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

Year ended 30 June 2014
Building trust through assurance
Our Transparency Report at a glance

A tireless pursuit of quality

Results of the FRC’s Audit Quality Review on PwC UK

<table>
<thead>
<tr>
<th>Percentage</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited improvements</td>
<td>17%</td>
<td>11%</td>
<td>8%</td>
</tr>
<tr>
<td>Improvements required</td>
<td>2%</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Needs significant improvement</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
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The leaders I work with are committed to providing high-quality service to external clients

Partner and staff survey – Assurance FY14

1: strongly disagree
5: strongly agree

Investment in training and development

1.33m hours of training and personal development by assurance people 2013

A dynamic marketplace

Surge in FTSE 350 tenders since the FRC’s ‘comply or explain’ rules were introduced

Number of tenders

- 2012: 17
- 2013: 29
- 2014: Up to 50

Out of 5

37% FTSE 350
62% FTSE 250
75% FTSE 100

More than 3,700 audit clients
- of which 350 in the public sector...
- ...and more than 1,900 UK private companies (FY14)

Assurance revenues (FY14)

63% Revenues from audit work
37% Revenues from non-audit assurance work

Switch rate of PLCs who’ve tendered since Oct 2012
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This report sets out PwC UK’s approach to building trust through assurance. References to PwC UK refer to PricewaterhouseCoopers LLP, a member firm in the UK, but not to its subsidiary undertakings.
Key messages
A message from our Chairman

PwC is a firm with a 165-year history. Throughout that time, enhancing public trust and confidence in the audit profession and capital markets has been at the heart of our story. As the current custodians of the firm, we recognise the importance of this role, and our goal is to sustain and grow a responsible, profitable business that is guided by a clear purpose – to build trust in society and solve important problems. By continually innovating and making investment and growth decisions that are aligned with our values, we will pursue this ambition.

Innovation and investment start with our Assurance partners and staff who deliver services for our clients that demonstrate quality and value now and in the future. Our priorities are to maintain our high levels of investment in, and focus on, the quality and skills of our people, first class audit processes and methodologies, and, vitally, an environment that upholds high standards of integrity and personal responsibility. I am pleased that our quality record, based on external regulatory review by the Financial Reporting Council’s Audit Quality Review team, continues to show year-on-year improvement with our best results ever this year.

Like many industries, we face significant regulatory change. The Competition and Markets Authority investigation into the market for statutory audit services concluded in October 2013. Separately, this was followed by legislation, now enacted, at a European level. Together, these developments will result in a far greater level of audit tendering activity and, ultimately, auditor rotation among listed companies and certain other entities. This has been borne out in the past year with an unprecedented amount of market activity.

As a consequence of this changing regulatory landscape, over the medium term, we expect our share of the audit market to be impacted. In response, we are focused on an approach that maximises the benefits and minimises disruption to our clients. Our commitment to the audit market remains steadfast – we are immensely proud of our long history and the work that we do to provide high-quality assurance to private and public sector organisations.

Last year James Chalmers, our UK Head of Assurance, gave a perspective on the future of audit. This year, he builds on that vision, explaining how PwC UK seeks to lead the debate on the value of audit in a world where the pace and intensity of business activity and change continues to increase. From my perspective, one thing is clear: whilst change is inevitable and desirable for our clients, for us as a firm and for the markets in which we operate, one constant will be our commitment to our values and purpose. The desire for high quality and valuable audits will not diminish.

Finally, I would like to thank Sir Richard Lapthorne and the members of the Public Interest Body for their contribution to our governance and also to recognise the hard work of our people who deliver on a daily basis for our clients.

I hope you enjoy the report.

Ian Powell
Chairman and Senior Partner
Building trust through assurance

James Chalmers
UK Head of Assurance

PwC’s core purpose is clear and publicly stated: to build trust in society and solve important problems. In providing assurance, building trust is woven through everything we do. An effective assurance report should increase the level of trust that can be placed in information, systems and processes. But our assurance reports will only increase trust if we maintain an unerring focus on quality. So our commitment to excellence begins at the top of our firm and is embedded throughout our culture.

We want our Transparency Report to bring alive our assurance activities – you’ll read about the successes and challenges of this financial year, and our ambitions for the future. It’s a time of incredible change, but our objective of building trust through delivering high-quality assurance will remain constant throughout.

Our dynamic marketplace

The last financial year has seen huge shifts in the assurance marketplace. Regulatory evolution continues apace. Following the foundations laid by the Financial Reporting Council (FRC) in 2012, UK and European regulators have further developed their regimes, and in 2016 we will see mandatory rotation of audit firms introduced for all European public interest entities.

Although much of this regulatory change is not yet officially in place, the marketplace has already begun to respond. The infographics opposite set out a picture of the marketplace this year. We expect competition to become even fiercer next year.

We want our Transparency Report to bring alive our assurance activities – you’ll read about the successes and challenges of this financial year, and our ambitions for the future.

More than 3,700 audit clients

of which 350 in the public sector...
...and more than 1,900 UK private companies (FY14)
As a result of this activity, we’ve gained some iconic new audits. We’re very proud to have been chosen to be the new auditors of British Land, Bunzl, Henderson, HSBC, Ladbrokes, Morrisons, Vodafone and many others. We’ve also seen the nature of our relationships with some long-standing audit clients change – Unilever, M&S and the London Stock Exchange have all responded to the regulatory evolution by choosing new auditors for the future. We’re looking forward to continuing to work with these clients, albeit not as their auditors.

Audit Committees are in the spotlight too. Several regulators have emphasised the responsibility that the Audit Committee must take for auditor appointment and oversight. We’re supportive of this trend, and we’re already seeing Audit Committees making appointment decisions based on their assessment of audit quality above all else.

Our Assurance business is not just about delivering high-quality statutory audits of listed companies. This year, 1,900 of our audit clients were UK-owned private companies, companies that form the backbone of the UK’s economic recovery. And our Risk Assurance business continued its strong performance, growing by 12%, and including an outstanding contribution from our Financial Services Regulatory business, where demand for assurance in response to regulatory changes remains high. People in our capital markets business have worked tirelessly throughout the year to respond to the recovery in the deals market; here, revenues grew by 18% on the prior year. Together, our non-audit Assurance services contributed 37% of our total Assurance revenues. Given the strong demand for these services, and the rapidly growing market, our ambition is for this percentage to grow to over 50% by 2020.

Surge in FTSE 350 tenders since the FRC’s ‘comply or explain’ rules were introduced

<table>
<thead>
<tr>
<th>Year</th>
<th>Completed</th>
<th>In progress</th>
<th>In the pipeline</th>
<th>Expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>29</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>Up to 50</td>
<td>9 tenders</td>
<td>4 tenders</td>
<td>up to 13 tenders</td>
</tr>
</tbody>
</table>

Switch rate of PLCs who’ve tendered since Oct 2012

- **FTSE 100**: 75%
- **FTSE 250**: 62%
- **FTSE 350**: 67%

*Up to 50 tenders in 2014*
A tireless pursuit of quality

As a leading professional services firm, our ability to deliver high-quality audits is the foundation of our reputation. Audits that enhance shareholder trust in corporate reporting are an essential feature of our capital markets.

Our main UK regulator – the Financial Reporting Council (FRC) – continues to assess large firms’ performance of audits and their policies and procedures on audit quality. The FRC’s latest Audit Quality Inspection report on PwC UK, published in May 2014, shows further year-on-year improvements, with this year’s results being the best we’ve achieved to date. This outcome was consistent with trends shown by our own Engagement Compliance Reviews where 96% of the audit engagements reviewed (FY13: 92%) were classified as ‘compliant’ or ‘compliant with review matters’.

However, we know we can still do better. The FRC has identified a number of areas for further improvement and we’re working hard to address these. We also have three ongoing investigations by the Conduct Committee of the FRC into the performance of our audits of RSM Tenon Group, Cattles plc and Connaught plc.

This year, we’ve challenged ourselves to think more deeply about audit quality. Despite its critical importance, there’s no agreed definition of audit quality. The regulator’s reports measure compliance with standards, which is just one dimension. Together with the other large audit firms, we’ve taken two steps to stimulate debate – we’ve commissioned an independent survey on audit quality from the chairs of audit committees of large companies, and on page 60 we’ve published a set of indicators which present a more holistic view of factors contributing to quality. We welcome feedback on these initiatives.

Delivering high-quality audits and assurance is a great responsibility, and it’s essential that our firm’s governance responds appropriately. Our Public Interest Body (PIB), which includes five independent non-executives, oversees public interest matters impacting PwC. This year, the PIB has considered matters as diverse as our network acquisition of Strategy& (formerly Booz & Co) and the implementation of audit market reform. You can read more about the PIB’s work on page 8.

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Results of the FRC’s Audit Quality Review on PwC UK

<table>
<thead>
<tr>
<th>Year</th>
<th>Limited improvements</th>
<th>Improvements required</th>
<th>Needs significant improvement</th>
</tr>
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<tbody>
<tr>
<td>2009/10</td>
<td>17</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>2010/11</td>
<td>7</td>
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</tr>
<tr>
<td>2012/13</td>
<td>8</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>2013/14</td>
<td>17</td>
<td>11</td>
<td>2</td>
</tr>
</tbody>
</table>
Our people and our culture

We can only deliver quality audits if we have the right people, empowered to make the most of their strengths. I am responsible for the development of nearly 7,000 assurance professionals who are technically excellent, highly literate in financial and business matters and, of course, expert in delivering assurance. In the year to 31 December 2013, our Assurance partners and staff completed some 129,000 pieces of training across more than 1,000 different training programmes – altogether spending 1.33 million hours on personal and professional development. As a professional services firm that thrives on the strength of its people, we regard this investment as an essential component of our quality framework.

Technical excellence is only one feature of our people. It’s vital that everyone in the firm understands PwC’s values and feels part of a common culture. PwC UK’s Code of Conduct makes it clear that we all have a duty to act with integrity when undertaking our work. We recognise the importance of personal responsibility whilst encouraging consultation on difficult issues. In our annual people survey, we ask our people if they believe leadership is committed to providing high-quality service to clients. I was delighted to see that Assurance people answered this with an average of 4.2 out of a maximum of 5.

Working with our global network

Delivering assurance services here in the UK often means that we need to draw upon the strength and depth of our global network. We believe that the consistency of quality throughout the PwC network is a key differentiator. We have a common methodology, uniform audit software, and global quality standards which are rigorously tested. We also use the network to share ideas, and to invest together in approaches and tools. We all benefit from sharing the latest initiatives and from learning more about each other’s cultures.

An important focus this year has been to work closely with our European network firms in the development of a common response to the EU-wide audit reform legislation. This is a complex regulatory development with the potential for different approaches in individual member states. Where possible, we’ll look to introduce EU-wide approaches that eliminate complexity for our clients.

Investment and innovation

Later in this report, we share our thoughts on how the corporate reporting and assurance model needs to evolve in the future. This evolution will only happen if the profession, and the large firms in particular, invest, innovate and experiment in order to stimulate change. Without evolution, the audit product is at risk of becoming irrelevant.

We take this responsibility very seriously. We’re excited about data-enabled auditing, and also about new ways of reporting that reflect society’s changing expectations of performance and value. We’re continually looking at ways of changing our engagement with key stakeholders to improve our understanding of their needs and expectations.

I feel immensely proud of what our Assurance business has delivered this year – and I’m confident that our success will continue in the future. But the challenge of building trust is growing as the pace of change accelerates. The technical skills and content we will need to create the future of assurance are changing. Today’s need to report complex financial instrument transactions will evolve into tomorrow’s requirement to write algorithms that interrogate Big Data. Throughout, our commitment to people and values will remain constant. Constant values, changing skills – this is how we’ll continue to fulfil our purpose.
A report from the Public Interest Body

Sir Richard Lapthorne
Chairman of the Public Interest Body

This is my fourth annual report on the operation of the Public Interest Body (PIB) since it was established in 2010. For the independent non-executives, this means we have each now begun our second term of appointment. An appropriate time, then, to take stock. This is something we will be doing for ourselves, as the PIB plans to have an external effectiveness review later this year. It is also something the Financial Reporting Council (FRC) is doing, as it has begun its review of the application of the Audit Firm Governance Code (the ‘Governance Code’). I will return to these subjects later in my report, but first want to deal with the work we have undertaken this year.

Just before doing this, it is worth reiterating that the PIB’s membership and activities reflect the objectives of the 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 public interest and reputational risks

In the corporate world, businesses and their auditors are being encouraged to report with a greater emphasis on the principal areas of risk. Hence I thought I would begin my commentary this year by reporting on – from the perspective of the public interest and the firm’s reputation – the key areas we have discussed with the firm’s leaders. Speaking for the non-executive members, we find the relationship between the firm’s Executive and the PIB to be a very open one. The firm surfaces issues of potential public interest for our attention and is receptive to our requests for topics to be discussed. Matters we have particularly focused on in the last year are set out below:

- **PwC’s network acquisition of Strategy& (formerly Booz & Co)**
  We discussed with the firm’s leadership and the Head of Consulting the public interest aspects of this strategic acquisition. In particular, we discussed how this development would impact on the balance between audit and assurance and other services in the firm’s business. We also discussed how these activities are being integrated within PwC’s network of firms. We will revisit this area in the next year as the integration of these activities proceeds.
• Implementation of the reforms to the audit market arising from the Competition Commission and EU audit reform process
We debate on a regular basis with the firm’s Head of Assurance and the leader for Regulatory Affairs how the firm is addressing the challenges of both the market-driven and regulatory-driven changes in the audit market. We believe that the firm is adopting an appropriate balance in maintaining expertise in both audit and non-audit services in key industry sectors, and that the firm’s commitment to audit quality remains paramount in tendering activity.

• How the firm manages the reputational risks around providing tax advice
Given the continued spotlight on corporate taxes, we continued our dialogue begun last year with the firm’s Head of Tax on 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.

• Significant claims and litigation affecting the UK firm
We receive regular reports from the firm’s General Counsel on the most significant cases affecting the firm. We are satisfied that these are being appropriately handled by the firm and its external legal advisors.

• The management of risk in the firm’s Public Sector advisory business
At our request, the firm’s Government and Public Sector Leader discussed with us how risks are managed in PwC UK’s work for the public services, in particular in the health sector.

We believe that the firm is adopting an appropriate balance in maintaining expertise in both audit and non-audit services in key industry sectors.

In all of our discussions on the above matters, the firm’s leaders have welcomed input from the independent non-executives and acknowledge that we have influenced their thinking – for example by challenging them to see alternative perspectives. The independent non-executive members are satisfied that the firm’s processes for raising matters of public interest for the PIB’s attention are appropriate, and that our questions have been answered in a considered and effective manner.

External inspections of audit quality
We continue to spend substantial time engaging with the firm’s annual inspection reports from the Audit Quality Review team (AQR) of the FRC. For the second successive year, I attended a ‘clearance meeting’ with the firm’s Head of Assurance and senior AQR staff – so that we could hear about their inspection findings prior to publication. This interaction is very helpful and enables us to better understand how the regulator’s priorities compare with our own.

I would like to see this engagement with the FRC’s inspection unit evolve to resemble more closely the relationship between a public company and its external auditors. This would become a two-way process, such that the firm could also provide input to the FRC on the inspection process.
Stakeholder engagement
Within the firm, 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 the chairman of the Supervisory Board, we meet with all the members of that Board at least once a year. The non-executive members continue to meet partners and staff through other forums, for example by attending the annual Partner Meeting and other events.

Externally, the Governance Code identifies institutional shareholders and the corporate community as primary constituencies. During the year several independent members of the PIB and the firm’s Head of Assurance participated in a meeting with a wide range of representatives of institutional shareholder organisations. We also met with some shareholder representatives on an individual basis. We devoted substantial time in these meetings to explaining PwC UK’s governance model and how the PIB provides advice to the firm’s leaders, as well as discussing current changes in the audit market. These meetings were positive and helpful and there is a willingness on all sides to continue this engagement on a regular basis.

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

Reviewing the effectiveness of audit firm governance
As indicated above, the FRC is in the course of reviewing the Governance Code in the light of several years’ implementation in practice. The FRC has, as part of its evidence-gathering for its review, held meetings with the independent non-executives and, separately, with the firm’s Executive to gain their respective thoughts and experience of applying the Governance Code.

It is too early to predict what changes, if any, will emerge from the FRC’s review. However, speaking from the perspective of the non-executives, we believe that the Governance Code has generally worked well and that it should continue to be sufficiently flexible to accommodate the different governance and network structures of the major audit firms. That is not to say that there are no improvements that we can make in our operations. We are planning an effectiveness review of the PIB in the second half of 2014. This will be externally facilitated and will build on the work of the internal effectiveness review that was conducted in 2012.

Changes in our membership
We were informed in April that PwC UK had been successful in its tender for the audit of WM Morrisons Supermarkets PLC. Sir Ian Gibson, chairman of Morrisons, was one of the independent non-executives on the PIB (he was not involved with any aspect of the audit tender process or decision making). Upon hearing that PwC would be appointed for the 2015 audit of Morrisons, Ian immediately resigned as a member of the PIB.

Ian’s resignation leaves four independent non-executives on the PIB pending the outcome of the search for Ian’s replacement. In order to remain compliant with the provision in the Governance Code requiring that independent non-executives should have the majority on such a body, it was decided that Pauline Campbell (one of the representatives from the firm’s Supervisory Board members) should also step down.

I would like to record, on behalf of all members of the PIB and the firm, our sincere thanks to Ian for his significant and thoughtful contributions to our meetings. His wise advice and counsel were valued by all of us and we wish him well for the future.

Sir Richard Lapthorne,
Chairman of the Public Interest Body

Read more about our Public Interest Body on pages 31-33.
The future of assurance

As Head of our Assurance business, my goal is to ensure that we deliver the highest quality audits today whilst building the audit of tomorrow.

In our Transparency Report last year, I described the stark choice facing us: either take decisive steps to transform the audit so it remains relevant, or drift towards obsolescence.

I painted a picture of a world in which competition is intense, business models are being continually challenged and value is no longer measured in purely financial terms. All this against a backdrop of instantaneous worldwide communication – blending fact and opinion – and under the constant scrutiny of an ever increasing array of stakeholders.

I created a vision for the future of our profession – one where both the corporate reporting model and the audit had evolved to meet this new reality and were helping to rebuild trust lost following the global financial crisis.

A year on
The pace of change has not slackened. Our profession has seen regulatory upheaval, with the European Commission’s introduction of mandatory audit firm rotation. We’ve also taken our first steps into a new world of audit reporting, issuing audit reports giving a partner’s personal account of audit risks and his or her responses to those risks.

But the changes in our profession are put into perspective by those elsewhere. Take technology: we’ve seen Google launch the world’s first driverless car, and a computer programme called Eugene pass the iconic ‘Turing test’, convincing many in an audience at the Royal Society that they were talking to a 13-year-old boy. Such advances are not only driving improvements in productivity and economic potential, they’re also fuelling exponential increases in the level of information available to the public. In today’s global data democracy, some 3 billion citizens worldwide have instant access over the internet to most of the sum total of human knowledge.

But has this access to information increased public trust? Or is it the reverse? Blinded by the glare of transparency and a blizzard of data, people know more but may trust less. Trust is further depleted by cyber-security concerns; 81% of large organisations experienced a cyber-security breach in the last year.

So the trust deficit remains
The message is clear: despite astonishing progress in so many areas of society, the trust deficit remains. Trust is a human value. It is founded on consistency of behaviour, openness in communication and doing the right thing. That is why many organisations today publish their purpose and values and guard their reputations so fiercely. Published values mean nothing if the underlying behaviours in an enterprise are not consistent with these values. Consumers are prepared to pay more for brands they trust and will immediately desert those in which they have lost faith.

As we focus on the reporting and assurance model of the future we must not lose sight of the importance of the culture and values that underpin it.
Reporting must evolve
Investors tell us that the traditional annual report remains an important source of trusted information. Although the annual report continues to evolve, it is now only a small part of the information available on a company.

So, as channels and content continue to proliferate, how can a company explain itself in a way that can be trusted by diverse stakeholders? This year, UK annual reports took a further step towards answering this question, with companies now required to publish a ‘Strategic Report’ describing their business model – how value is generated over the longer term, and how that value will be captured. If a company can describe this effectively, then all stakeholders can start to understand the risks and impacts inherent in its business model.

Some business models are more easily understood than others. New digital business models, like those of Uber, Whatsapp and Reddit, still feel unfamiliar. And let’s not forget the need to understand and challenge well-established business models: remember what happened to Eastman Kodak, historically a great innovator, when it failed to keep pace with changing technologies.

A further step forward has been made with the recent revisions to the UK Corporate Governance Code, requiring directors to assess the ongoing viability of their own company’s business model in light of its principal risks. This is a task that many will find challenging and we expect that responses will take some time to evolve. But increasing the degree of transparency around how businesses make money and manage risk can only improve the level of trust in UK plc.
Building trust through assurance

Communities
Employees
Shareholders
Suppliers
Governments
Customers
Social impact
Economic impact
Environmental impact
Tax impact

TIMM in action: SSE
This year, we’ve worked with SSE to apply TIMM to decision-making on a transmission line project. This included assessing the impacts on the visual amenity of the landscape, on carbon emissions and on tourism. And by ascribing monetary values to each of these impacts, we enabled various mitigating actions to be evaluated and costed.

Reporting total impacts
Stakeholders are increasingly seeking information that goes beyond the traditional contents of an annual report and looks at measures beyond the financial. Part of our contribution to the debate has been to launch a new framework for reporting and decision-making called Total Impact Measurement and Management (TIMM). TIMM takes an organisation’s activities and performance, and uses these to create an integrated assessment of the resulting economic, social, environmental and tax impacts. We also ascribe a monetary value to each impact so that they can be aggregated and to give visibility to trade offs. The accompanying information panel describes one recent use of TIMM for a client.

Together, developments including TIMM and the new Strategic Report represent important steps on the journey to a new reporting model. The next step will be to embrace more fully the power of digital technologies. Putting pdf’s of weighty documents on a website only goes so far in enhancing trust. Forward-looking companies must lead the way by experimenting with digital reporting, blending self-generated and third-party data to create a continuous picture of a company’s total impact and plans.

PwC’s Total Impact Measurement and Management (TIMM) framework
**Why assurance must change too...**

So, if relevant information is reported, can it be trusted? The answer is not straightforward and doesn’t only lie with external providers of assurance like PwC. Trusted information is the foundation of good risk management. All organisations need to be confident that the information they use to make decisions is timely, relevant and reliable. The same applies to information reported externally. We believe that there are four lines of defence to be considered in this context of managing reporting risk:

- Are the day to day people and processes that generate the information working effectively?
- Is there sufficient management review and oversight of the output?
- Is there effective internal audit review?
- Is it externally audited?

A fundamental decision for an enterprise is to determine the most effective combination of the lines of defence to be deployed to ensure that information is reliable. The judgement will depend on risk appetite and the nature of the risks being faced.

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**...by combining human insight with digital technologies**

I’ve already talked about the importance of culture and the power of technology. Today, computers can drive cars and engage in conversations indistinguishable from those with humans. This rising sophistication has led some people to believe that the days of assurance delivered by human auditors are numbered. Similar views were voiced back in 1997, when the reigning chess world champion, Garry Kasparov, lost a chess game to an IBM computer, Deep Blue. If humans can no longer contribute to the world of chess, what can they contribute to an audit?

Those of you familiar with ‘freestyle’ chess might guess the answer. In freestyle chess, teams can include any combination of human and digital players. And the results show consistently that a team of human plus computer is a winning combination.

At PwC, we’re applying this same principle to the world of assurance. We believe that the best assurance will always be provided by a combination of highly skilled professionals enabled by world class technology.

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**The 4 lines of defence**

1. **People, processes, and technology**
2. **Management and oversight**
3. **Internal audit**
4. **External assurance**

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*If humans can no longer contribute to the world of chess, what can they contribute to an audit?*
Building trust through assurance

Building trust through assurance

A software application that analyses and assures data using a suite of algorithms built on 165 years of PwC experience. Halo uses state-of-the-art interrogation techniques to analyse data, and visualisation tools to reveal to assurance professionals what’s right and what requires further investigation – it can help companies strengthen each of their lines of defence providing 21st century assurance.

The future of assurance

I believe that there is a huge opportunity to develop a reporting and assurance model that meets the needs of the 21st century. As the economy improves, it may be tempting to move on and ignore the lessons of the last few years. We must resist this temptation if we are to ensure that the audit remains relevant.

And finally, we must also never forget that, ultimately, trust is a human characteristic. So, whatever technological tools we apply, talented professionals will remain at the heart of how we build trust through assurance.
Other information
PricewaterhouseCoopers LLP (PwC UK) is a limited liability partnership incorporated in England and Wales.

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

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY13</th>
</tr>
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<tbody>
<tr>
<td>PwC UK partners</td>
<td>814</td>
<td>840</td>
</tr>
<tr>
<td>Partners on secondment overseas</td>
<td>40</td>
<td>34</td>
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<tr>
<td></td>
<td>854</td>
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</tr>
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(b) UK office structure
PwC UK operates out of 29 offices throughout the United Kingdom – a full list can be found at www.pwc.co.uk.

(c) Related firms, entities and investments
Set out below are details of the principal subsidiary undertakings of PwC UK, its interest in a joint venture and its other investments. Further details can be found on pages 55 and 56 in the PwC UK Annual Report 2014.

(i) Subsidiary undertakings
The subsidiary undertakings whose results or financial position principally affected the figures shown in the Group's financial statements as at June 2014 are shown in the table below. A full list of all subsidiary undertakings is annexed to the Annual Return of PwC UK filed at Companies House.

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

Following the Solicitors Regulation Authority’s approval of an Alternative Business Structure, PwC UK became a member of PricewaterhouseCoopers Legal LLP during the year. The non-controlling interest in profits and capital attributable to the members of PricewaterhouseCoopers Legal LLP and PricewaterhouseCoopers CI LLP and to the Middle East partners of PricewaterhouseCoopers (Middle East Group) Limited are shown as non-controlling interests in the PwC UK consolidated financial statements.

<table>
<thead>
<tr>
<th>Principal subsidiary undertakings of PwC UK</th>
<th>Principal activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies</td>
<td></td>
</tr>
<tr>
<td>PricewaterhouseCoopers Services Limited</td>
<td>Service company and employment of staff</td>
</tr>
<tr>
<td>PricewaterhouseCoopers (Resources)</td>
<td>Employment of staff</td>
</tr>
<tr>
<td>PricewaterhouseCoopers (Middle East Group) Limited</td>
<td>Professional services</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Overseas Limited</td>
<td>Professional services</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Advisory Services Limited</td>
<td>Professional services</td>
</tr>
<tr>
<td>PwC Change Management Limited</td>
<td>Professional services</td>
</tr>
<tr>
<td>PwC Consulting Associates Limited</td>
<td>Professional services</td>
</tr>
<tr>
<td>PwC Performance Solutions Limited</td>
<td>Professional services</td>
</tr>
<tr>
<td>PRPi Consulting Limited</td>
<td>Professional services</td>
</tr>
<tr>
<td>Fire Station Operating Company Limited</td>
<td>Social enterprise</td>
</tr>
<tr>
<td>GeoTraceability Limited</td>
<td>Natural resource tracking</td>
</tr>
<tr>
<td>Limited Liability Partnerships</td>
<td></td>
</tr>
<tr>
<td>PricewaterhouseCoopers CI LLP</td>
<td>Professional services</td>
</tr>
<tr>
<td>PricewaterhouseCoopers Legal LLP</td>
<td>Legal services</td>
</tr>
</tbody>
</table>
(ii) Interests in joint ventures
PwC UK holds an interest in a joint venture, Skyval Holdings LLP. Skyval develops, maintains and licenses pension-related software and is incorporated in the United Kingdom. The group has 50% voting control and owns 20% of the equity, with a 50% share of the profits and losses over the first three years, reducing to 20% thereafter.

(iii) Other investments
PwC UK also holds a number of investments including the following:

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

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

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

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

Assurance

Assurance and regulatory reporting – statutory and non-statutory audit, financial accounting, corporate reporting, compliance with new and existing regulations and remediation, risk and regulatory monitoring, International Financial Reporting Standards (IFRS) conversion, 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 and business change enabled by digital technology.

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

New Businesses – refers to the portfolio of businesses where we’ve recognised the potential for developing alternative business models: PwC’s Learning Services, My Financepartner, The Difference, Research to Insight and Geotraceability.

Deals

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

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

Business recovery services – financial and operational restructuring, working capital management, corporate and personal insolvency, independent business reviews, chief restructuring officers, debt advisory, interim leadership (PwC UK’s 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, tax risk assurance, tax disclosures, tax transparency, value chain transformation, investment advisory, incentives, grants and reliefs.

Human resource services – pay, performance and risk, global mobility solutions, pensions and workforce benefits, people services including HR transaction advice, HR analytics and benchmarking, HR technology and transformation.
2. The PricewaterhouseCoopers network

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

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

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

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

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

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

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

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

For the year ended 30 June 2014, PwCIL member firms generated aggregate revenues of US$34 billion worldwide (2013: US $32.1 billion).

The PwC 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 PwCIL
The governance structures of PwCIL are as follows:

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

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

- **Strategy Council** – The Strategy Council, which is made up of senior partners of the largest PwC firms and regions, agrees the strategic direction of the network and facilitates alignment for the execution of strategy. The Strategy Council meets 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 leading teams drawn from network firms to coordinate our activities across all areas of our business.

- **Global Board (the ‘Board’)** – The Board, which consists of 18 elected members, is responsible for the governance of PwCIL, oversight of the Network Leadership Team and approval of network standards. The Board does not have an external role. Board members are elected every four years by partners from all PwC firms. The current Board, with members from 13 countries, took up office in April 2013.

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

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

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

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 (which comprises Deals and Consulting) 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. The action plans are reviewed and their execution monitored.

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

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

(i) The way we do business
PwC firms undertake their business activities within the framework of applicable professional standards, laws, regulations and internal policies. These are supplemented by a PwC Code of Conduct for their partners and staff. The PwC UK Code of Conduct is set out at www.pwc.co.uk/who-we-are/code-of-conduct.jhtml.
(ii) Sustainable culture
To promote continuing business success, PwC firms nurture a culture that supports and encourages PwC people to behave appropriately and ethically, especially when they have to make tough decisions.

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

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

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

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

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

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

For Assurance work, 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 Financial Statements, and other Assurance and Related Services Engagements’ (ISQC 1) and where applicable, the US Public Company Accounting Oversight Board (PCAOB) Quality Controls Standards.

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

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

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

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

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

(f) Financial arrangements
PwC UK and its subsidiary undertakings have no profit-sharing arrangements under the PwCIL network framework. Details of PwC UK’s strategic alliances with certain other PwC Network firms, including those in the Middle East, Central and Eastern Europe and Africa, are explained in more detail in the PwC UK Annual Report 2014 on page 22. The profit-sharing arrangements of PwC UK are set out in Section 10 of this report.
3. Governance structure of PricewaterhouseCoopers LLP

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

(a) The Executive Board

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

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

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

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

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

6. **John Dwyer**  
   *Deals*  
   John graduated from University College Dublin with a commerce degree. He has worked in most of the businesses under the Deals umbrella including Business Recovery and Corporate Finance. He became a partner in 1997 and ran the Transaction Services business between 2007 and 2011. He joined the Executive Board in 2012.
7 Warwick Hunt  
Chief Financial Officer  
Warwick graduated from the University of the Witwatersrand in Johannesburg with a bachelor of accountancy. He is responsible for the leadership of the UK Firm’s Finance and Operations functions. Before joining the Executive Board in October 2013 he was PwC Middle East senior partner. He was territory senior partner and Chief Executive Officer in PwC New Zealand from 2003 to 2009.

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

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

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

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

12 Ashley Unwin  
Consulting  
Ashley graduated from Sheffield University in 1991 with a degree in business; he also gained an MSc in organisational development. He joined the firm in 2009 to lead our Consulting practice. Ashley’s early career was spent with Arthur Andersen where he made partner in 1998. Before joining the firm, he worked in private equity and held senior positions in EMI. He joined the Executive Board in 2012.
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 2014 are set out in Table 3.1.

Keith Tilson was a member of the Executive Board until 30 September 2013, when he retired from the firm. Warwick Hunt, former PwC Middle East senior partner, was appointed Chief Financial Officer on 1 October 2013. Dan Schwarzmann was appointed to the Executive Board as Board member responsible for Clients and Markets on 1 January 2014.

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

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

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Table 3.1
Executive Board for the year ended 30 June 2014

<table>
<thead>
<tr>
<th>Name</th>
<th>Length of service (years)</th>
<th>Board meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Powell, Chairman and Senior Partner^^</td>
<td>8</td>
<td>12 11</td>
</tr>
<tr>
<td>Kevin Ellis, Managing Partner</td>
<td>6</td>
<td>12 11</td>
</tr>
<tr>
<td>Gaenor Bagley, People</td>
<td>3</td>
<td>12 10</td>
</tr>
<tr>
<td>James Chalmers, Assurance^^</td>
<td>6</td>
<td>12 11</td>
</tr>
<tr>
<td>Margaret Cole, General Counsel</td>
<td>2</td>
<td>12 10</td>
</tr>
<tr>
<td>John Dwyer, Deals</td>
<td>2</td>
<td>12 11</td>
</tr>
<tr>
<td>Warwick Hunt, Chief Financial Officer (appointed 1 October 2013)</td>
<td>1</td>
<td>9 9</td>
</tr>
<tr>
<td>Stephanie Hyde, Regions</td>
<td>3</td>
<td>12 8</td>
</tr>
<tr>
<td>Kevin Nicholson, Tax</td>
<td>6</td>
<td>12 11</td>
</tr>
<tr>
<td>Richard Oldfield, Strategy</td>
<td>3</td>
<td>12 11</td>
</tr>
<tr>
<td>Dan Schwarzmann, Clients and Markets (appointed 1 January 2014)</td>
<td>1</td>
<td>6 6</td>
</tr>
<tr>
<td>Ashley Unwin, Consulting</td>
<td>2</td>
<td>12 11</td>
</tr>
<tr>
<td>Keith Tilson, Chief Financial Officer (retired 30 September 2013)</td>
<td>15</td>
<td>3 2</td>
</tr>
</tbody>
</table>

A = Maximum number of meetings could have attended.
B = Number of meetings actually attended.
^^ Member of the Public Interest Body
The systems, which have been in place throughout the financial year and up to the date of approval of the PwC UK Annual Report 2014, 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 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.

(b) Supervisory Board

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

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

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

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

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

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

A subgroup of the Partner Affairs Committee, the Senior Management Remuneration subgroup, makes recommendations to the Supervisory Board, which sets the Chairman’s profit share and approves the Chairman’s recommendations for the profit share of other members of the Executive Board.
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 sits on the PIB as a member of the Supervisory Board to make sure that there is effective communication between the two bodies. Pauline Campbell also sat on the PIB in the same capacity until Sir Ian Gibson retired, after which she stood down so as to comply with the requirements of the Audit Firm Governance Code, which are that the independent non-executives should be in a majority.

The members of the Supervisory Board, who served through the year ended 30 June 2014, are shown in Table 3.2. The Supervisory Board members’ biographies are set out in Appendix 1, except for Ian Powell’s which is set out on page 24.

### Table 3.2

<table>
<thead>
<tr>
<th>Supervisory Board</th>
<th>Length of service (years)</th>
<th>Board meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Thorogood, Chairman</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Pauline Campbell††, Deputy Chair</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Christine Adshead†~</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Dave Allen~</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Colin Breerton*~</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Paul Clarke†~</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Duncan Cox~</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Katharine Finn**</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Mark Hudson--</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Rob Hunt†</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Sue Rissbrook*</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Caroline Roxburgh†</td>
<td>2</td>
<td>12</td>
</tr>
</tbody>
</table>

**Ex officio members:**
- Simon Friend†^ 2 12 11
- Gerry Lagerberg^ 14 12 10
- Ian Powell 6 12 9

**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  
^ = Member of the Board of PricewaterhouseCoopers International Limited (the “Global Board”)  
Note – Subcommittee membership details as at 30 June 2014
The Audit and Risk Committee

Role
The Audit and Risk Committee is a committee of the Supervisory Board. The Committee comprises six members of the Supervisory Board, having both audit and non-audit backgrounds. The Committee met 11 times in the year ended 30 June 2014 (FY13: 10 times). The Chief Financial Officer, the General Counsel, the Head of Internal Audit and the external auditors, Crowe Clark Whitehill LLP (CCW), attend the Committee’s meetings by invitation. Both the internal and external auditors meet privately with the Committee without management presence.

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

Internal control and risk management systems
The Committee’s review of internal control includes considering reports from the firm’s Risk Council and internal and external auditors. A member of the Committee attends the Risk Council meetings throughout the year. Also, during the year the Committee considered and approved the internal audit work programme including its risk assessment, proposed audit approach and coverage, and the allocation of resources. The Committee reviewed the results of 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 Committee also considered reports from other parts of the firm charged with governance and the maintenance of internal control, including in respect of independence, compliance, ethics, whistle-blowing, fraud, data security, business continuity management and the management of the firm’s own tax affairs.

The Committee also reviewed and considered the statements in the PwC UK Annual Report 2014 and in Section 5 of this report in respect of the systems of internal control, and concurred with the disclosures made.
Financial reporting
The Committee carried out its responsibility for monitoring and reviewing the integrity of the Group’s financial statements by reviewing formal updates provided by management on key accounting developments and by reviewing the financial statements with both management and the external auditors.

The significant issues the Committee considered in relation to the financial statements for the year ended 30 June 2014 are set out below. The Committee has discussed these with CCW, together with CCW’s areas of particular audit focus described in the independent auditor’s report included in our financial statements.

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

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

- Defined benefit pension schemes
  Consideration was given to the accounting policy change resulting from the adoption of IAS 19 (revised) ‘Employee benefits’ and its effect on the consolidated financial statements.

Following consideration of the matters presented to it and discussion with both management and CCW, the Committee was satisfied with the judgements and disclosures included within the financial statements. The Committee also reviewed the form and content of the Group’s FY14 Annual Report.

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

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

The external auditors are engaged to provide non-audit services where there are business benefits in doing so, their objectivity and independence would not be compromised and no conflict of interests would be created. Suitable approval processes are in place to ensure that these criteria are met before CCW is engaged to provide non-audit services. Fees paid to CCW for audit and non-audit services are set out in our financial statements. The non-audit assurance services provided during the year related to sustainability reporting, grant claims and regulatory compliance. Non-audit services constituted 13% (FY13: 15%) of CCW’s total fee for the financial year.

The financial year to 30 June 2014 was the Audit Engagement Partner’s first year in role, following completion of a five-year term by the previous Audit Engagement Partner.

Having considered a number of factors including audit effectiveness, business insight, tenure and approach to audit partner rotation, the Committee concluded that it was appropriate to reappoint CCW as auditor.
Building trust through assurance

(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 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 four independent non-executives and two members from the firm’s Executive Board and one member from the Supervisory Board. (As explained in the commentary by Sir Richard Lapthorne on page 10, one independent member and one member from the Supervisory Board stepped down during the year, both will be replaced in due course).

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; and
- review and discuss reports on issues raised under the firm’s whistle-blowing policies and procedures.

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

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 2014 are set out in Table 3.3.

<table>
<thead>
<tr>
<th>Table 3.3</th>
<th>Length of service (years)</th>
<th>Board meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Interest Body</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Sir Richard Lapthorne (Chairman)</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Sir Graeme Davies</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Dame Karen Dunell</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Sir Ian Gibson to April 2014</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Paul Skinner CBE</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Ian Powell</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Pauline Campbell to April 2014</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Matthew Thorogood</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>James Chalmers</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

A = Maximum number of meetings could have attended.
B = Number of meetings actually attended.
Independent non-executive members of the Public Interest Body are:

1 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 was also Chairman of the UK government’s Foresight Group into the future of manufacturing in the UK and the report was published in October 2013. 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 and Arlington Securities plc, and has served as a non-executive director of Orange plc, Robert Fleming Holdings and Oasis International Leasing in Abu Dhabi.

2 Sir Graeme Davies
Sir Graeme Davies is Emeritus Vice-Chancellor of the University of London, having served as Vice-Chancellor and President from 2003 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.

3 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.

4 Paul Skinner CBE
Paul Skinner is Chairman of Defence Equipment & Support, a trading entity within the Ministry of Defence. He is also a non-executive director of Standard Chartered plc, Air Liquide SA and the Tetra Laval Group. He is a member of the Defence Board and of the Advisory Body of Norton Rose Fulbright LLP. Paul spent his 40-year executive career with Royal Dutch Shell, with his final position being as 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 of Infrastructure UK, HM Treasury, 2009-13 and a member of the board of INSEAD.

Sir Ian Gibson was an independent non-executive member and stepped down in April 2014. See page 10 for further information.

PwC members (not pictured)
Ian Powell ^†, James Chalmers ^, Matthew Thorogood †, Pauline Campbell † (to April 2014).
^ Member of the Executive Board
† Member of the Supervisory Board
**Independence of the non-executives**

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

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 which audit more than 20 listed companies.

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

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

This year, the FRC is reviewing the implementation of the Audit Firm Governance Code. The FRC has held interviews with independent non-executives, and with some of our Executive Board as part of this review. Our experience is that implementation of the Governance Code has resulted in a valuable addition to our governance structure, bringing an external perspective to our consideration of the public interest.

An overview of our compliance with the Governance Code is included below. Sections 3, 5 and 7 provide further details of how we have applied the principles 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) presently comprises four independent non-executives, two members from the firm's Executive Board and one member from the 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 8-10 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 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.

Talking with stakeholders
The report from Sir Richard Lapthorne (Chairman of the PIB), on pages 8-10, and our Annual Report discuss our activities in relation to talking with stakeholders.

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 (IFRS) as adopted by the European Union and UK laws and regulations.

The Annual Report includes:
- a statement of members’ responsibilities in respect of the financial statements
- a statement in respect of going concern
- a management commentary covering principal risks and uncertainties, and how those risks are managed.

The 2014 Annual Report can be found at www.pwc.co.uk/annualreport.

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

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

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 2014, PwC UK is in compliance with the provisions of the Audit Firm Governance Code.
5. Internal control and internal quality control systems

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).

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 a system of quality control to provide it with reasonable assurance that:

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

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

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

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

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

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

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

**1. Leadership responsibilities for quality within the firm**

(a) **Organisational structure**

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

Day-to-day responsibility for implementing this system and for monitoring risk and the effectiveness of control is delegated to Compliance, Internal Firm Services and the individual Lines of Service, 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 and Quality. In addition, each Line of Service has a partner responsible for risk management and quality control.

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

The following subcommittees of the Assurance Executive meet regularly to deal with the management of risk and quality within Assurance:

- the Risk Management Steering Group, whose purpose is to agree significant risk management policies and discuss current risk management issues;
- the Audit Steering Committee, whose purpose is to discuss and agree audit methodology issues and policy, and provide input into the development of PwC Audit, the audit methodology and tools used by all member firms of the PwC Network; and
- 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 performed by PwC UK in accordance with auditing standards generally accepted in the US.

(b) Culture and tone at the top
PwC is founded on a culture of partnership with a strong commercial focus. This is reflected in our vision:

‘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 was PwC UK’s Ethics partner for the year ended 30 June 2014, 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.
Building trust through assurance

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

On joining the firm, all staff and partners are made aware of the The PwC UK Code of Conduct and must confirm annually that they are familiar with it. The PwC UK Code of Conduct sets out what we stand for and is underpinned by the following overarching principles:
• 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 PwC UK Code of Conduct encourages partners and staff to report and express concerns in good faith, fairly, honestly and respectfully. We are committed to dealing responsibly, openly and professionally with any genuine concerns raised about possible malpractice. If a genuine concern is raised which is in the public interest, the individual raising the concern will be protected from losing their job, or suffering from any form of victimisation as a result.

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

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

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

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

PwC UK’s information security policies and procedures aim to make sure that:
• information is protected from internal and external threats
• confidentiality, availability and integrity of information is maintained
• statutory, regulatory and contractual obligations are met
• access to confidential information is granted only for justified business needs.
Our policies and procedures include:
- encryption of all the firm's laptops, PCs and memory sticks
- secure and managed apps for data accessed by mobile devices
- software restricting the use of removable media
- access to engagement files – both electronic and hard copy paper files – which is restricted to those with a 'need to know'
- regular backup of data on individual laptops and PCs
- clear-desk policy, both in our offices and at client sites
- securing hard copy files when they are not in use
- remote access to our network via a secure virtual private network, or equivalent technology
- policies on the transmission of data by email outside of the organisation
- restricted access to operational areas of PwC UK and our buildings.

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

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

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

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

3. Acceptance and continuance of client relationships and specific engagements
We have rigorous client and engagement acceptance and continuance procedures to help protect the firm and its reputation.

(a) Acceptance and continuance systems
Within Assurance, we use two systems:
- Acceptance and Continuance (A&C) is used for all audit work.
- Since November 2013, Clientwise has been used for non-audit work (prior to that a One-Firm Client and Engagement Questionnaire was used).

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

The systems 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 those identified risks.

(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 at the entity, together with ensuring compliance with legal and professional obligations.

The policies and procedures also deal with circumstances where we become aware of information after accepting the engagement which, had we been aware of that information earlier, would have led us to decline the engagement.
(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
Our people are our biggest asset. Perhaps the most critical components of quality are the skills and personal qualities of our people. As a professional services firm, many of these skills and qualities are relevant to all our Lines of Service. As a consequence, our strategy for recruitment, engagement, development, diversity and remuneration is consistent across the firm.

(a) Recruitment
PwC UK aims to recruit, train, develop and retain the best and the brightest staff who share in the firm’s strong sense of responsibility for delivering high-quality services. Across the firm, we recruited over 2,700 new people, including over 1,300 graduates and school leavers, in the year ended 30 June 2014.

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

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

- a degree partnership with the ICAEW and the Universities of Newcastle, Nottingham and Reading (31 full-time positions in FY14, with shorter placements for 164 students over the course of the year)
- full-time paid professional roles for school leavers including Higher Apprentices (112 positions in FY14)
- a three-day residential Talent Academy for first-year students (237 places in FY14)
- paid intern and sandwich placement opportunities for students (558 places in FY14).

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

This year we launched The PwC Professional, a global leadership framework which articulates the skills and capabilities we expect from all our people to deliver an outstanding experience to our clients. Our recruitment process is closely aligned to this framework, enabling us to select the best talent, based not only on their technical skills but also on their behaviours and ways of working.
We believe that investing in a broad range of skills, experiences and backgrounds puts us in a stronger position to understand and meet the needs of our clients. This year we have continued to recruit a more diverse range of talent, in particular to encourage more talented women and those from different social backgrounds to our organisation. This has included recruiting over 90 students onto our ‘Shadow a Female Leader’ programme. We also introduced a ‘Business Insight Week’ work experience programme for sixth form students, focused on improving access to the profession.

To find out more about our many different work experience programmes visit www.pwc.com/uk/careers

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

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

ii) Formal learning:
Our PwC Professional global leadership framework, described on pages 41 and 45, underpins a training curriculum which provides a wealth of opportunities for our people to build professional skills and knowledge to support the delivery of high quality assurance services to our clients.

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

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

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

Our practices to maintain capabilities and technical competence include:

- All partners and staff must complete annual risk and quality update training spanning matters relating to compliance, independence and ethics.
- All partners and staff must confirm that they have complied with the firm’s development policy within the general annual confirmation; any exceptions are investigated.
- Within Assurance, all partners and staff are required to complete a learner profile to identify their annual mandatory Assurance technical training requirements based on the experience, grade and role of each individual. The mandatory technical training programme builds foundation technical capabilities relevant to auditors. Annual update training addresses new external requirements, internal policy or methodology changes and the remediation of observations raised through internal quality reviews and external inspections.
- We monitor the completion of mandatory training and failure to complete mandatory training by set deadlines results in disciplinary steps being taken.
- We review the training programme for compliance with PwC network standards.
- We have processes in place to provide our tutors with effective instructor skills and programme effectiveness is assessed through a number of evaluation techniques.
iii) Access to reference material and subject matter experts:
The firm maintains online reference materials covering all aspects of policy, procedure and methodology as well as a library of all relevant auditing, accounting and ethical standards. To keep theoretical knowledge up to date, partners and staff receive regular electronic update communications on technical and regulatory topics as they arise. A helpline of technical subject matter experts is also available.

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

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

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

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

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

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

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

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

(f) Remuneration
In determining remuneration for our staff, we carefully balance several elements including: the economic climate and the external market; recognition of people's hard work, including the quality of the work they deliver; the performance of the firm; and investment for the future. PwC UK has a one firm approach to performance ratings which provides consistency and clarity on the performance of our people across the business. We have common firm-wide reward principles, but in rewarding our people we recognise that we operate in different markets. We have a firm-wide bonus plan, but individual bonuses are determined by each Line of Service.
We seek to ensure that our pay policies and practices are fair and, as part of a broad range of diversity and equality initiatives, we conduct regular Equal Pay Reviews across PwC UK. This involves a review of our pay and bonus outcomes for the firm as a whole and by each of our lines of business and individual business units, taking account of performance and grade. We review pay and bonus by gender, ethnicity and different working patterns (full time to part time). In FY14 our single figure gender pay gap was 15.1% which compares favourably with 19.7% for the UK economy. Our single figure gender pay gap does not take into account objective reasons for pay difference such as grade, location or performance level. In line with good practice, we adjust this figure for the different gender demographic across the grades, as we have more men than women at our most senior grades, and the adjusted pay gap figure is 2.5%. Undertaking annual equal pay reviews is an important measure of the impact and effectiveness of our diversity and inclusion actions. It increases awareness of any issues and enables us to take action to close the gap as part of our wider Diversity and Inclusion programme.

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

In addition, for certain types of work we specify levels of experience and specific additional training to make sure that the individuals are competent to undertake that type of work. 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.

(h) Diversity
We want all our people to fulfil their potential, whatever their background, and we specifically measure our performance in this area against our gender and black and minority ethnic (BME) profile.

Over the past 12 months we have continued to focus on embedding diversity in all of our talent processes, requiring our business leaders to set and deliver grade pool gender/BME targets for the next three years. Of our existing partners, 17% are female and 6% from a minority ethnic background. We’re making progress from the actions we have taken and this year 40% of our new internal admissions to the partnership were female. For FY15 our aim is to ensure that at least 30% of our internal partner admissions are female and 7% are BME. We continue to focus on ensuring that we have a healthy pipeline to support this goal.

During FY14 we undertook a major piece of research with Opportunity Now, culminating in the publication of the report ‘Project 28-40’. This ground-breaking piece of research of 25,000 women and men in the UK identified the key themes of women’s experiences in the workplace. It served to verify our own gender diversity strategy at PwC UK. Importantly it offers guidance and support to the wider business community on how to maximise the potential of the female workforce.
(i) The PwC Professional
The PwC Professional is a global leadership framework designed to articulate who we need to be to meet our clients’ expectations and deliver a consistently outstanding client experience in a constantly changing world.

Everyone at PwC is expected to show leadership. We guide, influence and inspire our teams, our clients and our communities to be their best every day. We do this by leading ourselves and being personally accountable for our actions and how they impact others and PwC.

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

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

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

Our audit work is documented using our electronic documentation tool, Aura. Aura supports teams in applying our methodology effectively, by creating transparent linkage between risks and the work done to address those risks, as well as providing comprehensive project management capabilities.

PwC Audit

1. Client acceptance & independence
2. Deep business understanding
3. Relevant risks
4. Intelligent scoping
5. Robust testing
6. Meaningful conclusions

Smart People + Smart Approach + Smart Technology = Upper
Aura is supported by a series of electronic tools which are accessible via a range of electronic devices ranging from tablets to PCs and smartphones. These tools include:

- **Aura Now** – a monitoring tool that provides real-time information on the quality and status of engagements. It visualises the progress of an engagement, which enables us to prioritise our effort. It acts as an early warning system, highlighting areas where we need to focus to ensure we do the right things at the right time;

- **Connect** – a web-based portal designed to request and exchange documents and information securely with our clients. Connect monitors the status of information flows on a real-time basis – it allows both the client and audit team to track status at an overall engagement and individual level; and

- **Halo** – Data and analytic tools to better identify and assess risks and determine where to focus audit efforts. Our tools allow us to analyse 100% of transactions, which means we can gain a higher level of audit evidence than applying normal audit sampling techniques. The analytical and visualisation capabilities allow us to analyse patterns and trends, identifying unusual and high-risk transactions, and providing invaluable insight to both ourselves and our clients.

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

Unless closely related to our audit work, our non-audit engagement documentation tool, Map, is used by our Assurance practice for non-audit work. Map has been used for many years in our Consulting practice, and in a number of member firms across the PwC network, 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 accounting, corporate reporting, regulatory and auditing practice. These are regularly updated to reflect new professional developments, changes in our operating environment and emerging external issues, as well as the needs and concerns of the practice. These policies 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 readily accessible to our people remotely at any time.

(c) Service delivery centres

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

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

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

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

Most of the work performed by our delivery centres in Katowice (Poland) and Kolkata (India) includes the casting, cross-referencing and internal consistency checking of financial statements, managing confirmation processes, coordination of group deliverables, audit file set-up, roll-forward and maintenance, and setting up templates and audit tests ready for audit teams to use.
To maintain confidentiality and security of information, we have implemented strict data security controls, and work is performed solely by PwC employees in these locations.

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

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

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

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

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

During the year ended 30 June 2014, a total of 1,527 consultations were dealt with (FY13: 780) and 7,479 enquiries (FY13: 6,580) covering audit, accounting and risk management issues. In addition, during the year ended 30 June 2014, 86 (FY13: 102) technical panels took place on audit clients, of which 50 (FY13: 61) included going concern issues.

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

The engagement leader is expected to:

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

• drive a cultural mindset that strives for continuous quality improvement, challenges engagement team members to think, analyse, question and be rigorous in their approach, and embody the experiences of our clients and people in how the team delivers the audit and applies professional scepticism

• foster an integrated coaching culture and demonstrate a willingness to learn and to coach others

• be responsible for the engagement team undertaking appropriate consultation on difficult or contentious matters, initiating those consultations where necessary

• have an ongoing involvement in assessing the progress of the audit, and in making key judgements

• be satisfied that the review, supervision and quality control procedures in place are adequate and effective; and

• have an overall responsibility for reviewing and assessing the quality of the work done, its proper and timely documentation and the conclusions reached.
The engagement manager supports the engagement leader by:

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

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

(f) Engagement quality control review

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

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, depending on the nature of the engagement, may fulfil a role similar to that of a QRP on an audit. In other situations, their role is defined and agreed with the engagement leader and evidenced on the file.

(g) Differences of opinion

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

(h) Engagement documentation

At the end of an engagement, teams are required to assemble the hard copy paper file and then archive both this and the electronic file 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.

Unless required for legal, regulatory or internal review purposes, electronic and hard copy paper files are only accessible by members of the engagement team until they are destroyed. All engagement files are destroyed after periods specified by law or professional standards. In the case of audit files, this is generally eight years after the balance sheet date, but can be as long as 12 years in some instances.
(i) Audit reporting
We are acutely aware that the effectiveness of our work as auditors is directly linked to the effectiveness of our reporting, whether to audit committees and boards of directors, or in the role we play in external reporting.

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

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

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

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

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

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

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

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

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

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

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

Monitoring of our internal quality control systems comprises internal and external monitoring. External monitoring is undertaken by the firm’s regulators and is 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 a quality review programme, in which independent teams of partners and staff review completed engagements to assess compliance with our quality standards and regulatory requirements. Details of the Assurance programme are set out below.

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

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

(b) Global Assurance Quality Review Programme

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

(i) Quality Management Review

A full QMR is performed every three years with 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 subject to a full QMR in FY14. Whilst this review identified a number of improvements to systems, none of these was assessed as likely to lead to engagements not being compliant with relevant standards. The QMR did not identify any 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 assurance engagements governed by international assurance standards
- engagement leaders who perform non-audit assurance work governed by international assurance standards are reviewed once every five years
- engagement reviews are led by experienced partners, supported by teams of partners, directors and senior managers who are all independent of the office, business unit and engagement leader being reviewed
- follow-up reviews take place if deficiencies have been identified
- adverse findings are taken into consideration in determining the reward and promotion of engagement leaders
- results are reported to the Assurance Executive, the Executive Board of PwC UK and PwCIL.
142 audit engagements (FY13: 166) were reviewed in FY14, covering 39% (FY13: 43%) of the firm’s Responsible Individuals. 31 non-audit assurance engagements (FY13 restated: 67) were also reviewed. The reduction in number of non-audit assurance engagements reviewed is due to the separation of non-audit assurance engagements governed by international assurance standards from those not governed by international assurance standards. The latter will be included in a new quality enhancement programme, being piloted in autumn 2014.

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 FY14, 137 audit engagements (FY13: 153), representing 96% (FY13: 92%) of the 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.

30 non-audit assurance engagements (FY13 restated: 67), representing 97% (FY13: 100%) of the non-audit assurance engagements reviewed, were classified as either ‘compliant’, or ‘compliant with review matters’.

An action plan is developed to respond to significant matters arising from the ECR. Specific individuals are responsible for implementing the action plan within agreed time frames. The action plan is also monitored 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 FY13, 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 FY13 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 in addressing these matters. The Member Firm Report for FY14 will be issued in October 2014.

(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 2014, 11 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 2014 was 97% (FY13: 96%) 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 FY14 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 2014 was 93% (FY13: 92%) against a target score for both years of 95%. The instances of non-compliances 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, who is located at our registered office. We will look carefully and promptly at any complaint we receive. The Institute of Chartered Accountants in England and Wales (ICAEW) or the institute that the individual PwC UK partner or member of staff is a member of, may also be contacted.

(e) Learning lessons

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

The Conduct division of the FRC deals with cases that raise or appear to raise important issues affecting the public interest in the UK, and 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 three open investigations (FY13: five). No disciplinary proceedings have been commenced in relation to any of these investigations.
7. Factors outside the control of auditors affecting audit quality

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

**Regulatory and legal developments**

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

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

The Competition and Markets Authority (CMA) completed its full market investigation into audit market for large listed companies in October 2013. After almost two years, and a thorough process, the CMA finalised a significant package of remedies, including mandatory audit tendering every 10 years for FTSE 350 companies, increased accountability of auditors to audit committees and new responsibilities for the Financial Reporting Council (FRC). Taken together, these measures aim to enhance competition, transparency and quality.

In December 2013, the European Commission, Parliament and Council of Ministers reached political agreement on legislation to reform the audit market within the EU. The legislation was voted through the EU Parliament in April, and came into force during June 2014.

The legislation introduces a requirement for all EU public interest entities to rotate their statutory auditors after a maximum period of tenure, together with new restrictions on the non-audit services that auditors can provide to their EU public interest entity clients.

These changes are significant and have the potential to cause complexity for business. There is also uncertainty about how the final rules will actually be applied in each EU member state, much of which will take some time to resolve.

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

8. Key drivers of audit quality

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

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

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

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

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

The Executive Board takes overall responsibility for PwC UK’s internal control systems and for reviewing their effectiveness. It has reviewed the systems of internal control for effectiveness throughout the year ended 30 June 2014 and up to the date of the approval of this Transparency Report, using a process that involves:

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

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

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

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

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

**Policies and guidance**

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

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

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

The policy covers, among others, the following areas:

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

**Systems**

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

- the Central Entity Service (CES), which contains information about corporate entities including audit clients and their related securities. CES assists partners and staff in determining the independence status of clients of the firm when they are considering a new non-audit engagement or business relationship
- 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 service’s engagement leader and the audit engagement leader, documents the potential independence threats of the service and proposed safeguards, and acts as a record of the audit engagement leader’s conclusion on the acceptability of the service.

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

- a rotation-tracking system that monitors compliance with the firm’s audit rotation policies for engagement leaders, other key audit partners and senior staff involved in an audit
- 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 training on the firm’s independence policies and related topics. Completion is monitored and non-completion may lead to disciplinary action being taken.

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

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

Promoting compliance

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

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

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 FRC’s Ethical Standards), when PwC Network policies and guidance change, or when required as a result of the above reviews and of our monitoring and testing programme.

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

Based on the reviews outlined above, we confirm that we have conducted an internal review of independence practices during the year ended 30 June 2014.
7. External monitoring

(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 team (AQR) and the ICAEW’s Quality Assurance Department (QAD) undertake inspections of the quality of the firm’s work as statutory auditors.

The AQR inspects the audits of entities with listed equity or listed debt and other entities designated by the FRC as being of major public interest. The full scope of independent inspection by the AQR can be found at www.frc.org.uk. 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 2014, 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 2013/14 Audit Quality Inspection Report on PwC UK on 28 May 2014. 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 2014. The inspection comprised reviews of individual audit engagements and a review of the firm’s policies and procedures supporting audit quality.

The AQR reviewed 19 audit engagements relating to FTSE 100, FTSE 250 and other listed and major public interest entities with financial year-ends between April 2012 and April 2013. This included two full follow-up reviews to assess the extent to which prior year findings on those audits had been addressed on the following year’s audit.

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

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

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

- Ensure that the simplification and standardisation of audit procedures under the Assurance Transformation programme is accompanied by appropriate focus on the exercise of professional judgment in key audit areas.
- Provide additional guidance on the approach to the audit of IT general controls, particularly in relation to user and/or developer access controls and system-generated reports.
- Take further action to ensure sufficient challenge of the appropriateness of assumptions supporting the carrying value and the useful economic lives of tangible and intangible assets.
Prior to accepting a new audit appointment, ensure that the significance of any threats arising to the firm’s independence from having previously provided non-audit services is properly assessed and that any continued provision of such services does not compromise the firm’s independence.

Ensure that audit engagement leaders apply the firm’s guidance, as revised in the light of our concerns, on the audit of letterbox companies appropriately.

The two full 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 nineteen audits reviewed in 2013/14 (14 in 2012/13), the AQR concluded that:

- seventeen audits (11 in 2012/13) were performed to a good standard with limited improvements required
- two audits (2 in 2012/13) were graded as requiring limited improvements, and
- none of the audits (1 in 2012/13) 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, 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 its confidential report to the ARC. This report is not publicly available.

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

Of the ten audit files reviewed, five (FY13: six) were assessed as complying with Audit Regulations. The other five files (FY13: four) were assessed as generally acceptable, with some isolated issues, often around documentation but in some cases, relating to the quality of audit evidence. Some areas for improvement were noted on all of the files reviewed, although in many cases these were relatively minor. The QAD continued to identify issues relating to the documentation of the work on related parties.

A follow-up review was also undertaken on one audit that was reviewed in the prior year. The QAD concluded that the issues raised in the prior year had been satisfactorily addressed, except for the omission of a disclosure of a related party transaction from the notes to the financial statements.

**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 Corporate Reporting Review team (previously known as the Financial Reporting Review Panel and 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 respective regulatory authorities. Under arrangements with the relevant regulatory authority in the Crown Dependencies, the AQR undertakes the review of relevant audits performed by PwC UK of the financial statements of entities registered in the Crown Dependencies.

The US Public Company Accounting Oversight Board (PCAOB) is the regulator for the audits of public companies with securities 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 and 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 final report in October 2013. The report identified issues relating to the sufficiency of procedures to test fair value measurements of certain assets and liabilities in respect of one audit. The firm is taking steps to respond to the matters raised by the PCAOB in its report.

The most recent PCAOB inspection commenced in June 2014 and, as at the date of this report, we are yet to receive its findings report.
The 2008 financial crisis and the decline of trust in the business community mean that it is more important than ever to rebuild confidence in corporate reporting. As auditors, we play a crucial role in establishing trust in financial statements – good audits mean that shareholders can make confident decisions.

It’s more difficult to reach agreement on what constitutes a good audit. At its simplest level, a good audit results in a reliable audit opinion. Last year, we issued the first of our new ISA (UK&I)700 audit opinions, which give more insight into our audit process. We’re pleased that these opinions have prompted lots of questions over the choices we make as we perform our audit. These questions also illustrate the complexity of deciding what a good audit really is.

If we understand what audit quality means to us, the profession, our clients and the investment community, then we can work in a focused way to improve audit quality.

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

This year, the Policy and Reputation Group has discussed factors which could contribute to audit quality. We’ve identified a set of related metrics which measure our activity in a number of areas, and we’ve agreed that we’ll disclose our performance in our Transparency Reports. Observers will be able to assess the results of each firm and make comparisons between them. We’ve set out our results below.

This is a new initiative, and we’d welcome any feedback from users of this information as we develop it further next year.

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**Partner and staff survey**

We identified three people related areas which could contribute to audit quality. In one of these areas, we already include a question in our You Matter survey which assesses our people’s views. We’ll consider how best to measure the other areas next year.

**Audit quality area**

*My firm places sufficient emphasis on audit quality*

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**You Matter survey**

*The leaders I work with are committed to providing high-quality service to external clients*

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**Result of our You Matter survey**

4.21 out of 5

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**Partner and staff survey**

*Assurance FY14*

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We were pleased to see that Assurance people gave a high score in respect of their views on leadership’s commitment to quality.
Building trust through assurance

This year, we’ve not had any adverse conclusions in disciplinary cases brought against us by our lead regulators. We’re mindful, however, that we have a number of ongoing regulatory investigations that we’re monitoring carefully. Whatever the results of these cases, we ensure that our partners and staff reflect on the lessons learned from each situation.

External investigations

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

In the year to 30 June 2014 there were no cases found against the firm by the Conduct division of the FRC.

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

In the year to 30 June 2014 there were no cases found against the firm by the Audit Registration Committee of the ICAEW.

Engagement performance

Results of firm’s own audit quality reviews

In FY14, 137 audit engagements, representing 96% of the audit engagements reviewed, were classified as “compliant” or “compliant with review matters”.

Results of the FRC’s Audit Quality Review on the firm

We’re pleased with the findings of this year’s FRC Audit Quality Review team inspections, which show further year-on-year improvements. This year’s results are the best we’ve achieved to date. There’s more to do, however, and the FRC has identified a number of areas for further improvement. We’re working hard to address these.
Investment

We can only deliver quality audits if we have the right people, empowered to make the most of their strengths. That’s why we invest substantially in assurance training and development, as shown by the metrics below. In Section 5, you can read more about our approach to assurance training and development.

Amount of training delivered in Assurance.

We present calendar year training information within this report to mirror the training approach we have in place in Assurance. Our training curriculum runs from January to December to fit with the typical audit cycle and the majority of our training is typically delivered over the summer months. The accompanying figures in the table below are for the calendar year ended 31 December 2013.

### Across these categories of structured training, 2013 training activity in Assurance included:
- 1,086 different training courses were undertaken by individuals in Assurance
- 129,000 pieces of training were completed in Assurance
- 73,000 Assurance mandatory training items
- 1.33 million hours were charged to training time codes

Investment in research and development in Assurance.

Both PwC UK and our global network invest heavily in the development of our Assurance product. We have dedicated teams who focus on improving our methodologies and technologies. An important objective of this work is the improvement of audit quality.

Shareholder liaison

Qualitative description of shareholder liaison

We have a dedicated shareholder engagement team who works, together with our audit partners, to understand the expectations of the shareholder community. We produce shareholder-focused surveys, thought leadership and other material to help audit teams, executives and non-executives respond better to shareholder demands.

This year, we’ve been surveying investment professionals to get their views on the wider reporting agenda, e.g. integrated reporting, as well as working hard on the format of our audit reports. We need to meet the FRC’s technical requirements and use our reports to help increase shareholder understanding of our audit work.
9. Financial information

Consolidated financial information
The following information is extracted from the consolidated financial statements of PwC UK for the year ended 30 June 2014:

- consolidated profit for the financial year before members’ profit share was £772m (FY13 restated: £750m)
- consolidated profit available for division among members was £711m (FY13 restated: £690m).

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 2014, which shows the relative importance of UK-related statutory audit work, is shown below:

<table>
<thead>
<tr>
<th>FY14 £m</th>
<th>FY13 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory audits and directly related services for audit clients</td>
<td>571</td>
</tr>
<tr>
<td>Non-audit services to audit clients</td>
<td>332</td>
</tr>
<tr>
<td>Services to audit clients</td>
<td>903</td>
</tr>
<tr>
<td>Services to clients we do not audit</td>
<td>1,636</td>
</tr>
<tr>
<td>UK firm revenue</td>
<td>2,539</td>
</tr>
<tr>
<td>Revenue from non-UK subsidiary undertakings</td>
<td>275</td>
</tr>
<tr>
<td>Group revenue</td>
<td>2,814</td>
</tr>
<tr>
<td>Revenues from statutory audits and directly related services for audit clients as a percentage of UK firm revenue</td>
<td>22%</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>FY14 £m</th>
<th>FY13 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>571</td>
</tr>
<tr>
<td>Operating profit</td>
<td>122</td>
</tr>
</tbody>
</table>

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

- revenue represents amounts recoverable from clients for statutory audits and directly related services provided during the year, excluding Value Added Tax. It reflects the fair value of the services provided on each client assignment including expenses and disbursements, based on the stage of completion of each assignment as at the balance sheet date
- 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.

3 Typical non-audit services provided to audit clients include some of the services listed in the line of service descriptions on pages 18-19 and are only provided to audit clients where permitted by Ethical Standards and PwC Network and PwC UK policies.
10. Remuneration of partners

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

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

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

In addition, the Assurance Risk & Quality Leader or 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) have performed
- equity unit income – reflecting the overall profitability of the firm.

Each partner’s performance income, which in the year ended 30 June 2014 represented on average approximately 39% of their profit share (FY13: 38%), 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.
11. Public interest entities

A list of the public interest entities for whom we issued an audit opinion between 1 July 2013 and 30 June 2014, 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/transparencyreport
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 is Chairman of the Supervisory Board.

Christine Adshead is a Transaction Services partner in Manchester. She joined the firm in 1986 and became a partner in 1998.

Dave Allen is a Consulting global relationship partner with experience in both the TMT and government sector in London. He joined the firm in 1989 and became a partner in 1997. He is a member of the Strategy & Governance Sub-Committee and a member of the PwC Middle East Board.

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

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

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 is the Chair of the Partner Affairs Committee of the Supervisory Board.

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

Rob Hunt is a Deals partner based in Birmingham and leads the national middle market Business Recovery Services team. He joined the firm in Birmingham in 1984 and became a partner in 1996, spending three years in London from 2010. He is Chair of the Senior Management Remuneration subgroup of the Partner Affairs Committee of the Supervisory Board.

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

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

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.

Simon Friend is an Assurance partner in London. He joined the firm in 1982 and became a partner in 1993. He is a member of the Global Board, the body responsible for the governance of the PwC Network.
Appendix 2: Glossary

AQR – Audit Quality Review

Assurance – the line of service responsible for delivering assurance and regulatory reporting, risk assurance and actuarial services, as described on page 18

The Board – the Global Board

The Code – the PwC UK Code of Conduct

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

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

FRC – Financial Reporting Council

The Global Board – the Board of PricewaterhouseCoopers International Limited

Governance Code – the Audit Firm Governance Code

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

ICAEW – Institute of Chartered Accountants in England and Wales

IFAC – International Federation of Accountants

IFRS – International Financial Reporting Standards


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

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

NET – Network Executive Team

NLT – Network Leadership Team

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

PIB – Public Interest Body

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

PricewaterhouseCoopers – the network of member firms of PwCIL

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

PwC – the network of member firms of PwCIL

PwCIL – PricewaterhouseCoopers International Limited

PwC Network – the network of member firms of PwCIL

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

QAD – Quality Assurance Department of the ICAEW

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

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

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

‘we’ – PricewaterhouseCoopers LLP, a limited liability partnership incorporated in England and Wales
We have prepared the Transparency Report, in respect of the financial year ended 30 June 2014, in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the 'Instrument') issued by the Financial Reporting Council ('FRC'). This report also incorporates the key drivers of audit quality set out in the Audit Quality Framework issued by the FRC in February 2008.

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

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

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

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The Design Group 21832 (09/14)