ('QE'). The key features of the QE are as follows:

- a cold review of completed audit engagements of individuals in the firm who sign audit reports (ie Responsible Individuals);
- all Responsible Individuals are subject to review at least once every three years, but such review may be more frequent due to nature of the clients being reviewed (eg certain high-profile or high-risk clients are reviewed more frequently);
- the programme is conducted annually;
- reviews are conducted by experienced partners and staff who are independent from either the office or business unit that performs the audit;
- follow-up reviews take place in the intervening years if deficiencies have been identified in the prior year;
- adverse findings are taken into consideration in determining the reward and promotion of Responsible Individuals;
- the results are reported to the Assurance Executive and Executive Board of PwC UK; and
- the QE covers non-audit engagements performed as well as audit engagements.

An action plan is developed to respond to significant matters arising from the QE. Significant matters identified and consistent themes are fed back to the practice through mandatory training events and quarterly Quality-in-Practice webcasts, together with additional and/or revised guidance to assist teams. In 2010, 151 audit engagements (2009: 153 audit engagements) were reviewed, covering 42% of the firm's Responsible Individuals.

(c) Quality key performance indicators:
Quality key performance indicators ('KPIs') are set each year and are aimed at creating behavioural change in areas where improvement in quality is considered necessary. In the year to 30 June 2010, 14 audit quality KPIs were assessed, covering various aspects of the audit from planning to completion. The KPIs are assessed quarterly through the 'hot review' of audit files by partners and staff who are independent of the audit under review. The results are moderated by business units and centrally to provide consistency. Issues identified are communicated to the practice through webcasts, briefings and additional guidance and are also incorporated into core training events. Where additional guidance is required, this is developed by ARQ. The overall quality KPI scores feed into the firm's balanced scorecard and are taken into consideration when determining the bonus pool for each business unit.

The overall audit quality KPI score for the year ended 30 June 2010 was 94.8% (2009: 92%) against a target score of 95%.

7. Factors outside the control of auditors affecting audit quality

In additon to our processes, systems and controls, there are other factors that drive audit quality that are to a large extent outside our control.

Regulatory environment

Audit quality is affected by regulatory structures and the overall regulatory environment. The audit process is clearly an important part of these structures and the quality of engagement between the audit firm and the organisations with which it works is critical to the firm's ability to help maintain a stable market economy.

While many aspects of the regulatory framework impact our business, perhaps the most important elements are specific industry regulations and those that shape the reporting model on which the audit is based. There has been significant change in the banking industry regulations in the past 12 months, which will have an important impact on the role of auditors. In addition, the current reporting model is coming under renewed challenge from many quarters, including the FRC and government, which are both undertaking work to ensure it remains relevant and accessible. The coming year should throw light on whether the current model reflects the best standards, empowers shareholders as effective owners and is coherent given the increasing regulatory burden on business. We believe this work is of critical importance to audit quality and the sustainable value of the audit, given that reporting is the bedrock on which it is based.

Corporate governance and stewardship

Much has happened to corporate governance and stewardship in the UK over the past 12 months. The new UK corporate governance code is currently bedding down and a new stewardship code has been introduced. The stewardship code, which is complementary to the governance code, focuses on the critical role that shareholders can play in the orderly activities of companies, and aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.

This code has clear implications for the development of reporting and the audit over time, particularly because auditors have little or no direct engagement with shareholders to whom collectively they formally report. Although our interaction with shareholders is limited, and in practice confined to the activities of the Annual General Meeting, we do commit significant time and effort to engage with investor groups on matters such as audit quality and the development of the reporting model, where their views are particularly sought by the standard setters.

The quality of corporate governance is a critical element of the system on which auditors rely. Rarely does corporate governance not feature as a key aspect in corporate failure, as the core reasons are normally strategic, business model-related or behavioural. The credit crunch has highlighted the importance of effective corporate governance in running a business and its interactions with its external stakeholders.

Although we may not have any direct control over the quality and effectiveness of corporate governance within our audit clients, it would be wrong to suggest that we do not try to influence corporate governance activity on the ground as we discharge our audit responsibility. Our routine interaction with audit committees, and others charged with governance, is critical, in particular to how our advice is received and acted on. We place significant effort in ensuring that our engagement is clear and concise, and believe that this is best achieved through comprehensive audit committee reports, and other reports to those charged with governance, which focus on the material issues and professional judgements that are critical to our audit opinion. Importantly, when the need arises, we will intervene outside the normal audit routine, for example, if we believe that non-executive directors are missing an issue or if we feel they are being misled.

We firmly believe that the time has now come for the audit profession to embrace a more progressive agenda focused on potential changes to its mandate, which will ensure that it remains relevant and valued. We strongly believe this debate needs to start with the audit value proposition. Furthermore, we believe this debate and an agenda for change should in large part be framed around the reporting model in its entirety. This should include how the shortcomings identified by the credit crunch and the reporting of risk and business models can be addressed, and how strategically important sustainability issues can be brought into the mainstream of reporting in an integrated way.

8. Additional key driver of audit quality

The Audit Quality Framework, issued by the FRC in February 2008, identified five key drivers of audit quality. These are: the culture within an audit firm, the skills and personal qualities of audit partners and staff, the effectiveness of the audit process, the reliability and usefulness of audit reporting, and factors outside the control of auditors. The ways in which we have applied these drivers have been incorporated in the above narrative.

In addition to the FRC's five key drivers of audit quality, we believe there's a sixth critical driver and that is the financial success of the audit practice. The quality of our audit work is largely dependent on the quality and skills of our people in what remains a highly competitive market. Our ability to recruit the best graduates, staff and partners depends on our ability to offer market-competitive salaries and world-class professional training. In addition, we make significant investments in both our audit methodology and supporting technologies and tools. Over the past year, this investment alone has run into many millions of pounds. Without financial success, our ability to invest in our people, methodology and tools would be jeopardised.

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

9. Review of the firm's internal control system

The Audit Firm Governance Code requires the firm to conduct, at least annually, a review of the effectiveness of the firm's internal control system, covering material controls such as financial, operational and compliance controls and risk management systems. In maintaining a sound system of internal control and risk management, and in reviewing its effectiveness, we have used the 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance) issued in October 2005 by the Financial Reporting Council.

The Executive Board has overall responsibility for PwC UK's internal control system and for reviewing its effectiveness. It has reviewed the system's operational effectiveness throughout the financial year ended 30 June 2010 and up to the date of approval of this Transparency Report using a process that involves:

- written reports and/or confirmations from relevant senior partners, committees and functions concerning the operation of those elements of the system for which they are responsible;
- internal audit work carried out by the Internal Audit function, which reports to the Audit and Risk Committee;
- reports from the firm's regulators; and
- reports from the external auditors.

Such a system is designed to mitigate rather than eliminate the risk of failure and provides reasonable but not absolute assurance against material misstatement or loss or non-compliance with relevant laws and regulations.

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

PwC UK's internal quality control system is a sub-set of the firm's internal control system and is outlined in this section. On the basis of the reviews performed as outlined in part 9 above, the Executive Board is satisfied that PwC UK's internal quality control system is operating effectively. Any matters identified through the various monitoring and review processes are actioned and changes implemented as appropriate.

6. Independence procedures and practices

Organisation

Bill Morgan is PwC UK's Ethics Partner. He is a senior partner within the firm supported by a core team of independence specialists to help the firm apply robust and consistent independence policies, procedures and tools. He reports directly to Owen Jonathan, the Executive Board member responsible for Risk and Quality, and is a member of the PwC Network's Independence Leadership Team.

Policies and guidance

The PwC Network Independence Policy, which is based on the International Federation of Accountants ('IFAC') Code of Ethics and encompasses, where appropriate, the Securities and Exchange Commission ('SEC') and Public Company Accounting Oversight Board ('PCAOB') regulations, sets out the minimum standards that must be observed and processes that should be followed to maintain independence from assurance clients of PwC member firms. The UK firm supplements this policy as required by UK professional bodies and regulation.

The firm's independence policy covers the following areas:

- personal and firm independence, including policies and guidance on the holding of financial interests and other financial arrangements, eg 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 assurance clients; and
- business relationships, including policies and guidance on joint ventures, sub-contracting, joint marketing and purchasing goods and services acquired in the normal course of business.

Independence systems

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

- the Central Entity Service ('CES'), which contains information about corporate entities including public interest audit clients and SEC restricted clients and their related securities. CES assists PwC UK in determining the independence status of clients of the firm before entering into a new non-audit engagement or business relationship. This system also feeds GPS;
- the Global Portfolio System ('GPS'), which facilitates the pre-clearance of publicly traded securities by all member firm partners, directors and practice managers before acquisition and records their subsequent purchases and disposals. Where a member firm wins a new audit client this system automatically informs those holding securities in this client of the requirement to sell the security where required; and
- Authorisation for Services ('AFS'), which is a global system that facilitates communication between a non-audit services engagement leader and the audit engagement leader, documenting the potential independence threats of the service and proposed safeguards, and acts as a record of the audit partner's conclusion on the acceptability of the service.

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

- a rotation-tracking system that monitors compliance with the firm's audit rotation policies for engagement leaders, other key partners and senior staff involved in an audit; and
- a database that records significant approved business relationships entered into by the firm (excluding those carried out in the normal course of business). These relationships are reviewed on a six-monthly basis to assess their ongoing permissibility.

Training and confirmations

Annually, all partners and staff receive computer-based training on the firm's independence policies and related topics. Additionally, face-to-face training is delivered to members of the practice on an as-needed basis by the firm's independence specialists and risk and quality teams.

On joining the firm and at least annually thereafter, all partners and staff are required to confirm their compliance with all aspects of the firm's independence policy, including their own personal independence. 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 any threats to independence that may have arisen and as a periodic reminder of the firm's independence policies and procedures. These annual confirmations are supplemented by periodic engagement-level confirmations for the firm's larger financial services clients.

Monitoring

The firm has a comprehensive monitoring and testing programme, which includes the following:

- hot and cold quality control engagement reviews to confirm compliance with risk management processes, including independence;
- central monitoring of independence KPIs, including the quality of AFSs;
- personal independence audits of a random selection of partners, directors and managers; and
- annual self-assessment of the firm's adherence with the PwC Network's risk management standards, including independence, which is reviewed by a partner from another member firm of PwC International.

The results of the firm's monitoring are reported to the Executive Board and provide assurance that the firm's policies and processes are being followed. The investigations of any identified policy violations serve to identify the need for improvements in the firm's systems and processes and for additional guidance and training.

Disciplinary policy

PwC member firms are required to have disciplinary mechanisms to promote compliance with independence policies and processes and to report and address any violations of independence requirements. In addition, PwC member firms are required to report any violations of cross-border independence regulations affecting audit appointments of other member firms.

In PwC UK, a partner or staff member may be subject to a fine or other disciplinary action, including dismissal, for a violation of independence policy.

Review of independence procedures and practices

Our independence procedures and practices are subject to internal review on a continuous basis and take into account changes in external requirements and the results of our monitoring and testing programme.

7. External monitoring

(a) Regulators in the UK

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

Each year, as part of the ICAEW's monitoring responsibilities, the Audit Inspection Unit ('AIU') of the Professional Oversight Board (part of the Financial Reporting Council) and the Quality Assurance Department ('QAD') of the ICAEW each undertake an inspection of the quality of the firm's work as statutory auditors.

In September 2010, the AIU issued a public report of its 2009/10 inspection. Whilst it is impractical to reproduce the content of the entire report, we set out below its key points.

The 2009/10 inspection covered a review of the firm's policies and procedures supporting audit quality and reviews of FTSE 100, FTSE 250 and other major public interest entities with financial year ends up to June 2009, the majority of which were December 2008 or later.

The report commented that:

- the firm places considerable emphasis on its overall systems of quality control; and
- in the view of the AIU, the firm has appropriate policies and procedures in place for its size and the nature of its client base in the relevant areas which are subject to review.

Nevertheless, the AIU identified certain areas where improvements are required.

(i) Review of audit engagements

The AIU's focus was on audit evidence and related judgements for material areas of the financial statements and areas of significant risk. The AIU reviewed a number of significant audit judgements and paid particular attention to the valuation of assets held at fair value, impairment of goodwill and the going concern assessment. The AIU was generally satisfied with the justification of significant audit judgements and the sufficiency and the appropriateness of the audit evidence obtained. However, on occasion, the AIU was only able to reach that conclusion after detailed explanations from the audit team.

The AIU:

- undertook two follow-up reviews of audits that the AIU reviewed in the prior year and commented that there was an improvement in the quality of those audits; and
- reviewed selected aspects of 18 audits of which:
  - seven audits were determined by the AIU to have been performed to a good standard, with minor improvements required;
  - ten audits were determined to have been performed to an acceptable standard, but with improvements required; and
  - one audit was determined as requiring significant improvements in relation to the support for audit judgements in the evaluation of goodwill impairment.

Where the AIU assesses an audit as requiring significant improvement, this may indicate that the AIU had significant concerns in relation to the sufficiency or quality of audit evidence or the appropriateness of judgements in relation to key aspects of an audit, either individually or collectively, or alternatively very significant concerns in relation to other aspects of an audit. This assessment, however, does not necessarily imply that an inappropriate audit opinion was issued. As the AIU also notes in its report, due to the small size of the samples involved, changes in performance from one year to the next are not necessarily indicative of any overall change in audit quality.

The following areas were identified by the AIU as those areas to which they consider we should pay particular attention in order to enhance audit quality in the coming year. They do not, however, cover all specific findings that the AIU has reported to the firm in the current year and further detail can be found in the report itself. The AIU reported that we should:

- consider whether actions taken to address issues raised in prior years are effective and whether more needs to be done to change the behaviour of audit personnel, such as the continued rebuttal of revenue recognition as a significant risk;
- ensure that the actual audit approach is consistent with that planned or, if there is a change in approach, that there is adequate explanation and justification;
- ensure that internal specialists are used more effectively and their work and results of procedures are better integrated;
- ensure that audit teams pay more attention to planning the audit of revenue in an effective manner;
- consider how engagement quality control procedures, including on-the-job reviews, can be further strengthened to reduce the number of issues identified by internal and external quality reviews; and
- ensure that the continued emphasis on achieving efficiency on audits does not adversely affect audit quality.

The AIU also commented that the firm has taken a number of positive steps to deal with matters raised in previous years and considered that the firm's actions in relation to the assessment of going concern, including the use of technical panels on a number of audits to review the judgements made by the audit team, have enhanced the quality of work in that area. However, a number of matters were identified where further improvement is still required, and these have been included in the above narrative.

(ii) Review of the firm's policies and procedures

The AIU also reviewed the firm's policies and procedures. The report commented that PwC UK puts significant resources into its central support functions, such as HR, risk management, audit and accounting technical, independence and compliance, in addition to the regular monitoring of quality key performance indicators on audits.

The AIU's review identified the following areas for improvement:

- continued care is needed to ensure that the emphasis on efficiency does not adversely affect audit quality;
- quality was identified by the firm as being less consistent on audits led by an audit director compared with audits led by partners. The firm is currently addressing this issue, and the AIU will review how we have addressed this in its next inspection;
- one previous FTSE 100 audit engagement partner was involved in providing advice to the audit client on the implementation of systems and controls and continued to attend audit committee meetings. This could give the appearance of continued involvement in the audit that Ethical Standards would not allow. The partner is no longer involved in this engagement;
- Ethical Standards require the identification and assessment of independence threats relating to non-audit services; however, instances were identified where this assessment was not adequately performed. Templates for documenting threats and safeguards were issued during 2009 with the objective of improving consistency in this area;
- the firm's audit quality monitoring processes include the ongoing monitoring of quality key performance indicators (KPIs) on audits and the annual quality evaluation of audits ('QE'). Due to the changes to the QE process implemented during 2009, such as increased seniority of reviewers, the AIU considers the QE to be more robust than previously. However, the firm should ensure that there is sufficient challenge given to significant areas of judgement in the QE reviews. The AIU also believes the KPI process helps maintain or improve audit quality in specific areas of the audit; and
- the quality and level of detail of the firm's 2009 Transparency Report improved from those in prior years. However, the Report omitted required statements on the effectiveness of the internal quality control system and the internal review of independence practices, and the AIU found that references to the contents of its public reports should be more balanced, rather than referring only to positive comments. The AIU will review this 2010 Transparency Report as part of its next inspection.

The AIU's report added that the firm has generally made good progress in acting on the AIU's findings from last year, and that there have been a number of improvements to the firm's procedures. In particular, the firm put in place a programme to ensure that audit team members are not set objectives or rewarded for the selling of non-audit services, and improved the linkage between audit quality and remuneration.

To fully understand all the matters raised by the AIU and their context, the full report should be read and is available on the FRC's website at www.frc.org.uk/pob/audit/firmreports0910.cfm.

In July 2010, the ICAEW's Audit Registration Committee considered the outcome of the 2009/10 inspections undertaken by the AIU and QAD and confirmed the continuance of the firm's audit registration.

We are committed to working constructively with, and take seriously the findings identified by, all of the firm's regulators in relation to the firm's audit work. We have established appropriate actions to address those findings together with a clear timeframe for their resolution. We make specific individuals responsible for ensuring that those actions are achieved and that a follow-up process is in place to track their progress.

We also work with our clients to enable them to assist the Financial Reporting Review Panel (also part of the Financial Reporting Council) in their work monitoring public company reporting.

(b) Overseas regulators

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

- in the US;
- in Japan;
- in Canada; and
- in the Crown Dependencies of Jersey, Guernsey and the Isle of Man.

As a requirement of these registrations, PwC UK is subject to monitoring by the relevant regulatory bodies. To date, only the Public Company Accounting Oversight Board ('PCAOB'), the US regulator, has inspected the audit work of PwC UK. That inspection, which reported in September 2008, did not identify any audit performance issues that, in the PCAOB's view, resulted in the firm failing to obtain sufficient evidence to support its opinions, based on the work the firm undertook.

No other regulatory inspections by overseas regulators have taken place or are currently planned.

8. Financial information

Consolidated financial information

The following information is extracted from the consolidated financial statements of PricewaterhouseCoopers LLP for the year ended 30 June 2010:

- Consolidated profit for the financial year before members' profit share was £642m (2009: £680m), with profit available for division among members of £622m (2009: £667m).

Relative importance of statutory audit work

An analysis of the UK and total consolidated turnover of PricewaterhouseCoopers LLP for the financial year ending 30 June 2010, which shows the relative importance of UK related statutory audit work, is shown below:

	2010 £m	2009 £m
Statutory audits and directly related services for audit clients	548	558
Non-audit services to audit clients	358	406
Services to audit clients	906	964
Services to clients we do not audit	1,287	1,239
UK firm turnover	2,193	2,203
Turnover from non-UK subsidiary undertakings	138	45
Consolidated turnover	2,331	2,248
Revenues from statutory audits and directly related services for audit clients as a percentage of UK firm turnover	25.0%	25.3%

Audit profitability

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

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

	2010 £m	2009 £m
Turnover	548	558
Operating profit	108	109

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

- turnover represents amounts recoverable from clients for statutory audits and directly related services provided during the year, excluding Value Added Tax, and 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, recorded on engagements falling within the segment, together with the allocation of overheads, such as property and IT costs. These costs have been allocated on a pro rata basis, based primarily on headcount or revenues. No cost is included for the remuneration of members of PricewaterhouseCoopers LLP, consistent with the treatment of partners' remuneration in the firm's consolidated financial statements.

9. Remuneration of partners

Partners are remunerated out of the profits of PwC UK and are personally responsible for funding their pensions and other benefits. Audit partners and audit staff are not permitted to be, nor are they, incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients.

The final allocation and distribution of profit to individual partners is made by the Executive Board, once their performance has been assessed and the annual financial statements have been approved. The Supervisory Board approves the process and oversees its application. In addition, the Assurance Risk Management Partner and the firm's Ethics Partner each participate in the remuneration discussions for audit partners, providing input on their performance in respect of risk and quality matters, and to ensure that the process complies with the firm's policies.

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

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

Each partner's performance income is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the partner's role and including an assessment of their technical competence and any risk and quality issues. Quality failings identified either through regulatory reviews or other external and/or internal quality reviews impact the remuneration of audit partners through an accountability framework.

Given the diverse roles and responsibilities each partner undertakes, the weighting given to each of the above criteria varies depending upon those roles and responsibilities. However, in the current year, each partner's performance income represents on average approximately 37% of their profit share (2009: 35%).

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

10. Public interest entities

A list of the public interest entities for whom we issued an audit opinion between 1 July 2009 and 30 June 2010 who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008) can be found at pwc.co.uk/annualreport

Appendices

Biographies

1. The Executive Board

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

Richard Collier-Keywood, Managing Partner, is responsible for the overall management and performance of the business as well as our community affairs programme. He read Law at Warwick University and was called to the Bar in 1983. He joined the firm in 1987 and became a partner in 1992. He was previously head of the firm's Tax practice.

James Chalmers, Head of Strategy and Talent, graduated from Oxford University with an Engineering degree and joined the firm in 1985, becoming a partner in 1997. He has extensive experience providing assurance services to multinational clients and has been on long-term secondments to clients in the banking and healthcare sectors. Before joining the Board, he was a member of the Assurance leadership team.

Kevin Ellis, Head of Advisory, graduated in Industrial Economics from Nottingham University, joined the firm in 1984 and became a partner in 1996. He was previously head of Business Recovery Services.

Owen Jonathan, General Counsel, is responsible for the Office of General Counsel and enterprise risk, including compliance and independence. He read Law at the University of Bristol. Before joining the firm as a partner in 2000, he was a partner at City law firm Norton Rose and subsequently, general counsel to Kerry Holdings Limited of Hong Kong and later CEO of South China Morning Post (Holdings) Ltd.

Barry Marshall, Head of Tax, has an MBA from Warwick University. Barry joined the firm in 1980 and became a partner in 1988. Barry's international experience includes acting as the global leader of our international tax structuring network.

Kevin Nicholson, Head of Regions, works with the regional leaders on strategy, planning and execution. He 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 and previously headed our Entrepreneurs and Private Clients division.

Paul Rawlinson, Head of Markets and Industries, is responsible for driving revenues across our top-tier client base and put in place the industry and segment programmes that will ensure the effective cascade of learning and credentials from our brand-defining clients. He has a History degree from Cambridge University, joined the firm in 1982 and became a partner in 1994. Paul has extensive experience as a transaction services partner in the private equity and corporate markets.

Richard Sexton, Head of Assurance, has a degree in Mathematics and Business Finance from Southampton University and joined the firm in 1980. He became a partner in 1993 and spent time in New York and Hong Kong. He previously led our London Assurance practice.

Keith Tilson, Chief Financial Officer, is in charge of Finance and Operations. He read Economics at Cambridge University. After joining the firm in 1976, he spent four years in Sydney and became a partner in 1988. Before taking up his current role, he was Managing Partner Operations and Finance and before that Head of Advisory.

2. The Supervisory Board

Duncan Skailes (Supervisory Board chair from January 2010) is a corporate finance partner within the Advisory practice in London, heading the UK private equity team. He joined the firm in 1987 and was admitted as a partner in 1999.

John Dowty leads the Delivering Deal Value business in Consulting, part of the Advisory practice. He has been with the firm for 30 years and became a partner in 1992. He chairs the Strategy and Governance Committee of the Supervisory Board.

Colin Brereton is an assurance partner in the London Top Tier business unit, focusing primarily on the telecoms sector, and is the Global Communications Industry sector leader. He joined the firm in 1982 and became a partner in 1995.

Pauline Campbell is the Assurance leader in our Uxbridge office, and has dealt with the spectrum of market segments from private client to top tier. She joined the firm in 1985 and became a partner in 1996.

Paul Clarke is an assurance partner within the London Insurance and Investment Management group. He joined the firm in 1985 and was admitted to the partnership in 1994.

Katherine Finn is a partner in the West & Wales Assurance business unit. She has been with the firm for 19 years and was admitted to the partnership in 2006.

Roy Hodson is a partner in the Top Tier Assurance practice. He joined the firm in 1976 and became a partner in 1988. He chairs the Audit and Risk Committee of the Supervisory Board.

Rob Hunt is a partner in the Business Recovery Services team in Advisory, based in Birmingham. He joined the firm in 1984 and was admitted to the partnership in 1996.

Pam Jackson is a tax partner in London, specialising in mergers and acquisitions. She joined the firm in 1983 and became a partner in 1990. She chairs the Senior Partner Remuneration Committee of the Supervisory Board and is also a member of the board of PwC Middle East.

Mike Karp is a tax partner in London and acts as global relationship partner for a number of clients. He has been with the firm for 31 years and became a partner in 1990.

Gerry Lagerberg is a partner in Forensic Services in London. He joined the firm in 1983 and became a partner in 1995. He was chair of the Supervisory Board from January 2007 to December 2009. He is a member of the Global Board, the body responsible for the governance of the PwC Network, and a member of the board of PwC Middle East.

Murray Legg is an assurance partner in London. He joined the firm in 1978 and was admitted to the partnership in 1989. Since 2005 he has been a member of the Global Board, the body responsible for the governance of the PwC Network.

Roger Marsh is based in Leeds and leads the Government and Public Sector practice in the North. He joined the firm in 1976 and became a partner in 1988.

Pat Newberry is a partner in the Financial Services practice in Consulting, within the Advisory practice. He joined the firm in 1977 and became a partner in 1988.

Ian Rankin is an assurance partner based in our Edinburgh office, dealing predominantly with financial services clients. He joined the firm in 1978 and joined the partnership in 1989.

Matthew Thorogood is a partner in Human Resources Services, part of the Tax practice, in London. He has been with the firm for 24 years and became a partner in 2001.

Graham Williams leads Risk Assurance Services for the Government and Public Sector practice within Assurance. He joined the firm in 1980 and became a partner in 1991. He chairs the Partner Affairs Committee of the Supervisory Board.

3. The Public Interest Body

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

Sir Ian Gibson is currently Chairman of Wm Morrison Supermarkets plc and also Chairman of Trinity Mirror plc. 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 Director at several companies, including GKN plc, Northern Rock plc and BPB plc, a Member of the Court of Directors at the Bank of England and has had several Government advisory roles.

Professor Andrew Hamilton is Vice Chancellor of the University of Oxford. He was previously Provost at Yale University in the United States. In addition to his academic background, he has extensive business experience including overall responsibility for the Oxford University Press.

Sir Richard Lapthorne is the current Chairman of Cable & Wireless Communications plc and is also a member of the Advisory Board of HMRC Large Business. Sir Richard's executive career spanned British Aerospace plc, where he was Vice-Chairman and Finance Director, Courtaulds plc, where he was Finance Director, and Unilever plc, where he was Commercial Director.

Paul Skinner is a Non-Executive Director at Standard Chartered plc, Air Liquide SA and the Tetra Laval Group. He is also Chairman of Infrastructure UK, a body which advises HM Treasury, and a Board Member of INSEAD. 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 a member of the Defence Board of MoD.

PwC UK Code of Conduct – the way we do business

Acting professionally. Doing business with integrity. Upholding our and our clients' reputations. Treating people and the environment with respect. Acting in a socially responsible manner. Working together and thinking about the way we work. Considering the ethical dimensions of our actions. This is Connected Thinking, expressed in our Code of Conduct.

Putting our values in action

Excellence
Delivering what we promise and adding value beyond what is expected.

We achieve excellence through innovation, learning and agility.

Teamwork
The best solutions come from working together with colleagues and clients.

Effective teamwork requires relationships, respect and sharing.

Leadership
Leading with clients, leading with people and thought leadership. Leadership demands courage, vision and integrity.

Code of Conduct

The member firms of PwC International ('PwC') form one of the world's pre-eminent professional services networks. As professional advisers we help our clients solve complex business problems and aim to enhance their ability to build value, manage risk and improve performance.

As auditors we play a significant role in the operation of the world's capital markets. We take pride in the fact that our services add value by helping to improve transparency, trust and consistency of business processes. In order to succeed, we must grow and develop, both as individuals and as a business. Our core values of **Excellence**, **Teamwork** and **Leadership** help us to achieve this growth.

While we conduct our business within the framework of applicable professional standards, laws, regulations and internal policies, we also acknowledge that these standards, laws, regulations and policies do not govern all types of behaviour. As a result, we also have a Code of Conduct for all people and member firms of PwC International. This Code is based on our values and it takes them to the next level – demonstrating our values in action. The Code also provides a frame of reference for member firms of PwC International to establish more specific supplements to address territorial issues.

Each of us at PwC has an obligation to know and understand not only the guidelines contained in the Code, but also the values on which they are based. Knowing and understanding are not enough. We also have an obligation to comply with the letter and spirit of this Code and to help others do the same. As individuals we are encouraged to raise any issues and concerns through appropriate channels.

While the Code provides a broad range of guidance about the standards of integrity and business conduct, no code can address every situation that individuals are likely to encounter. As a result, this Code is not a substitute for our responsibility and accountability to exercise good judgement and obtain guidance on proper business conduct. We are encouraged to seek additional guidance and support from those designated as responsible for business conduct matters. The strength in our organisation is the strength in our collective knowledge and the sharing of that knowledge and experience.

(a) Upholding the PricewaterhouseCoopers name

- Our clients and colleagues trust PwC based on our professional competence and integrity – qualities that underpin our reputation. We uphold that reputation.
- We seek to serve only those clients whom we are competent to serve, who value our service and who meet appropriate standards of legitimacy and integrity.
- When speaking in a forum in which audiences would reasonably expect that we are speaking as a representative of PwC, we generally state only PwC's view and not our own.
- We use all assets belonging to PwC and to our clients, including tangible, intellectual and electronic assets, in a manner both responsible and appropriate to the business and only for legal and authorised purposes.

(b) Behaving professionally

- We deliver professional services in accordance with PwC policies and relevant technical and professional standards.
- We offer only those services we can deliver and strive to deliver no less than our commitments.
- We compete vigorously, engaging only in practices that are legal and ethical.
- We meet our contractual obligations, and report and charge honestly for our services.
- We respect the confidentiality and privacy of our clients, our people and others with whom we do business. Unless authorised, we do not use confidential information for personal use, for PwC's benefit or to benefit a third party. We disclose confidential information or personal data only when necessary, and when appropriate approval to do so has been obtained, and/or we are compelled to do so by legal, regulatory or professional requirements.
- We aim to avoid conflicts of interest. Where potential conflicts are identified and we believe that the respective parties' interests can be properly safeguarded by the implementation of appropriate procedures, we will implement such procedures.
- We treasure our independence of mind. We protect our clients' and other stakeholders' trust by adhering to our regulatory and professional standards, which are designed to enable us to achieve the objectivity necessary in our work. In doing so, we strive to ensure that our independence is not compromised or perceived to be compromised. We address circumstances that impair or could appear to impair our objectivity.
- When faced with difficult issues or issues that place PwC at risk, we consult appropriate PwC individuals before taking action. We follow our applicable technical and administrative consultation requirements.
- It is unacceptable for us to receive or pay bribes.

(c) Respecting others

- We treat our colleagues, clients and others with whom we do business with respect, dignity, fairness and courtesy.
- We take pride in the diversity of our workforce and view it as a competitive advantage to be nurtured and expanded.
- We are committed to maintaining a work environment that is free from discrimination or harassment.
- We try to balance work and private life, and help others to do the same.
- We invest in the ongoing enhancement of our skills and abilities.
- We provide a safe working environment for our people.

(d) Corporate citizenship

- We express support for fundamental human rights and avoid participating in business activities that abuse human rights.
- We act in a socially responsible manner, within the laws, customs and traditions of the countries in which we operate, and contribute in a responsible manner to the development of communities.
- We aspire to act in a manner that minimises the detrimental environmental impacts of our business operations.
- We encourage the support of charitable, educational and community service activities.
- We are committed to supporting international and local efforts to eliminate corruption and financial crime.

Our responsibilities

The PwC Code of Conduct defines how we should behave and conduct business in a wide range of settings and situations. The **Framework for Ethical Decision Making**, set out overleaf, supplements the Code and will help us resolve issues.

It is the responsibility of each of us to follow the Code of Conduct and PwC policies consistently and appropriately and to help others to do so. When non-compliance with our Code of Conduct is reported or otherwise suspected, steps will be taken to investigate and, if appropriate, remedy the situation.

We are encouraged to report and express our concerns and must do so in good faith, fairly, honestly and respectfully. PwC is committed to protecting individuals against retaliation. People in the reporting line are responsible for addressing issues that are brought to their attention.

Those who violate the Code or PwC policies and procedures will be subject to disciplinary action, up to and including dismissal. Disciplinary measures will also apply to anyone who directs or approves infractions or has knowledge of them and does not promptly move to correct them.

We are committed to the spirit of cooperation among member firms of PwC International and the pursuit of common business objectives. When faced with business conduct questions or concerns on international assignments, the established policies of the host country should always be followed. If we are not satisfied with the resolution after following the prescribed process within the host firm, we should seek resolution in our home country. The issue will then be addressed amongst the respective leaderships within the countries involved.

Framework for ethical decision making

As a guide in deciding on a course of action, all partners and staff should follow the steps below and ask themselves these questions:

1. Recognise the event, decision or issue
- Are you being asked to do something that you think might be wrong?
- Are you aware of potentially illegal or unethical conduct on the part of others at PwC or a client?
- Are you trying to make a decision and are you unsure about the ethical course of action?

2. Think before you act
- Summarise and clarify your issue
- Ask yourself, why the dilemma?
- Consider the options and consequences
- Consider who may be affected
- Consult others

3. Decide on a course of action
- Determine your responsibility
- Review all relevant facts and information
- Refer to applicable PwC policies or professional standards
- Assess the risks and how you could reduce them
- Contemplate the best course of action
- Consult others

4. Test your decision
- Review the 'Ethics Questions to Consider'
- Apply PwC's values to your decision
- Make sure you have considered PwC policies, laws and professional standards
- Consult others – enlist their opinion of your planned action

5. Proceed with confidence
- Communicate decision and rationale to stakeholders
- Reflect upon what was learned
- Share your success stories with others

Summary of questions to consider:
1. Is it against PwC or professional standards?
2. Does it feel right?
3. Is it legal?
4. Will it reflect negatively on you or PwC?
5. Who else could be affected by this (others in PwC, clients, you, etc.)?
6. Would you be embarrassed if others knew you took this course of action?
7. Is there an alternative action that does not pose an ethical conflict?
8. How would it look in the newspapers?
9. What would a reasonable person think?
10. Can you sleep at night?

If partners or staff are worried that some form of malpractice is taking place, they are encouraged to raise the issue with their line manager or partner. If they have done this and still have concerns, or if they feel uncomfortable discussing it with their line manager or partner, then they can call a whistle-blowing helpline.

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