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Doing the right thing

Trust in business

This document includes our audit quality and transparency reports for 2013.

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Audit quality report

A message from our Chairman

Ian Powell

Chairman and Senior Partner

This report is an important opportunity to share our values, build trust in the firm, set out our strategy, and explain our approach to delivering consistently high-quality audits.

Our audit practice is a vital part of our business and a core part of our brand. We believe that we have an obligation to create a lasting legacy that is founded not on short-term revenue growth, but on wider long-term objectives – including continually improving the quality of our work, achieving greater diversity in our talent base, building ever-deeper client relationships, and making a positive economic and social impact.

Throughout our business, we take our public interest responsibilities seriously and recognise that maintaining confidence and trust is integral to everything we do. Our focus on audit quality therefore remains unwavering as it goes to the very heart of our reputation.

Over the past year, the audit profession has continued to be subject to significant scrutiny. The Competition Commission will shortly be issuing their final report on their investigation into the UK large company statutory audit market and the European Union continues to debate whether further changes to the profession are required. Our position on audit reform remains simple: we support changes that will promote audit quality, competition and transparency and where the benefits of change clearly outweigh the costs. We believe, whatever the reform outcomes, we have the right people with the right skills to succeed.

The quality of our audit work is already subject to robust inspection by the Financial Reporting Council's Audit Quality Review and we welcome changes to the scope of the regulatory reviews if this will improve transparency and confidence in the audit profession. I am very pleased that PwC has achieved its best ever audit quality inspection results this year and would like to thank the audit teams that have delivered the results we achieved. I would also like to thank the members of our Public Interest Body, led by Sir Richard Lapthorne, for their contribution to our governance.

As you will see from this report, we invest significant time and resources in delivering audit quality and believe that our continued focus on innovation will yield further improvements and value for our clients.

Indeed, the shift to digital represents both an opportunity and a challenge for the profession. In his analysis of the future of audit on pages 10-15, our Head of Assurance, James Chalmers, sets out the importance of responding to these challenges if the audit is to remain relevant to business, investors and other stakeholders.

I hope that you enjoy reading this report.

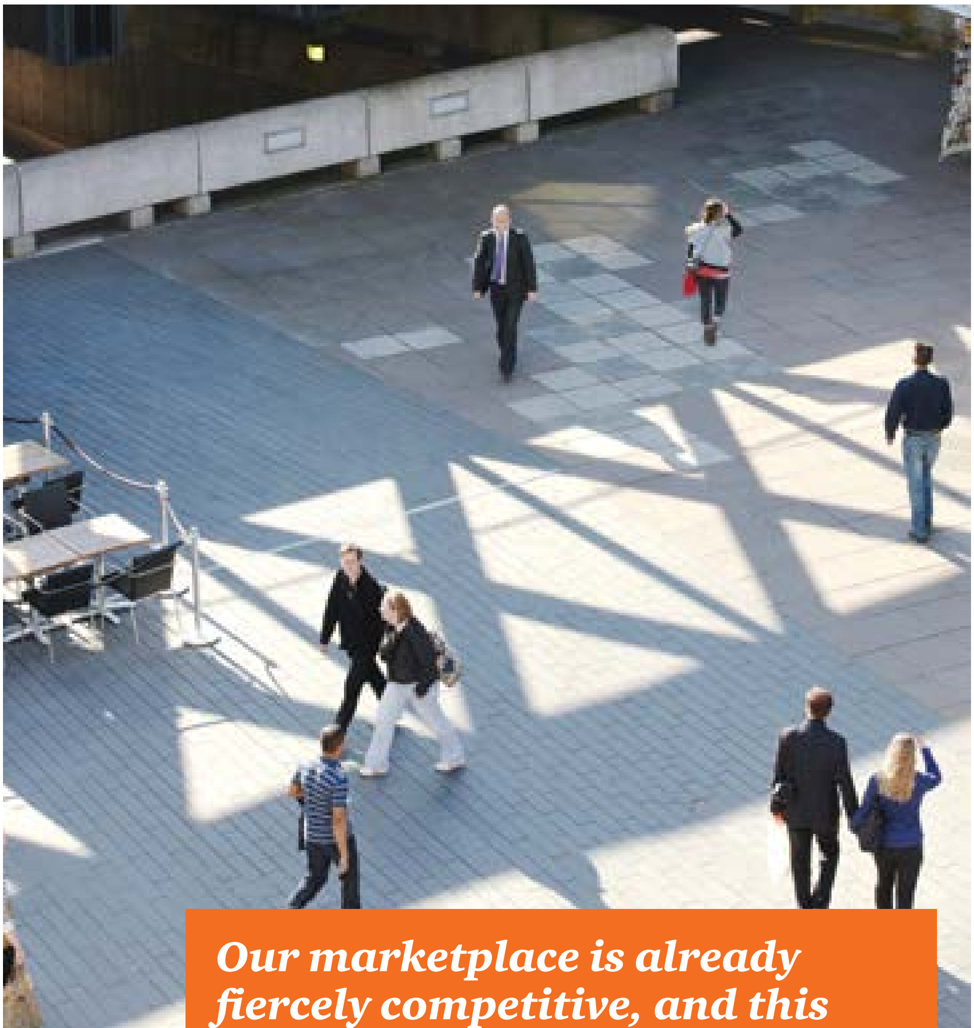
Ian Powell
Chairman and Senior Partner

Delivering quality audits

James Chalmers

UK Head of Assurance

Our ability to deliver high-quality audits is, quite simply, fundamental to our reputation – not just the reputation of our audit practice, but of our entire firm.



As Head of Assurance, I have a personal responsibility to convey this message to our partners and staff, to our clients and, through this Audit Quality and Transparency Report and other channels, to our wider stakeholders. Our commitment to quality is driven from the top of our firm and embedded in our culture.

Our marketplace

The UK large company statutory audit market is nearing the end of a two-year investigation by the UK's Competition Commission (CC). We're expecting the CC's final conclusions later this year and we will welcome those remedies that promote choice, transparency and quality without imposing a disproportionate burden on UK business.

Our marketplace is already fiercely competitive, and this year we've seen a significant upsurge in audit tender activity. We've had some great wins – the global audit of HSBC being the most recent. For other clients, the nature of our relationship will change from being auditor to being a provider of non-audit services. We're ready to respond to the fast-moving world of more frequent audit tendering.

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The size and strength of the big audit firms is often judged with reference to their percentage share of the FTSE 100 audit market. We're just as proud of our mid-tier practice – and here there are clear opportunities for us to grow through offering competitive, high-quality audits that recognise the growth aspirations of our clients.

More than 20% of PwC's audit revenues come from privately owned companies. While many of these audits are individually small in financial value, they enable us to build relationships of trust with tomorrow's stars of UK business. We're excited about the opportunity to work with groundbreaking entrepreneurs across all sectors, and we're proud to celebrate the success of PwC audit clients like Shazam, Mind Candy and Quidco, who have already created iconic, globally recognised brands.

Audit Quality inspection results

Audit committees and investors need comfort that their auditor is delivering a high-quality audit. I am delighted that our 2012/13 audit quality inspection results, published in May 2013 by the FRC, are the best that we have ever achieved.

We are not complacent, however, and we will always focus on this vitally important aspect of our work. As Head of Assurance, I personally oversee the delivery of the action plan we have agreed in response to the Audit Quality Review. For us, audit quality is about continuous improvement.

Investment and innovation

We believe in developing a vision for the future of audit, and we invest time and money in bringing that vision into reality. We have a dedicated team of partners and staff who work year-round to innovate and improve our audit approach. This is not just about making us more efficient – our objective is to optimise the value of our audits through increasing the insight that our audits can provide to audit committees and investors.

Review of audit engagements

Audit Quality Inspection results

	2012/13	2011/12	2010/11	2009/10	2008/09
Good with limited improvements required	11	8	7	7	7
Acceptable but with improvements required	2	5	7	10	5
Significant improvements required	1	1	1	1	2
Number of audits reviewed	14	14	15	18	14

In the last year there were 491 secondments of partners and staff to other members of the PwC Network and 475 people came to PwC UK from other territories.

This year, we've taken a big step forward in the world of data-enabled auditing, using advanced data-auditing techniques on nearly 2,000 audits, with many more planned for next year. Our clients have given us great feedback on these new approaches – not only do they enhance audit quality, but they're increasing our ability to provide more insightful analysis on business models and financial results.

On page 10-15, I've set out my vision of the audit of the future. It's an exciting and controversial area – but we're determined to be at the heart of the debate.

Working with our global network

The globalisation of the world economy does not only affect our large multinational clients, it also impacts small- and medium-sized businesses. Being a member of the PwC global network allows us to provide our clients with a high quality and consistent service, no matter where their operations are based; we will always be committed to the significant part of our business devoted to supporting the audits of our network firms.

We also use our network to share ideas and invest in new methodologies and approaches, such as our audit software and IT-based auditing techniques. On an individual level, we actively encourage the secondment of partners and staff to other territories. We all benefit from sharing the latest initiatives and from learning more about each other's cultures.

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Developing our people

The expertise and diversity of our people is fundamental to our ability to deliver audit quality. We want to recruit the best people and we now offer a number of different routes to join our firm including apprenticeships, our partnerships with universities and the more traditional graduate entry schemes. These new entry routes will help us achieve our ambition of increasing diversity in our workforce. We embrace our role in providing opportunities for the next generation of finance professionals and in total, we have recruited over 1,200 graduates and school leavers over the past year.

We also invest in training our people through a number of different channels including classroom events, e-learning and on-the-job training. In 2012, our Assurance partners and staff completed over 100,000 individual items of training across more than 1,300 training programmes.

Our culture and values

As a professional services firm that thrives on the strength of its people, it's essential that everyone in the firm understands PwC's values and feels part of a common culture.

Whether we're auditors or not, we all have a duty to act with integrity and to consider the public interest when undertaking our work.

That's a heavy responsibility, and it's not always easy to reach the right answers. But it's also a privilege to be part of a profession, distinguished by this responsibility. We support our people through communicating a clear Code of Conduct that encourages consultation on any difficult ethical issues.

We recognise the personal responsibility that comes with our role, and with the trust placed in us. Our challenge is to repay this trust through the delivery of excellent audits. That will always be our highest priority.

James Chalmers
Head of Assurance

Whether we're auditors or not, we all have a duty to act with integrity and to consider the public interest when undertaking our work.

A report from the Public Interest Body

Sir Richard Lapthorne
Chairman of the Public Interest Body

This is my third annual report on the operation of the Public Interest Body (PIB) since the body was established in late 2010. For the independent non-executives, this means we are approaching the end of our current initial three-year term of appointment. Hence, this is an appropriate point at which to reflect on how the PIB has evolved and performed against its initial objectives, and, just as important, how we will develop in the years to come.

Before doing this, it is worth reiterating that the PIB's membership and activities reflect the objectives of the Audit Firm Governance Code, which states that the independent non-executives should improve confidence in the public interest aspects of the firm's decision-making, dealings with stakeholders and management of reputational risks. The PIB is also designed to complement the firm's internal governance structure (more details of our membership can be found on page 31).

Reflections on our first three-year term

We have reached a point where we have obtained – through engagement with the firm's leaders and with those responsible for managing the risks in each of the four principal service lines of Assurance, Tax, Deals and Consulting – a good understanding of those businesses and the public interest and reputational issues relevant to each area. We hear first-hand from those responsible for decision-making in the firm. More importantly, we ask questions, request more information where appropriate and make suggestions.

Speaking for the non-executives, our view is that the firm is well-managed and that it conducts its business to a high standard of professionalism. That is not to say that there is no scope for improvement. The independent non-executives bring a different perspective, which can help the firm to consider where processes could be improved or examined through a different lens.

Inevitably, since the Code is focused on 'audit', that is where we have spent the most time, both in relation to how the day-to-day risks are managed and the busy regulatory agenda affecting statutory audit. We have discussed each year the firm's annual inspection reports from the Audit Quality Review (AQR) team of the Financial Reporting Council (FRC). This year, for the first time, I attended a 'clearance meeting' with the firm's Head of Assurance and senior FRC staff, so that we could hear about the AQR's findings, prior to publication. This interaction was very helpful and positive, and will enable us to better understand how the regulator's priorities compare with our own.

We are also briefed at each meeting on the Risk and Quality processes and any contentious matters (for example any disciplinary inquiries) across the firm. The non-executives also suggest for discussion some specific areas of the business which could impact on the firm's reputation. In the past year, we have heard from the firm's Public Sector leader on how the reputational risks in that area are managed. Also, given the recent spotlight on corporate taxes, we have discussed with the firm's Head of Tax how the firm manages the reputational risks around providing tax advice and how it has contributed ideas and evidence to the debate on how much tax companies pay.

Trust and the regulatory agenda

The subject of 'trust' in the business community is being debated by stakeholders and in the press as never before. Professional services firms are key players in this debate. Restoring the trust of society in business and in our institutions is essential if the UK is to recover from recession and contribute to economic growth. PwC has staged a number of debates involving senior business leaders, regulators and commentators, and a number of us have contributed to these. This is an important initiative. We need a thoughtful, balanced and properly informed view of how business and the professional services sector in particular moves forward in the interests of consumers of goods and services.

It is important in the regulatory and public policy activity around audit and, increasingly, tax, that we keep in mind these broader considerations. We have discussed in each of our meetings how the firm is addressing the Competition Commission's inquiry into the audit market for FTSE 350 companies in the UK, the legislative proposals on audit published by the European Commission and the recent series of consultations on important topics issued by the FRC. The firm has welcomed input from us and the firm's leaders agree that we have influenced their thinking – for example by challenging them to see alternative arguments.

The accounting profession has a reputation for being conservative. We have consistently urged the firm's leaders, as they engage with the regulatory agenda, to be receptive to change and, where they disagree with proposals, to explain the reasonable grounds for doing so and to suggest alternative approaches. The PIB members continue to be satisfied that the firm has followed an appropriate and comprehensive process in order to arrive at the public policy positions it is taking.

In the last year, the firm has also refined its policies on how it contributes to parliamentary and similar inquiries, and we were consulted on those measures before they were implemented.

Assessing our contribution

I reported last year that an effectiveness review of the PIB had been undertaken by PwC's specialist on corporate governance matters, to which all members of the PIB including the firm members and secretariat contributed. We will continue to build on that work by considering actively our remit and what we can deliver to a firm such as PwC.

Last year's review demonstrated that, while the members unanimously believe that the PIB should not be a decision-making forum, it provides an appropriate setting – with the right constituencies involved – where the firm's positions on public interest matters can be debated and challenged.

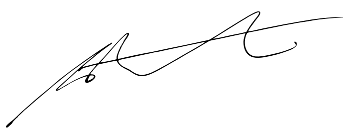
The Code is an audit firm governance code and audit is where the main focus should remain. However, the public tends to see PwC as a whole rather than its constituent parts and, as noted above, other parts of the firm's business such as Tax, Deals and Consulting could also raise issues of reputation. In recent meetings, the non-executives have increasingly provided insights to the firm on a broader range of issues facing the business, while at the same time being cognisant of our 'public interest' responsibilities. For example, in the last year we have looked at any risk and reputation issues associated with the firm's acquisition strategy, such as its alliance with the Middle East practice. As we go forward, we will do more of this type of activity.

Stakeholder engagement

Internally, it is important that the PIB has links to the wider body of the partnership, who are the owners of the business. In addition to hearing at each meeting from our two Supervisory Board representatives, we meet with all the members of the Supervisory Board at least once a year. During our first three years the non-executive members have also been keen to meet more of those who are working in the business, by making office visits and attending the annual partner meetings and other events.

Externally, the Code identifies investors and the corporate community as primary constituencies. Recent contact with some representatives from those groups has demonstrated a measure of surprise that we are approaching them to discuss matters covered by the Code. The FRC has committed to review the Code after its initial few years of operation, and it will be a useful by-product of such a review to gauge the expectations of stakeholder engagement of the different groups. In the meantime, we are taking steps to refocus our engagement with institutional investor organisations. Additionally, if any of PwC's stakeholders would like to raise issues related to the Code, do please get in touch.

Finally, I would like to take the opportunity here to thank Richard Sexton and Duncan Skailes from the firm for their significant contributions to our PIB discussions and we look forward to working with their respective successors, James Chalmers and Matthew Thorogood.



Sir Richard Lapthorne
Chairman of the Public Interest Body

Read more about our Public Interest Body on pages 30-32.

Audit of the future

James Chalmers

UK Head of Assurance

As Head of Assurance, my objective is to develop our people to improve the quality and relevance of the audits we deliver. This includes looking beyond today's approach to the future of the audit and the profession. We're now at a critical moment where we face a stark choice: either take decisive steps to transform the audit so that it remains relevant, or see it drift towards obsolescence.

Like the business models of all of our clients, the reporting and audit model needs to adapt to a new reality. In the 1840s, Gladstone began to think about this model. Now it's time to imagine the audit of the future.

Intangible assets as a percentage of corporate value

1970s
20%

Today's figure
80%

A radically changing business environment

Companies today are grappling with rapid globalisation, instantaneous worldwide communications, a 24/7 blizzard of information – blending fact and opinion – and constant scrutiny by an expanding array of stakeholders.

At the same time, there's been a fundamental shift in business models and sources of value. They've moved away from physical assets and towards intangibles such as brand, intellectual property and reputation. In the 1970s, intangible assets accounted for 20% of corporate value, and goodwill wasn't recognised in accounts. Today, the figure is 80%.

There's also been a revolution in the way value is viewed. Stakeholders no longer measure value in purely financial terms, but look for wider social value as well. As value becomes more intangible – and often more digital and knowledge-based – it is also becoming shorter-lived, and it's much more vulnerable to changes around us. Thirty years ago, a publishing house might have amortised the value of a consumer magazine brand over 15 years; today, such a brand must perform in digital and physical channels, and will probably be amortised over a much shorter period.

In some cases, shifts in asset value take place in minutes or even less. Advancing technology and rising bandwidths mean transactions in the financial markets now take place in nanoseconds. So participants such as hedge funds will pay a premium to receive information, moments ahead of their competitors, because of the edge it gives them in seizing trading opportunities.

The value of entire brands can also change at unprecedented speed. Remember how quickly the banking contagion accelerated during the financial crisis. News of a bank's systems' problems spread like wildfire on Twitter. And Myspace's user base and value collapsed rapidly once the migration to Facebook reached a tipping point.

These shifts reinforce the need for organisations to adapt and renew themselves continually to stay in the game. Many of today's leading brands – Apple, Google, Burberry – have maintained their position not only by constantly changing their products, but also by repeatedly redefining their competitive environment, throwing rivals off-balance. And across all industries, competition is being further disrupted by the rapid emergence of new business models, such as ASOS, which has challenged traditional retail channels with a very new direction.

No truth, no trust

Since the global financial crisis, the impact of these sweeping changes has been compounded by two further factors: first, a collapse in public trust in both private and public sector institutions; and second, a shift towards new investment models. Instead of accepting the traditional shareholder/corporate veil relationship, investors are now demanding a more intimate relationship with their investees, reflected by developments such as the growing interest in credit unions, the rise of ethical investment funds and increased shareholder activism.

These changes indicate a desire among external stakeholders to see more clearly what is happening within organisations – not just in terms of financial performance, but also behaviour, ethics and contribution to society.

It's difficult for stakeholders to see the full truth about a business – and truth is a prerequisite for trust. Trust is a human value, not a technical one. Why do we trust individuals? It's because we've seen them keep their promises and behave in the right way, and we're confident they'll do the same in the future. We feel we know the truth about them.

Trust in organisations is no different. To trust a business, stakeholders need corporate information that examines a business's past behaviours and looks forward to its plans for tomorrow.

They need to understand the current position and the impact of its future strategy. And they need to feel confident that the organisation will behave consistently with its stated values.

In the midst of the financial crisis, the underlying issue was that nobody – banks included – knew whom they could trust. With trust out of the equation, the result was turmoil. In the wake of that crisis, trust in business has declined, yet very few businesses have restated their accounts. What does this mean? The current reporting model, while accurate, is not giving a relevant and timely insight into the inner workings of business. It's been left behind by the scale and pace of change.

To trust a business, stakeholders need corporate information that examines a business's past behaviours and looks forward to its plans for tomorrow.

Gladstone's audit

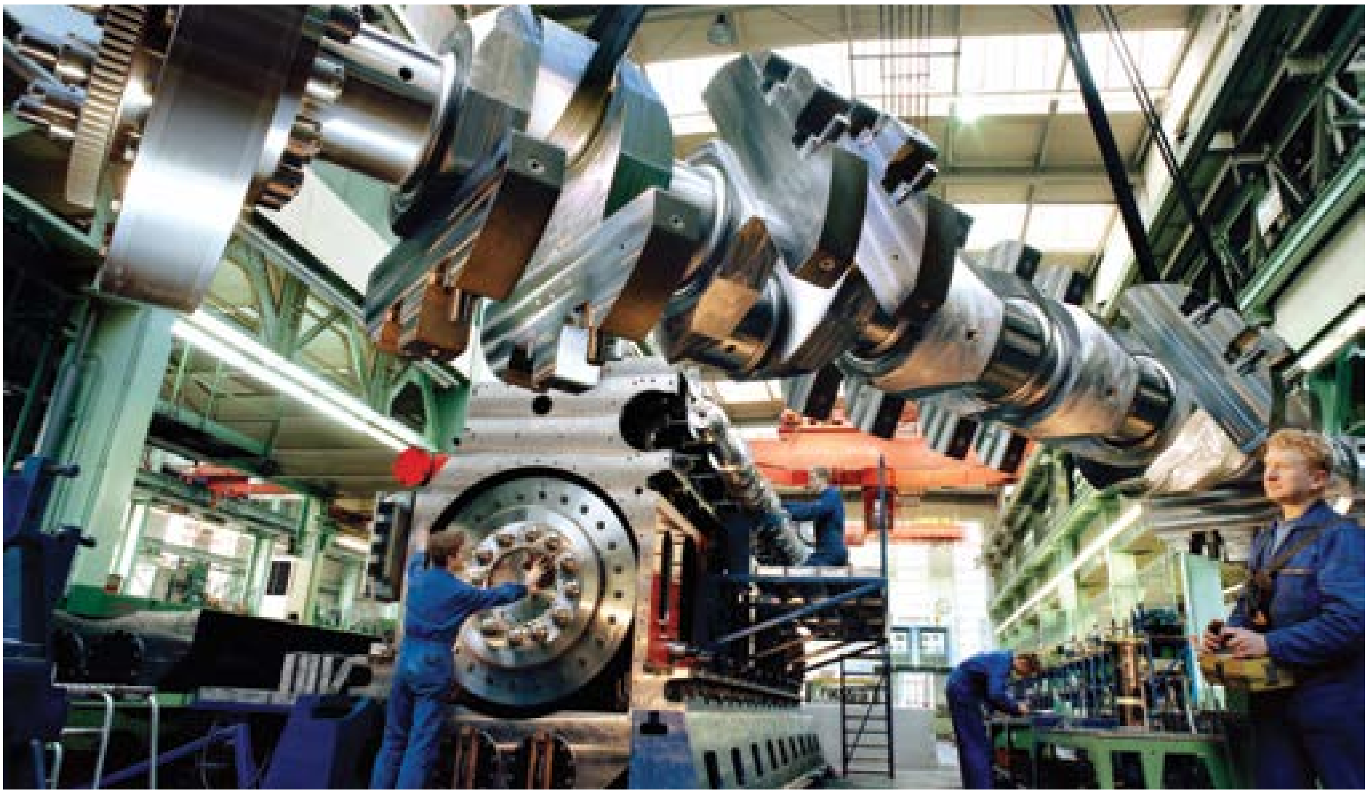
How has this happened? The business environment I've described is a far cry from the pre-internet, pre-crisis world of the last millennium. But let's look back to the mid-19th century. In those days, the global economy was dominated by physical goods, and by UK-based manufacturing. And the locus of value creation was tied to the geographical location from where a company's products were designed, manufactured and shipped. This is a sharp contrast to today, when technology gives even the smallest company the ability to compete and sell worldwide. You can download an app in London which was developed in New Delhi and distributed by a company in Silicon Valley.

Our auditing model is another legacy of the nineteenth century.

Yet in some ways, the 19th century is still with us. Our national tax systems were developed for an era of physical trade and are now struggling to catch up with a world of evaporating borders and elusive digital transactions. As a firm, we're contributing actively to the worldwide debate on how to create a new international tax system that responds to the needs of today's global economy.

Our auditing model is another legacy of the nineteenth century. In the 1840s, Gladstone chaired a parliamentary select committee to establish the concept of the audit. Amid the white heat of the world's first industrial revolution, large-scale collective investment was starting to take off. Investors were ceasing to be directors and managers, but still needed to know they could rely on the information provided by the businesses they owned.

A trust gap had opened up between investors and companies. Gladstone's audit sought to bridge this gap and many years later, we inherited a system in which, eventually, an independent professional would give an informed opinion on whether a company's historical financial information represented a true and fair picture of its affairs – and could be trusted as a basis for investment decisions.



To restore trust in business today, we need a reporting model that enables business to demonstrate the truth about itself, by providing real-time information, enhanced by real-time assurance.

Today's trust gap

Fast-forward to today and the business environment and value drivers are radically different. But the common factor is that, as in 1840, we have a trust gap opening between society – including investors – and companies. To close the trust gap this time, the reporting model and the audit need to catch up with new business realities. Like an iconic brand, the corporate reporting and audit model must evolve to stay relevant.

The model has already survived stresses, with tweaks and workarounds keeping it functioning – the Great Depression in the 1930s, the Maxwell scandal in the 1990s, the Enron and WorldCom collapses of the early 2000s and of course the global financial crisis of 2008. But the frequency of the stress points is increasing. If reporting and audit continue to give only a retrospective snapshot then the model will become progressively less relevant.

The evolution of the system needs to accelerate, and of course there will be challenges along the way. There are legal barriers that inhibit innovation and evolution. In most markets, the threat of litigation means businesses and auditors are bound by prescriptive rules, and are wary of providing any forward-looking information. These hurdles need to be overcome for the model to become fit for purpose again.

To restore trust in business today, we need a reporting model that enables business to demonstrate the truth about itself, by providing real-time information, enhanced by real-time assurance. This transformation will be hugely challenging, but is urgently required. When we achieved it, the change will affect all aspects of reporting and audit – the what, how and when – and will have profound implications for companies, investors, the audit profession and society as a whole.

A vision of the future

It's hard to be sure of the exact nature of these changes, or the timeline over which they'll arise. But let's say that we succeed in evolving the reporting and audit model – how it might differ from the model of today. I've mapped one possible vision of a new landscape in three dimensions: **how** companies will report, **what** will the audit look like and **why** trust will be restored.

1. How will companies report?

Corporate reporting will have evolved from today's traditional annual report and accounts with its emphasis on historical financial information. The historical viewpoint will be supplemented by real-time and forward-looking information, giving investors and other stakeholders a viewpoint not only on how value has been created, but how it will be created in the future. Performance will be measured in terms of traditional financial capital, but will also be demonstrated by new measures like social, intellectual, human and relationship capital.

Reporting will happen when investors need it, which, in a digital and immediate world, will mean all-year-round and round-the-clock, not just through quarterly or annual releases. Relevance will be essential: information will be provided not just for the sake of it, but to aid investors and to inform their understanding. The new model will cut the clutter and report what really matters, at the time when it matters.

2. What will the audit look like?

Alongside this revolutionary reporting, the audit reports of the future will not be boilerplate opinions. Auditors will be required to expose their thinking within a framework that covers both financial and non-financial risks – whether or not they are defined by GAAP. Auditors will give continuous real-time assurance over end-to-end data flows and focus on the transparency of business models and their inherent risks.

To meet the need for real-time assurance, advanced technology will play an important role. Auditors will use sophisticated data analytics to analyse and assess huge data sets in seconds. Split second investment decisions will take account of assurance status, but there'll also be huge benefits for management by enabling them to identify and tackle problems much earlier. However, while technology will be essential, it will remain a tool of the dedicated, high-quality audit professional, applying their values and professional scepticism in the delivery of a world-class audit.

Audits of the future

Energy usage

Imagine if daily revenues from the utility giants were published on-line, with a PwC assurance opinion validating the data. We could take advantage of WiFi-enabled remote meter reading and build an algorithm to re-perform revenue calculations, using census data and energy tariffs to assess completeness and accuracy of revenue figures.

Ethical lending

Imagine developing a set of quantitative criteria that defined ethical lending activity. And imagine deciding to borrow from an ethical lender knowing that your lending terms had been assured by PwC as meeting ethical standards.

Predictive assurance

Imagine a suite of algorithms embedded in a mobile phone company's operating systems which gave real time assurance over the integrity of all data flows. What if those algorithms then searched for relationships between external data, like travel information and local tariffs, and business performance – enabling companies to use PwC assurance to better predict the future.

The audit has long been a cornerstone of trust in business. To remain so it must evolve and adapt.

The new relevance of the audit will be shown by a much greater engagement between investors and auditors. The poorly attended set-piece AGM of 2013 will be a thing of the past; auditors will meet with investor groups throughout the audit cycle, responding dynamically to investor concerns and challenges.

There will be a renewed appreciation of the value and purpose of the audit, with a shared acknowledgement that the audit creates benefits for investors, ahead of management. The expansion of the audit to cover real-time information, both financial and non-financial, will redouble the audit's role of supporting the smooth functioning of capital markets, helping to reduce volatility from its recent unprecedented levels.

3. Why will trust be restored?
Public trust in the profession's ability to deliver high-quality, objective audits will be high. Auditors will be known for their independence – supported by more forthright audit opinions and greater transparency over our approaches and tools.

We expect audit to benefit from greater regulatory scrutiny; the audit regulator will conduct continuous reviews that are in-depth and risk-based. The differing styles and insight provided by different firms' audits will become comparable. A company's share price will rise when it appoints an auditor known to be high quality and trustworthy.

The audit market will remain fiercely competitive, with investors and audit committees driving the timetable of audit tendering and rotation. There will be an acceptance that the duration of the relationship with the audit client is not an indicator of independence; often, it's the people who know the company best who can mount a robust challenge to management, holding up the mirror so that the organisation can see itself clearly.

Our profession will have earned deeper public trust as a beacon of social mobility. We will recruit graduates and non-graduates and we will have developed plural career paths that recognise different aspirations. Making a material economic, social and environmental contribution will not just be 'doing the right thing', but will bring tangible benefits to our clients, our people, our firm and our profession. Trust is a human quality, not a process; by mirroring more closely we will earn, build and sustain a higher level of trust in ourselves and in the companies we audit.

Creating the audit of the future

The audit of the future will differ in many ways from what we do today. The vision that I've set out above is just one illustration of what the future could hold. This isn't a final destination, and we will need to be agile and adapt to future changes.

But the one constant will be the professional integrity and values that make every audit worth so much more than the technical detail of the audit opinion. Every working day, we apply independence and ethics to help us do the right thing, building trust in ourselves, our profession and the companies we audit. Whatever happens to the audit model, this will never change.

My fellow partners and staff will inherit the audit landscape of the future. This will be our legacy.
The audit has long been a cornerstone of trust in business. To remain so, it must evolve and adapt. Personally and professionally, we are ready and eager to take responsibility for making this happen. It's time to move on, and we will lead the profession in doing so.

Transparency report

1. Legal structure and ownership

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

(a) Ownership of PwC UK

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

	2013	2012
UK partners	**840**	842
Partners on secondment overseas	**34**	30
	874	872

(b) UK office structure

PwC UK operates out of 32 offices throughout the United Kingdom – a full list can be found at www.pwc.co.uk.

(c) Subsidiary undertakings of PwC UK

The principal subsidiary undertakings of PwC UK as at 30 June 2013 are shown in the table below.

All company shareholdings 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 in which 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 the 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 the members of PricewaterhouseCoopers CI LLP and the Middle East partners of PricewaterhouseCoopers (Middle East Group) Limited.

(d) Principal lines of business

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

Subsidiary undertakings	**Principal activity**
Companies	
PricewaterhouseCoopers Services Limited	Service company and employment of staff
PricewaterhouseCoopers (Resources)	Employment of staff
PricewaterhouseCoopers (Middle East Group) Limited	Professional services
PricewaterhouseCoopers Overseas Limited	Professional services
Diamond Advisory Services Limited	Professional services
PricewaterhouseCoopers Advisory Services Limited	Professional services
PRPi Consulting Limited	Professional services
PwC Performance Solutions Limited	Professional services
Fire Station Operating Company Limited	Social enterprise
Limited Liability Partnerships	
PricewaterhouseCoopers CI LLP	Professional services
PricewaterhouseCoopers Legal LLP	Legal services

The primary services provided by each of the four principal lines of service are as follows:

Assurance

Assurance and regulatory reporting – statutory audit, financial accounting, corporate 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 and listings and assurance on non-financial information.

Risk assurance – 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.

Consulting

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

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

Deals

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

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

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 mergers and acquisitions, 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.

Tax

Tax – corporate tax advisory, tax on transactions, transfer pricing, corporate and international tax structuring, finance and treasury, indirect taxes, property taxes, tax management and accounting services, dispute resolution, corporate tax compliance and outsourcing, private business tax advisory, personal tax advisory and compliance, tax valuations, sustainability and climate change taxes, 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.

We are one firm – a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities.

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.

Introduction

In our view, the key factors that differentiate PwC among the world's leading professional services organisations are the talent of our people, the breadth of the PwC network and the standards with which PwC firms comply. These standards cover important areas such as service quality, governance arrangements, independence, risk management, people and culture, and brand and communications. PwC firms agree to follow network standards and their compliance with these standards is monitored regularly.

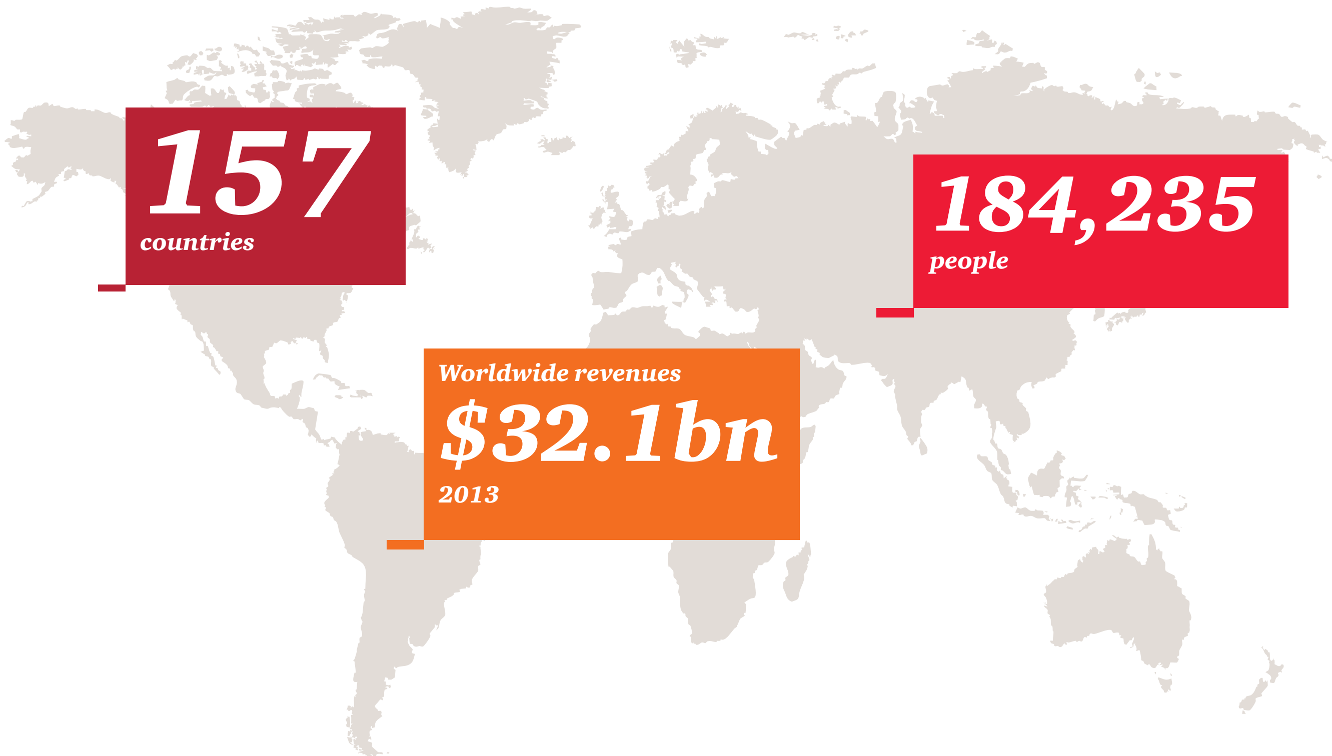
(a) Legal structure of the network

In most parts of the world, the right to practise audit and accountancy is granted only to national firms that are majority owned by locally qualified professionals. PwC is a global network of separate member firms, owned and operating locally in countries around the world. PwC firms are members of PwC International and have the right to use the PricewaterhouseCoopers name.

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

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

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



Each member firm of PwC International is a separate legal entity and does not act as an agent of PwC International, or any other PwC 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 is responsible, or liable for the acts or omissions of any other member firm, nor can it control the exercise of another member firm's professional judgement, or bind another member firm, or PwC International in any way.

(b) Size of the network

Member firms of PwC International provide industry-focused assurance, tax and advisory services to enhance value for their clients. Over 184,000 people in 157 countries share their thinking, experience and solutions to develop fresh perspectives and practical advice.

For the year ended 30 June 2013, PwC International member firms generated aggregate revenues of US$32.1 billion worldwide (2012: US$31.5 billion).

The Global Annual Review can be found at www.pwc.com in the 'About us' tab, and contains further financial and other information about the PwC Network.

(c) Governance structures of PwC International

The governance structures of PwC International are as follows:

- **Network Leadership Team (NLT)** – The NLT sets the overall strategy for the PwC Network and the standards to which PwC firms agree to adhere. The NLT is made up of the Chairman of the PwC Network; the Senior Partners of the US, the UK and China member firms; and a fifth member appointed by the Global Board, currently the Senior Partner of PwC Germany. The Chairman of the PwC Network and the fifth member may serve on the NLT for a maximum of two terms of four years in their respective capacities. The terms of the other NLT members are limited by the arrangements in their respective firms. The NLT typically meets monthly and on further occasions as required.
- **Strategy Council** – The Strategy Council, which is made up of senior partners of the largest PwC firms and regions, agrees the strategic direction of the network and facilitates alignment for the execution of strategy. The Strategy Council meets on average four times a year.
- **Network Executive Team (NET)** – This team is appointed by, and reports to, the NLT. Its members are responsible for strategy and coordination of key aspects of PwC's Assurance, Advisory and Tax offerings, and functional areas such as Risk and Legal, Human Capital, Operations and Clients and Markets across the PwC Network.
- **Global Board (the 'Board')** – The Board, which consists of 18 elected members, is responsible for the governance of PwC International, oversight of the Network Leadership Team and approval of network standards. The Board does not have an external role. Board members are elected every four years by Partners from all PwC firms. The current Board, with members from 13 countries, took up office in April 2013. Board members may serve for a maximum of two terms of four years. The Board meets four times a year and on further occasions as required.

The names of the current members of each of the above bodies can be found at www.pwc.com in the 'About us' tab.

(d) Key features of the network

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

To support transparency and consistency, each PwC firm's Territory Senior Partner signs an annual confirmation of compliance with certain standards. These cover a range of areas including independence, ethics and business conduct, Assurance, Advisory and Tax risk management, governance, anti-bribery and data protection and privacy.

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

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

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

(i) The way we do business

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

(ii) Sustainable culture

To promote continuing business success, PwC firms nurture a culture that supports and encourages PwC people to behave appropriately and ethically, especially when they have to make tough decisions. PwC people have ready access to a wide array of support networks within their respective member firms, both formal and informal, and technical specialists to help them reach appropriate solutions. The foundation of PwC's culture is objectivity, professional scepticism, cooperation between PwC firms and consultation.

(iii) Policies and processes

Each PwC firm has its own policies, based on the common standards and policies of the PwC Network. PwC firms also have access to common methodologies, technologies and supporting materials for many services. These methodologies, technologies and content are designed to help a member firm's partners and staff perform their work more consistently, and support their compliance with the way PwC does business.

(iv) Quality reviews

Each PwC firm is responsible for monitoring the effectiveness of its own quality control systems. This includes performing a self-assessment of its systems and procedures, and carrying out, or arranging to be carried out on its behalf, an independent review. In addition, PwC International monitors member firms' compliance. This includes monitoring not only whether each PwC firm conducts objective quality control reviews of all of its services, but also includes consideration of a member firm's processes to identify and respond to significant risks.

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

For Assurance work, there is a specific quality review programme, based on relevant professional standards relating to quality controls including International Standards on Quality Control 1: 'Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements' (ISQC 1) and where applicable, of the US Public Company Accounting Oversight Board (PCAOB) Quality Controls Standards.

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

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

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

(e) Independence practices policy

Objectivity is the hallmark of our profession, at the heart of our culture and fundamental to everything we do. Independence underpins objectivity and has two elements: independence of mind and independence in appearance. PwC firms reinforce both of these elements through a combination of setting the right tone from the top; independent consultation on judgemental issues; detailed policy requirements including prescribed processes to safeguard independence; regular training; and careful observance of independence requirements.

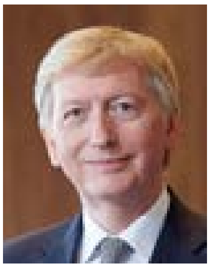
(f) Financial arrangements

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 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

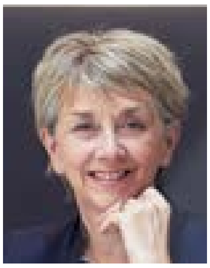
The governance structure of PwC UK is made up of three main elements: an Executive Board responsible for directing and implementing the policies and strategies of the firm and for its day-to-day management; a Supervisory Board, which oversees the executive management and a Public Interest Body whose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

(a) The Executive Board



Ian Powell – Chairman and Senior Partner

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



Margaret Cole – General Counsel, Risk and Quality and Reputation Policy

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

Gaenor Bagley – People

Gaenor graduated from Cambridge University with a mathematics and management degree. She trained in audit and spent three years in an investment bank corporate finance team. In 1992, she joined the Tax practice and became a partner in 2000 where she continued to work in M&A, specialising in private equity. She joined the Executive Board in 2011.

John Dwyer – Deals

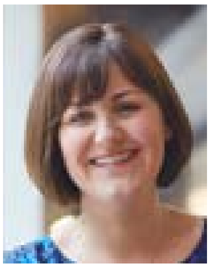
John graduated from University College Dublin with a commerce degree. He has worked in most of the businesses under the Deals umbrella including Business Recovery and Corporate Finance. He became a partner in 1997 and ran the Transaction Services business between 2007 and 2011. He joined the Executive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

James Chalmers – Assurance

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

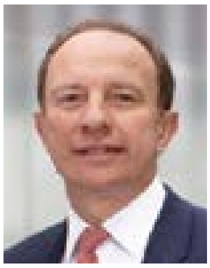
Kevin Ellis – Managing Partner

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



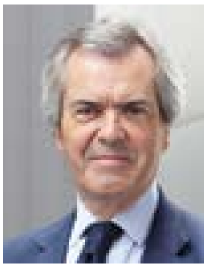
Stephanie Hyde – Regions

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



Richard Sexton – Reputation and Policy to 30 June 2013

Richard graduated from Southampton University with a degree in mathematics and operational research. He joined the firm in 1980 and he became a partner in 1992. He has spent time in New York and Hong Kong. Before joining the Executive Board in 2006 as Head of Assurance, he led our London Assurance practice. Richard has now taken on the role of Global Assurance Leader and stepped down from the Executive Board on 30 June 2013.

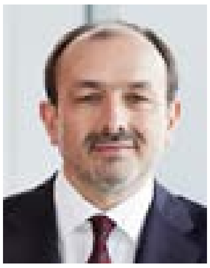


Owen Jonathan – General Counsel, Risk and Quality to 31 December 2012

Owen was 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 later CEO of South China Morning Post (Holdings) Limited of Hong Kong. He joined the Executive Board in 2002 and retired in 2012.

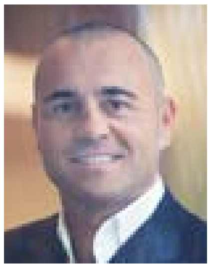
Keith Tilson – Chief Financial Officer

Keith 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. He joined the Executive Board in 1998.



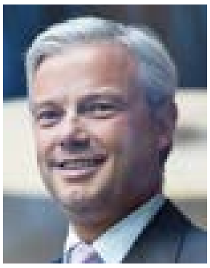
Kevin Nicholson – Tax

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



Ashley Unwin – Consulting

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



Richard Oldfield – Markets and Industries

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

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

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

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

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

Length of service on the Executive Board and attendance records for the year ended 30 June 2013 are set out in Table 3.1.

Margaret Cole was appointed to the Executive Board as General Counsel and Board member responsible for risk and quality on 1 January 2013, following the retirement of Owen Jonathan on 31 December 2012. Richard Sexton took on the role of Global Assurance Leader in April 2013 and stepped down from the Executive Board on 30 June 2013, with his Reputation and Policy responsibilities passing to Margaret Cole. After 15 years on the Executive Board, Keith Tilson retired on 30 September 2013 and Warwick Hunt, former managing partner of the Middle East firm, has taken over as Chief Financial Officer.

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 in the individual Lines of Service and Internal Firm Services.

The systems, which have been in place throughout the financial year and up to the date of approval of this report, include the following:

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

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

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

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

Table 3.1
Executive Board for the year ended 30 June 2013

	Length of service (years)	Board meetings A	Board meetings B
Ian Powell, Chairman and Senior Partner^^	7	13	13
Gaenor Bagley, People	2	13	12
James Chalmers, Assurance	5	13	12
Margaret Cole, General Counsel and Risk and Quality from 1 January 2013	1	6	5
John Dwyer, Deals	1	13	10
Kevin Ellis, Managing Partner	5	13	13
Stephanie Hyde, Regions	2	13	13
Owen Jonathan, General Counsel and Risk and Quality to 31 December 2012	11	7	7
Kevin Nicholson, Tax	5	13	11
Richard Oldfield, Markets and Industries	2	13	11
Richard Sexton, Reputation and Policy^^ to 30 June 2013	7	13	9
Keith Tilson, Chief Financial Officer	15	13	13
Ashley Unwin, Consulting	1	13	13

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

(b) Supervisory Board

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

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

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

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

There are three subcommittees of the Supervisory Board: Partner Affairs, Strategy and Governance, and Audit and Risk. The Partner Affairs Committee makes recommendations to the Supervisory Board, which sets the Chairman's profit share and approves the Chairman's recommendations for the profit shares of other members of the Executive Board. It is also responsible for making sure that the firm's policies on partners' remuneration are being properly and fairly applied.

Table 3.2
Supervisory Board

	Length of service (years)	Board meetings	
		A	B
Duncan Skailes, Chairman to 31 December 2012	6	7	7
Matthew Thorogood, Chairman from 1 January 2013	4	12	11
John Dowty, Deputy Chair to 31 December 2012	6	6	5
Pauline Campbell††, Deputy Chair from 1 January 2013	4	12	11
Christine Adshead†~ from 1 January 2013	1	6	6
David Allen~ from 1 January 2013	1	6	5
Colin Brereton*~	7	12	7
Paul Clarke†~	4	12	12
Duncan Cox*~	1	6	5
Katharine Finn**	4	12	11
Martin Hodgson to 31 December 2012	1	6	5
Roy Hodson to 31 December 2012	9	6	5
Mark Hudson~~ from 1 January 2013	1	6	4
Rob Hunt*†	4	12	10
Pam Jackson to 31 December 2012	9	6	4
Mike Karp to 31 December 2012	6	6	5
Roger Marsh to 31 December 2012	3	6	6
Pat Newberry to 31 December 2012	9	6	4
Ian Rankin to 31 December 2012	6	6	6
Sue Rissbrook* from 1 January 2013	1	6	5
Caroline Roxburgh† from 1 January 2013	1	6	6
Ex officio members:			
Simon Friend†^ from 1 April 2013	1	3	3
Gerry Lagerberg^	13	12	10
Murray Legg^ to 31 March 2013	4	9	8
Ian Powell	5	12	11

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

Note – Subcommittee membership details as at 30 June 2013

Matthew Thorogood

Chairman of the Supervisory Board

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

The Supervisory Board works closely with the firm's Public Interest Body (PIB). Matthew Thorogood and Pauline Campbell sit, in their capacity as members of the Supervisory Board, on the PIB to make sure that there is effective communication between the two bodies.

The members of the Supervisory Board, who served through the year ended 30 June 2013, are shown in Table 3.2. The Supervisory Board members' biographies are set out in Appendix 1.

The Audit and Risk Committee

Role

The Audit and Risk Committee is a committee of the Supervisory Board, which has responsibility for reviewing the policies and processes for identifying, assessing and managing risks within the firm.

The Audit and Risk Committee monitors and reviews:

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

Activities

The Audit and Risk Committee met 10 times in the year ended 30 June 2013 (2012: 10 times).

The Chief Financial Officer and General Counsel, together with the internal and external auditors, attend the committee's meetings by invitation.

Both the internal and external auditors meet privately with the Audit and Risk Committee without management presence.

Internal control

The Audit and Risk Committee's review of internal control includes considering reports from the firm's Risk Council and from the firm's internal and external auditors.

During the year the Audit and Risk Committee considered and approved internal audit's work programme including its risk assessment, proposed audit approach and coverage, and the allocation of resources. The Audit and Risk Committee reviewed the results of audits undertaken and considered the adequacy of management's response to matters raised including the implementation of recommendations. The effectiveness of the firm's internal audit function was also assessed.

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

The Audit and Risk Committee also reviewed and considered the statements in the Annual Report and in Section 5 of this report, in respect of the systems of internal control and concurred with the disclosures made.

External audit effectiveness and reappointment

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

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

The Audit and Risk Committee also took into account their tenure as auditors and considered whether there should be a full tender process. There were no contractual obligations restricting the Audit and Risk Committee's consideration of the choice of external auditors.

Financial reporting

CCW's external audit plan identified a number of potential risks and areas of judgement in the consolidated financial statements, which they judged to be significant. CCW explained to the Audit and Risk Committee the programme of work they planned to undertake to address these risks and the other risks they had identified to mitigate the risk of a material misstatement of the financial statements.

Where they thought it would be effective to do so, CCW's work plan included the evaluation and testing of the firm's own internal controls and assessment of the work of the firm's internal audit function. They also explained where they planned to obtain direct external evidence.

The Audit and Risk Committee discussed the above matters with CCW on conclusion of their external audit of the financial statements for the year. CCW explained the work they had undertaken and conclusions they had drawn including in relation to revenue recognition, including amounts that were unbilled at the year-end; the carrying value of goodwill and intangibles arising from business combinations; the adequacy and appropriateness of provisions for client claims and property matters; the consistency and appropriateness of assumptions adopted in the valuations of the firm's defined benefit pension schemes for the purposes of financial reporting; management's assessment of the appropriateness of the going concern basis.

Following consideration of the matters presented to it and discussion with both management and CCW, the Audit and Risk Committee is satisfied with the judgements and financial reporting disclosures included within the financial statements.

(c) Public Interest Body

The firm established the Public Interest Body (PIB) following the introduction of the Audit Firm Governance Code (the 'Governance Code'). The PIB's purpose is to enhance stakeholder confidence in the public interest aspects of the firm's activities through the involvement of independent non-executives.

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

The PIB presently comprises five independent non-executives and two members from each of the firm's Executive Board and Supervisory Board.

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

The Senior Partner and Supervisory Board respectively decide which of the members of the Executive Board and Supervisory Board will sit on the PIB. Each of the independent non-executive directors has been reappointed for a second term of varying lengths of not more than three years, to facilitate rotation in future years.

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

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

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

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

Length of service on the PIB and attendance records for the year ended 30 June 2013 are set out in Table 3.3.

Table 3.3	Length of service (years)	Board meetings	
		A	B
Sir Richard Lapthorne (Chairman)	3	5	5
Sir Graeme Davies	3	5	4
Dame Karen Dunnell	3	5	5
Sir Ian Gibson	3	5	5
Paul Skinner	3	5	5
Ian Powell	3	5	5
Pauline Campbell	3	5	5
Richard Sexton to 30 June 2013	3	5	4
Duncan Skailes to 31 December 2012	3	3	3
Matthew Thorogood from 1 January 2013	1	2	2

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

Independent non-executive members of the Public Interest Body are:

Sir Richard Lapthorne

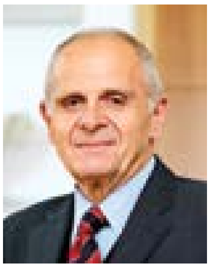
Sir Richard Lapthorne is the current Chairman of Cable & Wireless Communications plc and a non-executive director of Sherritt International, a Canadian mining company. He is also Chairman of the UK government's Foresight Group into the future of manufacturing in the UK. Sir Richard's executive career spanned British Aerospace plc, where he was Vice-Chairman and Finance Director, and Courtaulds plc, where he was Finance Director. He spent his first 18 years working for Unilever plc in the UK, Africa, Holland and France. As a non-executive he was a part-time Chairman of Nycomed Amersham plc, New Look plc, Morse plc, Arlington Securities plc, and has served as a non-executive director of Orange plc, Robert Fleming Holdings and Oasis International Leasing in Abu Dhabi.

Sir Graeme Davies

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

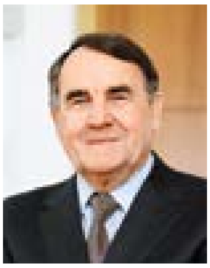
Dame Karen Dunnell

Dame Karen Dunnell is a professional statistician and most of her career was spent at the Office for National Statistics where she latterly held the post of National Statistician and Chief Executive. She is currently a visiting fellow at Nuffield College, Oxford and an Honorary Fellow at Cardiff University. She is a Trustee of the British Heart Forum and a Governor of the University of Westminster. She chairs the Longevity and Science Advisory Panel of Legal and General and the Research Committee of Northern Ireland Chest Heart and Stroke.



Sir Ian Gibson

Sir Ian Gibson is currently Chairman of Wm Morrison Supermarkets 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. Previous board appointments include Chairman of Trinity Mirror Plc, Chairman of BPB Plc, Deputy Chairman of Asda Group Plc and a director of GKN plc, Greggs Plc and Northern Rock plc. Sir Ian was also a Member of the Court of Directors at the Bank of England and has had several Government advisory roles.



Paul Skinner

Paul Skinner is Chairman of Infrastructure UK, a body that advises HM Treasury on the development of economic infrastructure. He is also a non-executive director at Standard Chartered plc, Air Liquide SA and the Tetra Laval Group. Paul spent his 40-year executive career with Royal Dutch Shell, with his final position being as Group Managing Director and CEO of the Group's global oil products business. Following his retirement from Shell he was Chairman of Rio Tinto plc over the period 2003-09 and a member of the boards of INSEAD and the MoD.

PwC members (not pictured)

Ian Powell^, Richard Sexton^ (to 30 June 2013), James Chalmers^ (from 1 July 2013), Duncan Skailes† (to 31 December 2012), Matthew Thorogood† (from 1 January 2013), Pauline Campbell†

^ Member of the Executive Board
† Member of the Supervisory Board

Independence of the non-executives

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

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

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

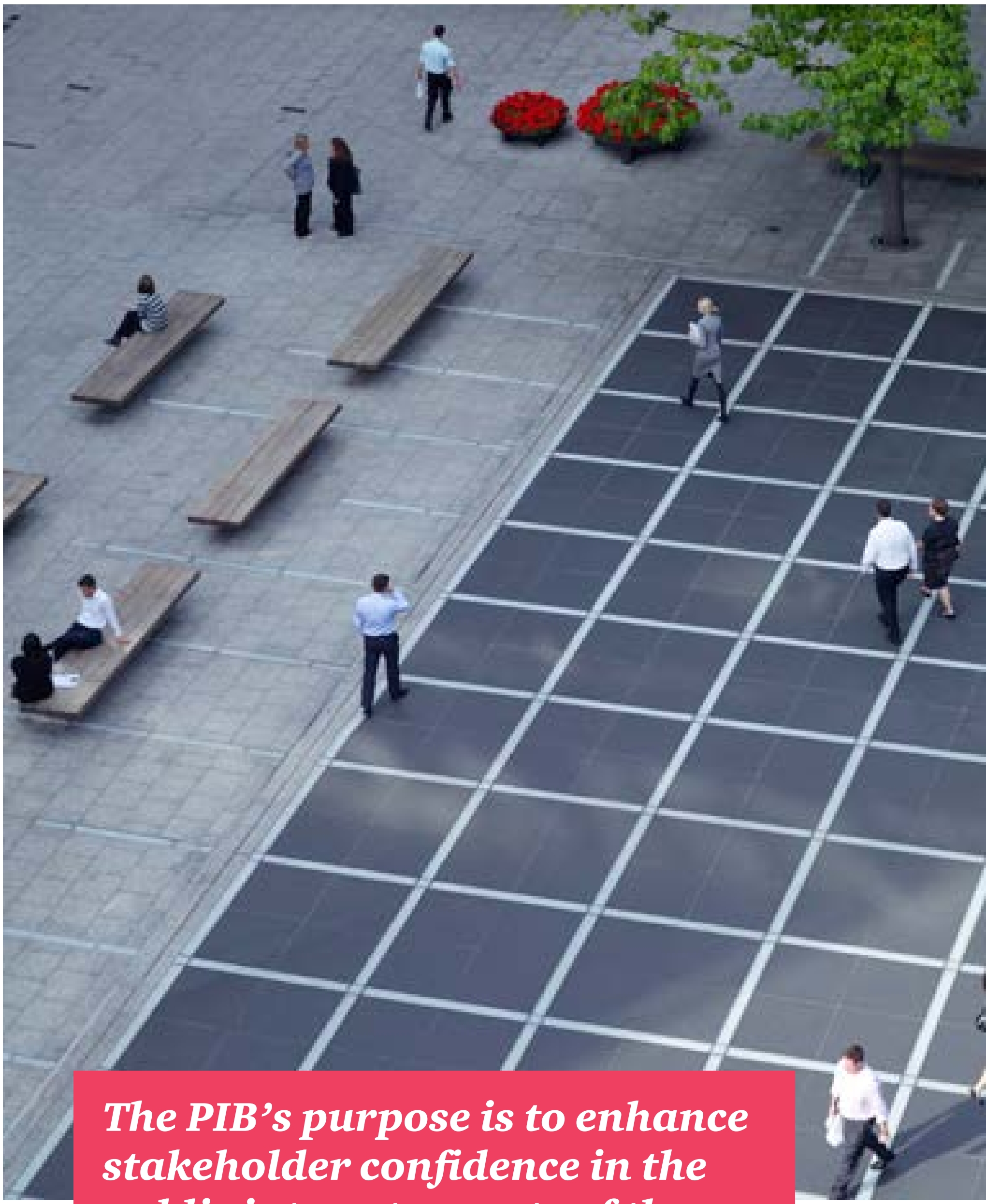
Other matters

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

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

(d) Terms of reference

Terms of reference exist for the governance bodies of PwC UK, copies of which can be found at www.pwc.co.uk/who-we-are/terms-of-Reference-Governance-structure.jhtml.



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

4. The Audit Firm Governance Code

The Audit Firm Governance Code (the Governance Code) was published by the Institute of Chartered Accountants in England and Wales (ICAEW) in January 2010.

The ICAEW's Audit Firm Governance Working Group recommended that the Governance Code should apply to firms that audit more than 20 listed companies.

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

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

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

Leadership

The governance bodies of PwC UK are explained in Section 3, which sets out the constitution, membership, duties, responsibilities and performance evaluation process of each of the governance bodies.

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

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

Values

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

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

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

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

Independent non-executives

The Public Interest Body (PIB) comprises five independent non-executives and two members from each of the firm's Executive Board and Supervisory Board.

The PIB's purpose is to enhance stakeholder confidence in the public interest aspects of the firm's activities, through the involvement of independent non-executives. Further details of the activities of the PIB can be found on pages 8-9 and in Section 3.

Operations

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

Section 5 talks about our internal control and internal quality control system for Assurance and explains:

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

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

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

Reporting

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

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

The Annual Report includes:

- a statement of the responsibilities of the Executive Board for preparing financial statements
- a statement in respect of going concern
- a management commentary covering principal risks and uncertainties, and how those risks are managed.

The 2013 Annual Report can be found at www.pwc.co.uk/annualreport/index.jhtml.

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

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

Talking with stakeholders

The report from Sir Richard Lapthorne (Chairman of the PIB), on pages 8-9, and our Annual Report discuss our activities in relation to talking with stakeholders.

Statement of compliance with the Audit Firm Governance Code

The Executive Board has reviewed the provisions of the Audit Firm Governance Code together with details of how the firm is complying with those provisions and has concluded that, as at 30 June 2013, PwC UK is in compliance with the provisions of the Audit Firm Governance Code.

5. Internal control and internal quality control systems

We are committed to delivering the highest quality professional services and audit quality remains of paramount importance to the firm and our continued success in the marketplace. Quality comes from more than the systems and processes that are embedded in the way we work to achieve compliance with standards and regulation, important though these are. Ultimately, it depends on the culture of the firm, which is based on the 'tone at the top', and our ability to recruit, train and motivate intelligent professionals who take personal responsibility to deliver high-quality work.

Introduction

PwC UK's quality control systems for our Assurance practice are based on International Standards on Quality Control (UK and Ireland) 1 – 'Quality control for firms that perform audits and reviews of historical financial information and other assurance and related services engagements' (ISQC (UK&I) 1) – issued by the Auditing Practices Board (APB).

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

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

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

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

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

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

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

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

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

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

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

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

Certain elements of the firm's internal quality control systems are reviewed by the firm's regulators. They are also subject to review as part of the evaluation by PwC International of PwC UK's compliance with the Network Risk Management Standards. Updates and changes to the firm's internal quality control systems, as well as points needing reinforcement, are communicated to partners and staff via mandatory training and other technical communications. Details of the firm's internal quality control systems are available to partners and staff via PwC Inform, our web-based technical repository and our intranet site, the Portal.

1. Leadership responsibilities for quality within the firm

(a) Organisational structure

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

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

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

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

The firm's General Counsel, Margaret Cole, is the member of the Executive Board responsible for risk 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, Richard Winter is the Assurance Risk and Quality Leader, with responsibility to the Assurance Executive for risk and quality matters.

The Assurance Risk and Quality Leader also chairs the following subcommittees 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.

The Assurance practice also operates a Learning and Education Committee, whose purpose is to approve the form and content of technical training. Our US Steering Group deals with audit methodology and accounting issues specific to audits conducted by PwC UK under auditing standards generally accepted in the US.

(b) Culture and tone at the top

'We are one firm – a powerhouse of a commercial enterprise that does the right thing for our clients, our people and our communities.'

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 will achieve the three pillars of our vision by living and breathing a common set of behaviours.

(i) One firm

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

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

(ii) 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 will 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.

(iii) Do the right thing

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

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

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

2. Relevant ethical requirements

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

Bill Morgan is PwC UK's Ethics partner, a role defined by the Ethical Standards issued by the APB. He is a senior partner within the firm, supported by a team of specialists to help the firm apply comprehensive and consistent independence policies, procedures and tools.

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

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

(a) Professional conduct

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

On joining the firm, all staff and partners are provided with a copy of the PwC UK Code of Conduct and must confirm annually that they are familiar with it. The Code of Conduct sets out what we stand for and is underpinned by 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
- considering the ethical dimensions of our actions.

(b) Independence

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

(c) Whistle-blowing

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

The whistle-blowing helpline number for partners, staff and third parties is 0800 169 3590.

The Code of Conduct encourages partners and staff to report and express concerns in good faith, fairly, honestly and respectfully. We are committed to dealing responsibly, openly and professionally with any genuine concerns raised about possible malpractice. If a genuine concern is raised, 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 about the concerns that they raise.

(d) Confidentiality and information security

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

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

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

PwC UK operates an information security management system, which is certified as compliant with the requirements of ISO/IEC 27001:2005 for all client data that comes under its control or ownership.

The reputation and success of the firm depends on the professionalism and integrity of every partner and member of staff.

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

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

Our policies and procedures include:

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

The firm's policies and standards are supported by ongoing compliance monitoring. Monitoring is carried out by PwC UK's internal audit and compliance teams and is supplemented by checks by the PwC Network's global security organisation. Our ISO/IEC 27001:2005 certification is subject to an annual external assessment.

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

(e) Anti-bribery

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

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

3. Acceptance and continuance of client relationships and specific engagements

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

(a) Acceptance and continuance systems

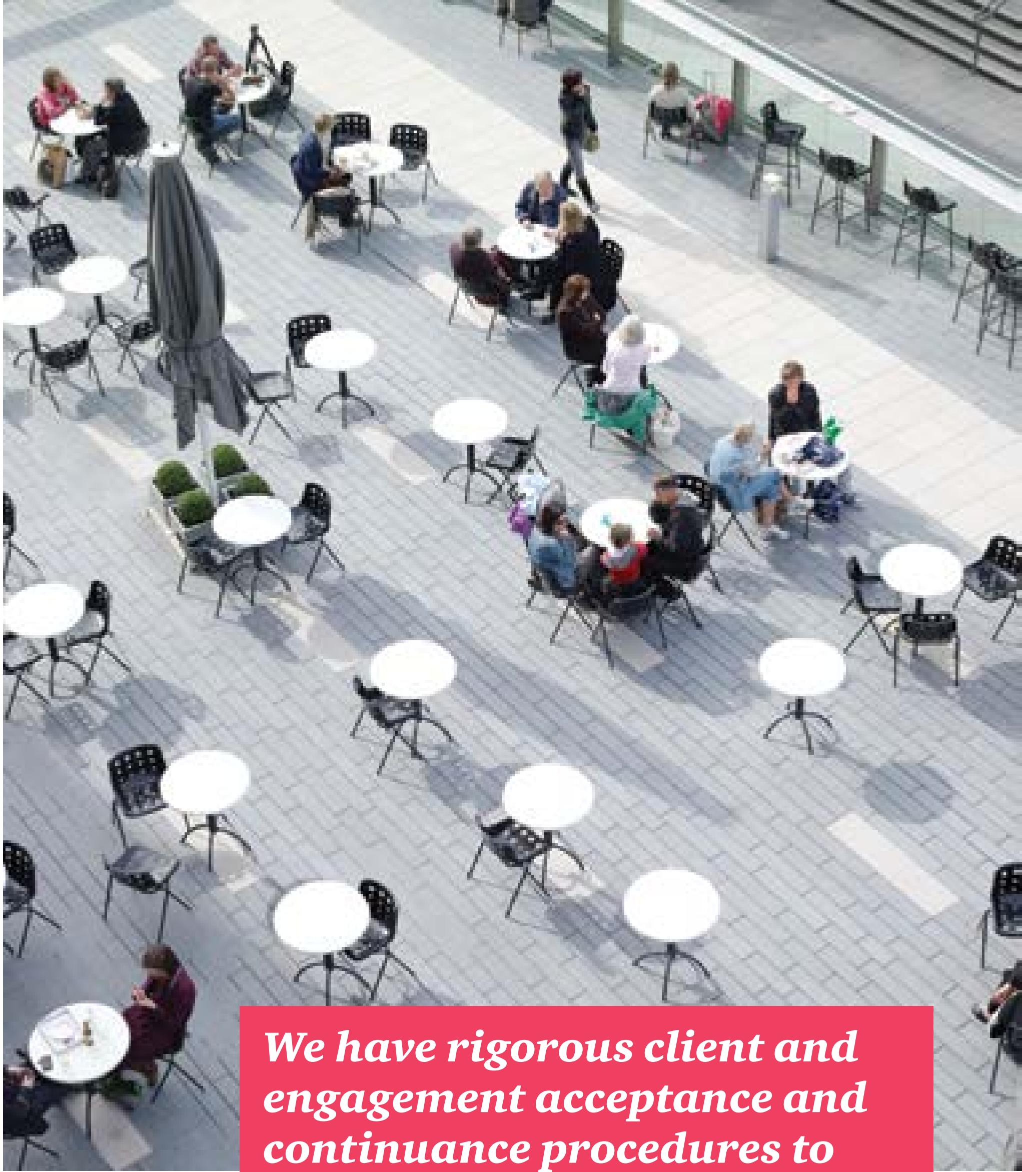
Within Assurance, we use two systems:

- Acceptance and Continuance (A&C) is used for all audit work.
- One-Firm Client and Engagement Questionnaire is used for non-audit work.

Both systems:

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

The systems also allow portfolios to be managed at an engagement leader, office and business unit level. In addition, the systems facilitate risks being properly assessed and appropriate policies being followed in response to the identified risks.



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

(b) Withdrawal from an engagement

Policies and procedures are in place for circumstances in which we determine that we should, or are required to, withdraw from an engagement. These policies include the need for appropriate consultations both within the firm and with those charged with governance of our clients, ensuring compliance with legal and professional obligations.

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

(c) Conflicts of interest

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

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 strategy for recruitment, engagement, development, diversity and remuneration is consistent across the firm.

(a) Recruitment

PwC UK aims to recruit, train, develop and retain the best and the brightest staff who share in the firm's strong sense of responsibility for delivering high-quality services. Across the firm, we recruited nearly 2,000 new people, including over 1,200 graduates and school leavers, in the year ended 30 June 2013.

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

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

- a degree partnership with Newcastle University (43 full-time positions in 2013, with shorter placements for 129 students over the course of the year)
- full-time paid professional roles for school leavers including Higher Apprentices (104 positions in 2013)
- a three-day residential Talent Academy for first-year students (170 places in 2013)
- paid intern and sandwich placement opportunities for students (500 places in 2013).

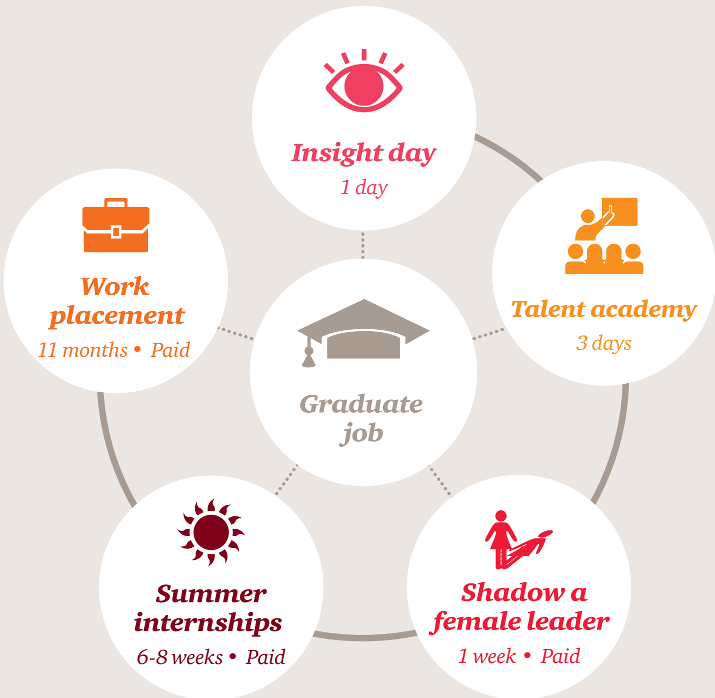
Following the success of our partnership with Newcastle University, which recently celebrated its tenth year, and the Henley Business School at the University of Reading, we have recently launched a third scheme with the University of Nottingham.

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

For the tenth consecutive year, we were voted The Times UK Top 100 Graduate Employer of the Year and, for the 15th consecutive year, voted Employer of Choice for Accounting.

Investing in graduate skills

We offer many different work experience programmes so students can learn more about us and boost their employability. They help people make an informed decision about which career opportunities are best for them.



To find out more, visit www.pwc.com/uk/careers

(b) Performance evaluation

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

The appraisal process covers technical competence and quality, and consideration is given not only to what an individual has achieved, but also how they achieved it. Based on this assessment, individuals are assigned a performance rating that is benchmarked across the firm and which influences their salary, bonus and progression within the firm. Unsatisfactory work results in reduced or no performance-related remuneration and corrective action being taken, as appropriate.

(c) Career development

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

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

(d) Promotion

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

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

The deal

Recognition

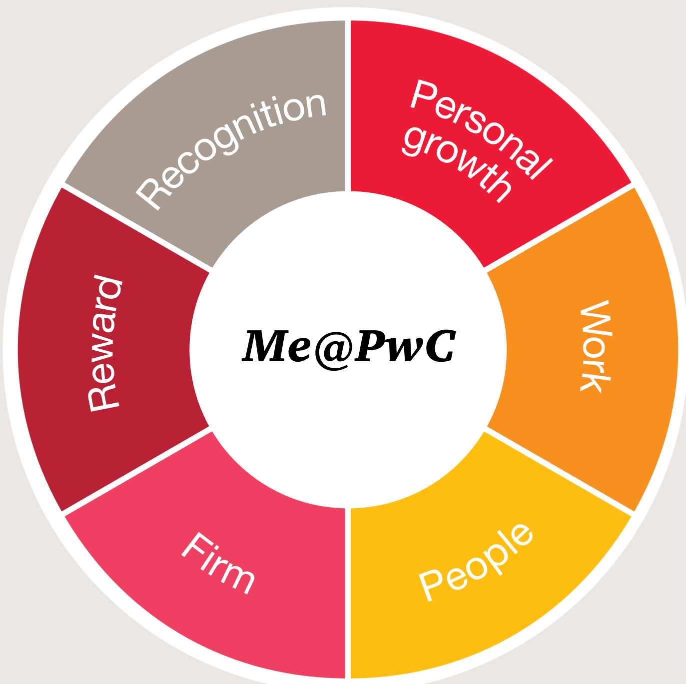
We want all our people to feel valued for who they are, their personal contribution and their potential.

Reward

We'll reward our people fairly and competitively.

Firm

There's a chance to be part of something special and enjoy experiences that will stay with them.



Personal growth

We give our people opportunities to help shape their career and fulfil potential.

Work

We offer our people the chance to work with many of the world's leading companies and organisations where the work will be both challenging and stimulating.

People

They'll be able to build long-lasting relationships, both within and outside the firm, which will stay with them throughout their career.

(e) Remuneration

In determining remuneration for our staff, we carefully balance several elements including: the economic climate; recognition of people's hard work including the quality of the work they deliver; the performance of the firm; and investment for the future. PwC UK has a 'one firm' approach to bonuses and performance ratings to provide clarity and consistency across all Lines of Service.

(f) Assignment of engagement teams

Partners and staff are assigned to engagement teams, based on the individuals' experience, competencies and grade.

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

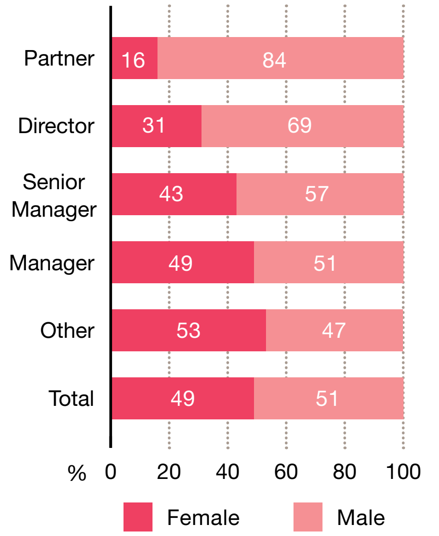
(g) Diversity

In all of the above areas of activity, we prioritise diversity. Having a diverse workforce with a broad range of strengths helps us to ensure we deliver quality work to our clients. We want all our people to flourish, whatever their background, and we specifically measure our performance in this area against our gender profile.

Over the past 12 months we have focused on embedding diversity into our talent processes, requiring our business leaders to set grade pool gender targets for the next four years. Of our existing partners, 16% are female. For FY14 our aim is to ensure that at least 20% of our partner admissions are female, with this increasing to 30% by FY17. We believe that we have a healthy pipeline to support this goal.

We launched our campaign 'Opening Minds – diversity is good for growth' in March 2013 to raise awareness of the benefits of diversity and to support our people in taking action to demonstrate how they value difference as a source of business success and growth.

PwC workforce profile



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

5. Engagement performance

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

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

(a) Methodology and tools

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

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

Our audit work is documented using our electronic documentation tool, Aura. Aura supports teams in applying our methodology effectively by creating transparency of the linkage between risks and the work done to address those risks, as well as providing comprehensive project management capabilities.
The objective is that the quality of our audits improves as teams are able to focus their efforts on areas of risk.

Unless closely related to our audit work, our non-audit engagement tool, MAP, is used by our Assurance practice for non-audit work. MAP has been used for many years in our Consulting practice and brings the benefits of enhancing compliance with our policies and the quality of our documentation across the wide range of non-audit services offered within the Assurance practice.

(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) Service delivery centres

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

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

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

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

Most of the work performed by our delivery centres in Newcastle (UK), Kolkata (India) and Katowice (Poland), continues to be the casting, cross-referencing and internal consistency checking of financial statements.

Other activities performed by the delivery centres include managing confirmation processes, coordination of group deliverables, audit file set-up, roll-forward and maintenance, and setting up templates ready for audit teams to use.

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

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

(d) Consultation and support

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

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

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

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

During the year ended 30 June 2013, a total of 780 consultations were dealt with (2012: 560) and 6,580 enquiries (2012: 5,427) covering audit, accounting and risk management issues. In addition, during the year ended 30 June 2013, 102 (2012: 76) technical panels took place on audit clients of which 61 (2012: 58) included going concern issues.

We have invested significantly in the development of our audit software, Aura, which is used across the PwC global network. Aura drives audit quality and enables the execution of a single, globally consistent audit approach.

(e) Supervision and review

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

The engagement leader is expected to:

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

The engagement manager supports the engagement leader by:

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

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

(f) Engagement quality control review

We appoint a Quality Review Partner (QRP) to conduct engagement quality control reviews of the audits of listed clients, other public interest entities and clients identified as high risk. QRPs are experienced partners who are independent of the core engagement team; they receive training when appointed as a QRP. QRPs are appointed to an engagement, based on their experience and expertise and, in the case of QRPs on FTSE 350 audit clients, their appointment is approved by a national panel of senior partners.

The QRP is 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, communication with those charged with governance and the appropriateness of the audit report to be issued. QRPs are involved throughout the audit process so that their input is timely. The QRP will seek to challenge the audit team in the judgements they have made and work done. Their review is completed and any matters raised are resolved to the QRP's satisfaction in advance of the audit report date.

Second partners are required to be appointed to certain types of non-audit work and fulfil a role similar to that of a QRP on an audit.

(g) Differences of opinion

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

(h) Engagement documentation

At the end of an engagement, teams are required to assemble the hard copy paper file and then archive both this and the electronic file within set periods laid down by professional standards and law.

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

The hard copy paper file is archived using an electronic system that logs the files. The hard copy file is then retained in a secure access controlled filing system.

Both the electronic and hard copy paper files are accessible only by members of the engagement team until they are destroyed. All engagement files are destroyed after periods specified by law or professional standards. In the case of audit files, this is generally eight years after the balance sheet date.

(i) Audit reporting

We are acutely aware that the effectiveness of our work as auditors is directly linked to the effectiveness of our reporting, whether to audit committees and boards of directors, 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 our audit scope and approach, together with our assessment of audit risk. During the course of the audit we communicate any threats to auditor objectivity including independence, the significant risks and judgements that impact the reported financial performance and position, and the manner in which the information is presented in the annual report. In part, this presentation of significant judgements includes highlighting to the audit committee the judgements that have been made by management in preparing the financial statements that we believe are important to an understanding of the performance being presented. It is important as auditors that we recognise that the nature of accounting and the judgements that are applied mean that there is often not a precise answer.

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

ii) External reporting

The form and content of our audit reports for UK entities are laid down by UK legislation and the FRC.

We are conscious that our reports should be clear and unambiguous. We also believe that they should be informative and valuable in providing additional insights from our audit. That is why we welcomed the UK Financial Reporting Council's recent revisions to ISA (UK&I) 700 'The independent auditor's report on financial statements' to include significant issues that were considered in our audit and how they were addressed and to provide users with an understanding of our audit scope and our application of materiality in determining the nature, timing and extent of our audit procedures and evaluating the effect of misstatements.

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 opinion or an emphasis of matter is proposed. The consultation process assists in conveying matters raised clearly and unambiguously.

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

(j) Independent senior partner review

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

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

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

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 our work. Instances of failure to meet defined performance standards are treated seriously and the engagement leader responsible will be counselled to improve performance. In addition, under the firm's accountability framework, an engagement leader's remuneration can be impacted by quality failings.

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

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

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

(b) Global Assurance Quality Review Programme

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

(i) Quality Management Review

A full QMR is performed every three years with an update being performed in the intervening years. The updates monitor progress on remediation of any control issues raised in the last full review and assess the impact of any new developments on the internal quality control systems. The QMR is led and resourced from other PwC Network firms.

PwC UK was last subject to a full QMR in 2011. The QMR team identified three control issues for the firm to address. None of these was assessed as likely to lead to engagements not being in compliance with relevant standards. The 2013 update QMR confirmed that all of these control issues had been addressed by the firm. The update QMR did not identify any new control issues that had not already been identified by the firm's regulators or our own ISQC (UK&I) 1 testing.

(ii) Engagement Compliance Reviews

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

- a review of completed audit engagements of individuals in the firm who are authorised to sign audit reports (known as Responsible Individuals)
- an audit engagement of each Responsible Individual is reviewed at least once every three years as required by Audit Regulations, although the frequency increases where we target higher profile clients
- a review of completed non-audit engagements
- engagement leaders who perform non-audit work are reviewed at least once every five years but, depending on the nature of the non-audit work performed, the engagement leader may be reviewed more frequently
- engagement reviews are led by experienced partners, supported by teams of directors and managers who are all independent of the office, business unit and engagement leader being reviewed
- follow-up reviews take place if deficiencies have been identified
- adverse findings are taken into consideration in determining the reward and promotion of engagement leaders
- results are reported to the Assurance Executive, the Executive Board of PwC UK and PwC International.

166 audit engagements (2012: 148) were reviewed in 2013, covering 43% (2012: 38%) of the firm's Responsible Individuals. 80 non-audit engagements (2012: 93) were also reviewed.

Each engagement reviewed is assessed using the following categories:

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

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

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

In 2013, 153 audit engagements (2012: 137), representing 92% (2012: 93%) of the audit engagements reviewed were classified as either 'compliant', or 'compliant with review matters'.

78 non-audit engagements (2012: 91), representing 98% (2012: 98%) of the non-audit engagements reviewed, were classified as either 'compliant', or 'compliant with review matters'. Following further consideration of the audit work, all of the audit opinions on engagements classified as 'non-compliant' were considered appropriate.

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

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

(iii) The Member Firm Report

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

In 2012, PwC UK's internal quality control system was classified as 'providing reasonable assurance with exceptions'. This means that the internal quality control system provides us with reasonable assurance that the assurance engagements we perform are in compliance with relevant laws and regulations with certain exceptions, which although not significant, merited attention.

PwC UK responded to the points raised within the 2012 Member Firm Report and developed an action plan to address the exceptions noted. These actions were assigned to specific individuals and significant progress has been made addressing these matters. The Member Firm Report for 2013 will be issued in October 2013.

PwC Audit

1. Client acceptance and independence

2. Deep business understanding

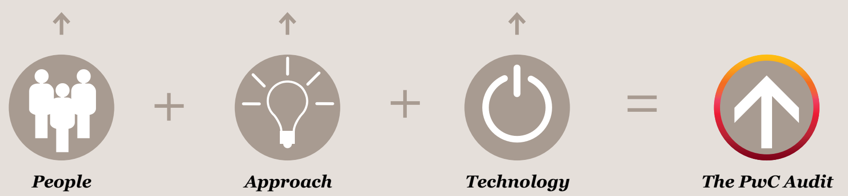
3. Relevant risks

4. Intelligent scoping

5. Robust testing

6. Meaningful conclusions

PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This, together with our six-step audit process, results in an audit that is robust, insightful and relevant.



(c) Quality key performance indicators

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

In the year to 30 June 2013, 13 audit quality KPIs were assessed, covering various aspects of the audit from planning to execution and completion; 8 non-audit quality KPIs were also assessed, covering various aspects of non-audit engagements.

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

The overall audit quality KPI score for the year ended 30 June 2013 was 96.1% (2012: 96.1%) against a target score for both years of 95%. Although the score remains above the target level, we are not complacent about the quality of our work and recognise that continued focus is needed. Therefore, as in previous years, we have made changes to the 2014 audit quality KPIs to help deliver further improvements in key areas of the audit process.

Within Assurance, the overall non-audit quality KPI score for the year ended 30 June 2013 was 91.2% (2012: 92.7%) against a target score for both years of 95%. The results primarily relate to acceptance procedures not being completed on a timely basis.

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

(d) Complaints and allegations

If clients are not satisfied with the services we have delivered, or have suggestions for how we can improve, they may contact either the engagement leader or Margaret Cole, the Executive Board member responsible for Risk and Quality. We will look carefully and promptly at any complaint we receive. Clients may also contact the ICAEW or the institute that the individual PwC UK partner or member of staff is a member of.

(e) Learning lessons

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

The FRC Conduct Committee (formerly the Accounting and Actuarial Discipline Board (AADB)) deals with cases that raise or appear to raise important issues affecting the public interest in the UK, and which need to be investigated to determine whether or not there has been any misconduct by an accountant or accountancy firm, or by an actuary. We have 4 open AADB investigations (2012: 4). No disciplinary proceedings have been commenced in relation to any of these investigations.

Quality monitoring is an integral part of the firm's continuous improvement programme. The firm constantly seeks to improve policies, procedures and the consistency and quality of our work.

We think that moves to increase transparency between the regulator, the auditors, audit committees and shareholders are positive.

7. Factors outside the control of auditors affecting audit quality

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

Regulatory and political environment – Competition Commission investigation and European proposals

In the past year there has been continued political and regulatory scrutiny in a number of the activities the firm carries out.

The Competition Commission (CC) has been carrying out a full market investigation into the audit market for large listed companies. The provisional findings from the investigation were published in June 2013 and it is expected that the final report will be published in October 2013. PwC UK has cooperated fully with the CC and we have submitted a considerable body of evidence, much of which is available for public inspection on the CC website (www.competition-commission.org.uk).

We think that the moves to increase transparency between the regulator, the auditors, audit committees and shareholders are positive. We are also very supportive of those remedies that aid competition, increase transparency between auditor and shareholders and, most vitally, improve audit quality.

Yet, despite recognising the effectiveness of tenders as thorough, fair and transparent, we were surprised that after only nine months of the Financial Reporting Council's (FRC's) game-changing ten-year tendering regime being in place, the Commission concluded that there was a need to further increase the frequency of tendering.

We believe there will be significant cost burdens and disruption for companies, regulators and firms. However, we believe we have the right people with the right skills to rise to the challenge that any change brings.

The European Parliament and Council of Ministers (the 28 Member States) are continuing their deliberations on the European Commission proposals on statutory audit. In remaining supportive of those proposals, which would improve audit quality, such as greater transparency by audit committees and enhanced audit reporting, we remain opposed to a number of measures proposed by the European Commission including mandatory rotation of audit firms and further restrictions on the provision of certain non-audit services, which would deny choice to the market and have a detrimental impact on audit quality.

8. Key drivers of audit quality

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

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

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

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

9. Review of the firm's internal control system

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

The Executive Board takes overall responsibility for PwC UK's internal control systems and for reviewing their effectiveness. It has reviewed the systems of internal control in operation throughout the year ended 30 June 2013, 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, the Risk Council and functions concerning the operation of those elements of the system for which they are responsible
- reports of periodic reviews of the UK firm's performance and quality, which have been carried out independently by the PwC network
- internal audit work carried out by the internal audit function, which reports to the Audit and Risk Committee
- reports from the firm's regulators
- reports from the firm's external auditors.

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

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

PwC UK's internal quality control systems for Assurance are a subset of the firm's internal control systems and are outlined in this section. On the basis of the reviews performed as outlined in part 9 above, the Executive Board is satisfied that PwC UK's internal quality control systems for Assurance are operating effectively.

6. Independence policies and practices

Policies and guidance

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

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

The UK firm also supplements the Network policy with the regulatory requirements of UK professional bodies, such as the Ethical Standards issued by the Auditing Practices Board (APB).

The policy covers, among others, the following areas:

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

Systems

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

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

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

- a rotation-tracking system that monitors compliance with the firm's audit rotation policies for engagement leaders, other key audit partners and senior staff involved in an audit
- a database that records significant business relationships entered into by the firm (excluding the purchase of goods or services in the normal course of business). These relationships are reviewed periodically during the year to assess their ongoing permissibility.

Training and confirmations

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

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

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

Promoting compliance

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

In PwC UK, a violation of independence policies by a partner or staff member has consequences that may include a fine or other disciplinary action including dismissal.

Confirmation of internal review of independence procedures and practices

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

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

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

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

Based on the reviews outlined above, we confirm that we have conducted an internal review of independence practices during the year ended 30 June 2013.

Partners and staff receive mandatory annual training on independence policies and related topics.

7. External monitoring

We are committed to working constructively with, and take seriously, all the findings identified by the firm's regulators in relation to the quality of the firm's audit work.

(a) Regulators in the UK

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

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

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

The results of the inspections undertaken by the AQR and QAD are reported to the ICAEW's Audit Registration Committee (ARC). In June 2013, the ARC considered the findings arising from the AQR and QAD inspection reports and confirmed the continuance of the firm's audit registration.

Audit Quality Inspection Report

The FRC issued its 2012/13 Audit Quality Inspection Report on PwC UK on 31 May 2013. A full copy of the report is available on the FRC website at www.frc.org.uk.

The FRC report sets out the principal findings arising from the AQR's inspection of PwC UK for the year to 31 March 2013. The inspection comprised of reviews of individual audit engagements and a review of the firm's policies and procedures supporting audit quality.

The AQR reviewed 14 audit engagements relating to FTSE 100, FTSE 250 and other listed and major public interest entities with financial year-ends between September 2011 and March 2012. In addition, the AQR undertook two follow-up reviews to assess the extent to which prior year findings on those audits had been addressed on the following year's audit.

PwC Audit Quality Inspection results

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

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

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

- ensure that in all cases sufficient substantive audit procedures are performed, and evidence obtained, in the audit of revenue
- improve the effectiveness of the engagement quality control review process
- undertake measures to improve compliance with personal independence requirements
- take steps to achieve greater consistency in audit quality across business units and industry groups
- ensure that the firm's change programme does not have an adverse impact on audit quality.

The two follow-up reviews undertaken showed that the issues raised in the prior year had been addressed, resulting in improvements to audit quality in the relevant areas.

Of the 14 audits reviewed in 2012/13 (14 in 2011/12), the AQR concluded that:

- eleven audits (eight in 2011/12) were performed to a good standard with limited improvements required
- two audits (five in 2011/12) were performed to an acceptable overall standard with improvements required, and
- one audit (one in 2011/12) required significant improvement.

An audit is assessed as requiring significant improvement if the AQR has significant concerns in relation to the sufficiency or quality of audit evidence, or the appropriateness of audit judgements in one or more key areas, or the implications of concerns relating to other areas are considered to be individually or collectively significant. This assessment does not necessarily imply that an inappropriate audit opinion was issued.

QAD findings

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

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

Of the ten audit files reviewed, six (2012: eight) were assessed as complying with Audit Regulations. The other four files (2012: two) were assessed as generally acceptable, with some isolated issues, mainly around documentation of some important decisions. Some areas for improvement were noted on all of the files reviewed, although in many cases these were relatively minor. The QAD continued to identify issues relating to the documentation of the work on related parties and transactions.

A follow-up review was also undertaken on one audit that was reviewed in the prior year. The QAD concluded that most of the issues raised in the prior year had been satisfactorily addressed, except for a matter relating to the omission of some supporting documentation from the audit file.

Responding to matters raised by our regulators

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

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

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

Other regulatory bodies with which we have interactions

Under various regulations, we also have reporting responsibilities to regulators of our clients such as the Prudential Regulation Authority.

In addition, we work with our clients to enable them to assist the Financial Reporting Review Panel (also part of the FRC) 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:

- US
- Japan
- Canada
- 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. Under arrangements with the relevant regulatory authority in the Crown Dependencies, the AQR undertakes the review of audits performed by PwC UK of the financial statements of entities registered in the Crown Dependencies.

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

The PCAOB inspected PwC UK in 2011. The PCAOB's inspection included the review of the audit files for a number of engagements, the firm's related quality control procedures and liaison with the AQR. The PCAOB issued its draft report in June 2013. The report identified issues relating to the audit work concerning the fair valuation of illiquid financial instruments in respect of one audit. A similar point was identified by the AQR and included in their 2011/12 inspection report and the firm has already taken steps to respond to these matters.

The next PCAOB inspection is planned for 2014. 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 PwC UK for the year ended 30 June 2013:

- consolidated profit for the financial year before members' profit share was £740m (2012: £727m)
- consolidated profit available for division among members of £680m (2012: £672m).

Relative importance of statutory audit work

An analysis of the UK and total group revenue of PwC UK for the financial year ending 30 June 2013, which shows the relative importance of UK-related statutory audit work, is shown below:

	2013 £m	2012 £m
Statutory audits and directly related services for audit clients	552	570
Non-audit services to audit clients	331	348
Services to audit clients	883	918
Services to clients we do not audit	1,553	1,493
UK firm revenue	2,436	2,411
Revenue from non-UK subsidiary undertakings	253	210
Group revenue	2,689	2,621
Revenues from statutory audits and directly related services for audit clients as a percentage of UK firm revenue	23%	24%

Audit profitability

The Consultative Committee of Accountancy Bodies (CCAB) has issued a Voluntary Code of Practice on Disclosures of Audit Profitability (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').

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

	2013 £m	2012 £m
Revenue	552	570
Operating profit	102	85

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

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

9. Remuneration of partners

Partners are remunerated solely out of the profits of PwC UK and are personally responsible for funding their pensions and other benefits.

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

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

In addition, the National Assurance Risk Management Partner participates in the remuneration discussions for audit partners, providing input on their performance in respect of risk and quality matters, and to make sure that the process complies with the firm's policies.

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

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

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

Given the diverse roles and responsibilities each partner undertakes, the weighting given to each of the above criteria varies, depending on those roles and responsibilities. Each partner's performance income, which in the year ended 30 June 2013 represented on average, approximately 38% of their profit share (2012: 36%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the partner's role. These objectives include ensuring that we deliver quality services and maintain our independence and integrity.

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

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

Drawings

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

10. Public interest entities

A list of the public interest entities for whom we issued an audit opinion between 1 July 2012 and 30 June 2013, who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008) can be found at www.pwc.co.uk/annualreport/index.jhtml.

Appendices

Appendix 1: Supervisory Board biographies

Matthew Thorogood is a Tax partner in the Human Resources Services part of the Tax practice in London. He joined the firm in 1986 and became a partner in 2001. He chaired the Partner Affairs Committee of the Supervisory Board up to 31 December 2012 and became Chairman of the Supervisory Board in January 2013.

Christine Adshead is a Transaction Services partner in Manchester. She joined the firm in 1986 and became a partner in 1998. Christine joined the Supervisory Board on 1 January 2013.

Dave Allen is a Consulting global relationship partner with experience in both the TMT and government sector in London. He joined the firm in 1989 and became a partner in 1997. Dave joined the Supervisory Board on 1 January 2013.

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

Pauline Campbell is an Assurance partner in our London Top Tier business unit where she deals with listed companies. She joined the firm in 1985 and became a partner in 1996. She is a member of the Public Interest Body. She became the Chair of the Audit and Risk Committee of the Supervisory Board in February 2013 and is Deputy Chair of the Supervisory Board.

Paul Clarke is an Assurance partner within the London Insurance and Investment Management business unit and is the Global Insurance Regulation Leader. He joined the firm in 1985 and became a partner in 1994.

Duncan Cox is a Tax partner in London, specialising in mergers and acquisitions. He joined the firm in 1994 and became a partner in 2007. Duncan joined the Supervisory Board on 1 January 2013.

John Dowty is a Consulting partner, the COO of our Deals business and the global leader of our Delivering Deal Value business. He joined the firm in 1980 and was admitted as a partner in 1992. He was deputy Chair of the Supervisory Board and chaired the Strategy and Governance Committee of the Supervisory Board up to 31 December 2012, when he left the Supervisory Board.

Katharine Finn is an Assurance partner in the West & Wales business unit. She joined the firm in 1990 and became a partner in 2006. She became the Chair of the Partner Affairs Committee of the Supervisory Board in February 2013.

Martin Hodgson is an Assurance partner in the London Mid Tier practice. He joined the firm in 1977 and became a partner in 1991. Martin left the Supervisory Board on 31 December 2012.

Roy Hodson is an Assurance partner in the London Top Tier Assurance business unit. He joined the firm in 1976 and became a partner in 1988. He chaired the Audit and Risk Committee of the Supervisory Board to 31 December 2012, when he left the Supervisory Board.

Mark Hudson is a Consulting partner in London. He joined the firm as a direct entry partner in 2001. Mark joined the Supervisory Board on 1 January 2013. He became the Chair of the Strategy and Governance Committee of the Supervisory Board in February 2013.

Rob Hunt is a Deals' partner leading the middle market Business Recovery Services team in London. He joined the firm in Birmingham in 1984 and became a partner in 1996. He became the Chair of the Senior Management Remuneration subgroup of the Partner Affairs Committee of the Supervisory Board in February 2013.

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 chaired the Senior Partner Remuneration Committee of the Supervisory Board up to 31 December 2012 and is also a member of the board of PwC Middle East. Pam left the Supervisory Board on 31 December 2012.

Mike Karp is a Tax partner in London and acts as global relationship partner for a number of clients. He joined the firm in 1979 and became a partner in 1990. Mike left the Supervisory Board on 31 December 2012.

Roger Marsh was a Deals' partner, the Leeds office senior partner and led the Government and Public Sector practice in the North. He joined the firm in 1976 and became a partner in 1988. Roger left the Supervisory Board on 31 December 2012.

Pat Newberry was a Consulting partner in Financial Services Consulting. He joined the firm in 1977 and became a partner in 1988. Pat left the Supervisory Board on 31 December 2012.

Ian Rankin is an Assurance partner, based in our Edinburgh office, and is currently seconded to the Global Assurance Quality Review Programme. He joined the firm in 1978 and became a partner in 1989. Ian left the Supervisory Board on 31 December 2012.

Sue Rissbrook is a Tax partner in London. She specialises in Transfer Pricing and leads our Global Transfer Pricing Retail and Consumer Goods Industry Network. She joined the firm in 2000 and became a partner in 2007. Sue joined the Supervisory Board on 1 January 2013.

Caroline Roxburgh is an Assurance partner, based in the Edinburgh office. She is Audit Engagement Leader for a mixture of middle-market clients, both listed and private companies. She is the One Firm market leader for Private Business in Scotland. Caroline joined the firm in 1981 and became a partner in 1995. Caroline joined the Supervisory Board on 1 January 2013.

Duncan Skailes (Supervisory Board chair to 31 December 2012) is a Deals' partner in the Corporate Finance practice in London and leads the UK private equity team. He joined the firm in 1987 and was admitted as a partner in 1999. He was a member of the Public Interest Body to 31 December 2012. Duncan Skailes left the Supervisory Board on 31 December 2012.

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

Murray Legg is an Assurance partner in London. He joined the firm in 1978 and became a partner in 1989. Since 2005, he was a member of the Global Board, the body responsible for the governance of the PwC Network. He left the Supervisory Board in April 2013 when he retired from the Global Board.

Simon Friend is an Assurance partner in London. He joined the firm in 1982 and became a partner in 1993. Since April 2013, he has been a member of the Global Board, the body responsible for the governance of the PwC Network.

Appendix 2: Glossary

APB – Auditing Practices Board

AQR – Audit Quality Review

The Board – the Global Board

The Code – the PwC UK Code of Conduct

FRC – Financial Reporting Council

FRRP – Financial Reporting Review Panel

Governance Code – the Audit Firm Governance Code

Group – PwC UK and its subsidiary undertakings in the UK, Channel Islands and Middle East, as set out on page 17

ICAEW – Institute of Chartered Accountants in England and Wales

IFAC – International Federation of Accountants

IFRSs – International Financial Reporting Standards

The Instrument – Statutory Auditors (Transparency) Instrument 2008

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

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

NET – Network Executive Team

NLT – Network Leadership Team

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

PIB – Public Interest Body

POB – Public Oversight Board

PricewaterhouseCoopers – the network of member firms of PwC International

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

PwC – the network of member firms of PwC International

PwC International – PricewaterhouseCoopers International Limited

PwC Network – the network of member firms of PwC International

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

QAD – Quality Assurance Department of the ICAEW

RIs – 'Responsible Individuals' are the individuals in the firm allowed to sign audit reports

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

'us' – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales

'we' – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales www.pwc.co.uk/transparencyreport

We have prepared the Transparency Report, in respect of the financial year ended 30 June 2013, in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the 'Instrument') issued 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 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 Audit Quality and Transparency Report has been prepared solely in respect of the UK limited liability partnership of PricewaterhouseCoopers LLP and does not relate to any of its subsidiary or associated undertakings, or any fellow member firm of PricewaterhouseCoopers International Limited.

PricewaterhouseCoopers LLP is referred to throughout this report as 'the firm', 'PwC UK', 'we', 'our' and 'us'. 'Group' refers to PwC UK and its subsidiary undertakings in the United Kingdom, Channel Islands and the Middle East, which are listed in Section 1 of the Transparency Report.

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