

Firmwide governance – Update from the Chair of the Public Interest Body

This forms part of our FY21 Transparency Report

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Update from the Chair of the Public Interest Body



Introduction

It has been another very active year for the Public Interest Body (“PIB”), with audit quality and public interest considerations having remained under close scrutiny. The period of this report began in the middle of the COVID-19 pandemic, which dominated the firm’s business operations for the whole of the year. Throughout these challenging times, the PIB has continued to ensure that it provides an appropriate level of oversight and governance regarding the promotion of audit quality, the firm’s reputation and its resilience.

The Audit Oversight Body (“AOB”)

This year has seen the Firm evolve and develop its approach to the governance of its audit practice. As part of the firm’s transitional arrangements for the implementation of the FRC’s Principles for Operational Separation of Audit Practices (the “Principles”), the AOB was established as a committee of the PIB in November 2020. The responsibilities of the AOB include ensuring that audit practitioners are focused on delivery of high-quality audits in the public interest, that a culture supportive of the public interest is promoted, as well as providing support to the Firm’s senior management in the execution of their responsibilities under the Principles through robust oversight and constructive challenge.

The Audit Partner Remuneration and Admissions Committee (“APRAC”) was also established as a committee of the AOB, with responsibility to oversee the audit partner remuneration process, to ensure individual audit partner remuneration is determined above all by contribution to audit quality; and to oversee the process by which candidates are selected for admission to the Firm to practice as audit partners.

Changes in the Membership of the Public Interest Body and Audit Oversight Body

As part of establishing the AOB in November 2020, Philip Rycroft CB was appointed as an Audit Non-Executive member and chair of the AOB, while Sir Ian Gibson CBE was appointed as an Audit Non-Executive member of the AOB. Sir Ian and Philip were also appointed as members of the APRAC. Hemione Hudson, as the Head of Audit, was also appointed as a member of the AOB in November 2020. Kate Wolstenholme, a member of the Supervisory Board and PIB, was appointed as a member of the AOB with effect from September 2021.

In August 2021, subsequent to the end of the year under review, Caroline Gardner CBE was appointed as a Doubly Independent Audit Non-Executive member of the AOB, as defined in Principle 4 of the FRC’s Principles for Operational Separation of Audit Practices. Caroline was formerly the Auditor General for Scotland and is a member of the board of the International Federation of Accountants, the board of Public Sector Audit Appointments Ltd, the House of Lords Audit Committee, and is a trustee of the International Futures Forum. Caroline brings significant experience and expertise. Upon joining the AOB, Caroline was also appointed as chair of the APRAC. As a Doubly Independent Audit Non-Executive member of the AOB, in accordance with the Principles, Caroline is not a member of the PIB.

In September 2021, Sir Ian Gibson stepped down after serving as an Independent Non-Executive (“INE”) since the inception of the PIB. Sir Ian also retired from his role as an Audit Non-Executive member of the AOB and APRAC at the same time. I’m grateful to Sir Ian for the insights and contributions that he has made and the exemplary role he has played in the governance of the firm.

Activities

The PIB has continued to set its own agenda with a focus on matters that it regards as being in the public interest. This has been a year of development for the Firm, starting the year with the COVID-19 lockdown in place and a continuing focus on the Firm’s response to the pandemic and its effects. The second half of the year saw further change in terms of how the firm and its people addressed the demands associated with the continuing pandemic through new working practices. At the same time, the firm saw an increase in demand for its services across a range of areas.

This has also been a year of development in terms of the operation of the PIB, particularly in terms of how it has provided oversight of the firm’s Audit practice. The PIB commenced the year with a continued focus on the firm’s transitional arrangements for its implementation of the Principles, which included establishing the AOB and APRAC as referenced above, a committee and subcommittee respectively of the PIB, in November 2020. Prior to the establishment of the AOB, the PIB had continued to receive detailed updates on the progress of the Programme to Enhance Audit Quality (“PEAQ”) from Hemione Hudson, the Head of Audit, at each of its meetings.



The PIB was involved in the development of the PEAQ, which was introduced by the firm's Audit practice in June 2019. With the launch of the PEAQ, the firm made a decision to invest further in audit quality by committing an additional £30m a year for training, people and technology initiatives. The PIB remains supportive of the firm having aligned its Audit business behind audit quality, including the separation of Audit and Risk into two distinct businesses.

From the point at which it was established in November 2020, the AOB has taken the lead regarding the oversight role of the PEAQ, and the PIB has received updates from the AOB and APRAC as standing agenda items at each of its scheduled meetings. The AOB also reviewed the strategy and culture of the Audit practice, as well as monitoring the results of audit inspections, the reviews of the firm's quality control framework, and other audit quality indicators. This has enabled the PIB to increase its focus on the other aspects of the Audit Firm Governance Code's purpose, including in respect of helping the firm secure its reputation more broadly.

A key aspect of the PEAQ has been the review of the responsibilities and workload of the firm's auditors and making changes to the objectives and recognition of audit partners and staff. Last year, the INEs reviewed the audit partner remuneration process and this year this review was undertaken by the APRAC, with particular consideration being given to how audit quality was embedded within the process. The outcomes of the FY21 audit partner remuneration process were also discussed with the APRAC.

Ensuring that there is consistently high audit quality is critically important. The PIB was pleased to see an improvement in the firm's performance in the FRC's AQR results for the year. The PIB were also pleased to note the recognition from the AQR of the firm's good practice across various areas, including audit quality initiatives, Root Cause Analysis processes and audit methodology and training.

Building wider relationships

During the year, there has been a continued focus on increasing the level of interaction of the INEs with the wider firm. The INEs each attended an element of the External Auditor Training programme within the Audit practice during the year and the INEs were also invited to attend the summer Partner meeting in July 2021. I am also pleased to report that the INEs have continued their regular engagement meetings with the FRC.

As a member of the PIB, the chair of the Supervisory Board has a standing agenda item at each meeting in order to provide an update on the activities of the Supervisory Board. Sir Ian Gibson and Philip Rycroft have each attended Supervisory Board meetings and I have been invited to attend a Supervisory Board meeting in November 2021 that is due to be held at the firm's Belfast office, and I look forward to meeting with the partners and staff there.

The INEs continue to have embedded roles with certain committees of the Supervisory Board. Sir Ian Gibson was a member of the Supervisory Board Talent and Remuneration Committee during the year, while I was also a member of the Supervisory Board Risk Committee.

During the year, a series of biannual meetings between certain members of the PIB, the AOB and the Supervisory Board have been initiated, with meetings having taken place in January and June 2021. At the June meeting, the findings from the Supervisory Board Spring Partner Engagement process were discussed, including the areas of interest among the Firm's Partners. The PIB is also due to hold a joint meeting with the PwC Global Board in October 2021.

Reputation and audit reform

The reputation of the firm, and business more widely, continue to be key areas of focus for the PIB, along with building confidence and trust.

The INEs have continued to be engaged with the firm's leadership on the development and implementation by the firm of its transitional plan for its implementation of the Principles. The PIB continues to support the FRC's objectives on audit quality and also recognises the importance of maintaining the attractiveness of audit as a profession.



The PIB also engaged with the Firm's leadership with regard to its response to the BEIS consultation on "Restoring trust in corporate governance and audit", including the various key themes. The INEs also submitted their own response to the consultation, with a particular focus on public interest considerations.

Culture and People

In the view of the PIB, the firm continues to have an appropriate culture. Through the Independent Non-Executives' interactions, and in testing the decision making of the leadership, the firm's culture is experienced first hand by the INEs.

During the year, the PIB received updates directly and subsequently through the AOB in respect of the culture within the Audit practice. This included the output from a survey within the Audit practice on audit culture and behaviours, together with activities of the audit culture champions.

The PIB has also continued to receive biannual updates from Laura Hinton, the firm's Chief People Officer, which include information on wellbeing, diversity and inclusion, attrition and recruitment among the firm's people. These updates also cover how the desired values, culture and behaviours are embedded across the firm, together with the results of feedback surveys conducted among the firm's people, to monitor engagement levels and sentiment across the business.

Audit Firm Governance Code

The PIB uses the Audit Firm Governance Code as a guide to good governance as well as a compliance requirement, and the INEs have continued to work during the year to fulfil the requirements of the AFGC. A key priority is to identify opportunities to increase the effectiveness and efficiency of our involvement in the firm's governance. We remain mindful of the PIB's role in promoting audit quality, helping the firm to secure its reputation more broadly and reducing the risk of firm failure.

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

The PIB receives regular updates from the Ethics Partner on the firm's "Speak Up" whistleblowing facility and the firm's Code of Conduct. The PIB also receives regular updates from the Head of Internal Audit. I attended the Supervisory Board Audit Committee discussion of the full year report from the Head of Internal Audit, which included details of the various reviews it had conducted to assess the effectiveness of the firm's systems of internal control.

Look ahead

Looking ahead, it remains a very important time for the audit profession. The PIB has a key role to play in this, by continuing to work actively to oversee management and provide constructive challenge, discussing matters of mutual interest with the Supervisory Board and understanding the output of the AOB as part of providing effective and robust oversight. The PIB will also continue to engage constructively with the FRC.

We look forward to continuing to fulfil our role in supporting the development of the firm's governance.

Dame Fiona Kendrick

Chair of the Public Interest Body
26 October 2021
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