www.pwc.co.uk/transparencyreport

Doing the right thing
Building trust

This document includes both our audit quality and our transparency reports for 2012.

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Contents

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

Who we are

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.

1. 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.

2. 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
- have a thirst for learning and developing others.

3. 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, demonstrating these values and behaviours – opting out is not acceptable. Put simply this is how we define success.

To find out more about our strategy visit www.pwc.co.uk/annualreport/index.jhtml.

Audit quality report

A message from our Chairman

Ian Powell

Chairman and Senior Partner

"This Audit Quality and Transparency Report is an important opportunity to share our values, build trust in our firm and to explain how we set our strategy and manage our business to deliver consistently high quality audits. Our audit practice is at the core of our firm and our values and fundamental to our brand."

I am proud of the people who work in our audit practice. They have a demanding role to fulfil, but one which is vital to the effective stewardship of business and to providing capital markets with information that is reliable, relevant and timely. Auditors are rightly subject to robust independent oversight and regulation and, certainly in more recent times, intense media and political scrutiny. While these conversations are not always easy, I believe they are an important part of the debate through which auditors can demonstrate their independence and commitment to audit quality.

2012 is the tenth anniversary of our Building Public Trust Awards which recognise the best in corporate reporting. The simple premise behind the awards is that companies, and indeed public bodies, should use their reports to 'tell it like it is'. We clearly have a responsibility to follow that same ethos, and this report has once again been produced with that guiding principle. We have gone beyond simple compliance and have sought to give a deeper insight into the governance and management of our firm.

We have also used this opportunity to talk about the significant investments in people, training, audit methodologies and technology we are making as part of our drive for continuous improvement in what remains a fiercely competitive market. While the headline statistics of market shares and average audit tenures are often quoted, there is less prominence given to the fact we operate in a market where audit appointments are subject to a shareholder vote, last only for one year at a time, and where audit fees are published for competitors and the wider market to see. It is difficult to think of any other service procured by an organisation that goes through the same degree of external scrutiny.

I would like to thank my fellow Board members, partners and staff for their commitment to delivering exceptional quality and service to our clients. Our partnership culture encourages healthy debate in the pursuit of continuous improvement. Many of the best innovations and improvements in our auditing come through this process and we remain committed to building on this culture in the future. Finally I would like to thank the members of our Public Interest Body (PIB), led by Sir Richard Lapthorne. The constructive challenge, external perspective and insight they offer greatly strengthens the governance of our firm. You can read more about the PIB on pages 7-8 of this report.

I would welcome any comments you have on any aspect of this report.

Ian Powell
Chairman and Senior Partner

Delivering quality audits

James Chalmers

Executive Board member
Assurance

"As Head of Assurance I am committed to continuing to deliver high quality audits while challenging ourselves to ensure that our audits remain relevant to the needs of our clients and the wider capital markets."

Audit Quality

As you will already have read from our Chairman Ian Powell, our commitment to quality is driven from the top of our firm and embedded in our culture. We recognise the public interest aspect of our audit work and the role it plays in the effective operation of the capital markets.

Our reputation for delivering high quality audits is, quite simply, fundamental to our firm's reputation, both in our Assurance practice and across the firm as a whole.

I have a personal responsibility to reinforce this message within the firm to our partners and staff, to our clients and, through this Audit Quality and Transparency Report and other communication channels, to our wider stakeholders.

Our firm's culture is one that never settles for second best. Our audit practice is driven by this ambition and an appetite to learn and improve. This includes careful reflection on, and application of, the feedback and comments made by our independent audit regulators as well as our own comprehensive internal quality review procedures. The feedback our clients provide is also invaluable in enabling us to ensure that we learn lessons from the market as well as our regulators.

Regulatory scrutiny

Independent regulation and oversight of the audit profession enhances our ability to deliver high quality audits. In this context, I welcome the Audit Quality Review Team (AQRT) (formerly the Audit Inspection Unit (AIU)) report on PwC which shows a positive direction of travel for the firm with year on year improvements in the AQRT's assessment of our delivery of high quality audits.

We have again taken on board the recommendations of the AQRT's latest report on the firm and are committed to responding to the matters raised. As Head of Assurance I personally oversee the delivery of the action plan we have developed and agreed with the AQRT to enhance audit quality.

Investment and innovation

One under-reported aspect of the work of auditors is our commitment to investment and innovation. The simplicity of the final audit opinion has led some commentators to doubt that the process of an audit has changed significantly over the years. This myth masks the very simple reality that the PwC audit is subject to significant investment and continuous innovation.

Our Audit Transformation Programme (ATP) was set up three years ago with the aim of delivering higher quality audits, more efficiently, whilst delivering greater insight to our clients. A number of our most experienced client facing audit partners have worked with a dedicated team drawn from across the firm to deliver on these goals.

We are making significant investments in our audit methodology and new technologies necessary to deliver an insightful, efficient and high quality audit. This has enabled us to perform our audits more effectively with simplified methodology and greater innovation, including the use of data auditing and data analytics, whilst providing greater visibility of audit quality across our business. As part of this we are optimising and standardising audit processes where appropriate, and developing alternative delivery models including centres of excellence and shared service centres.

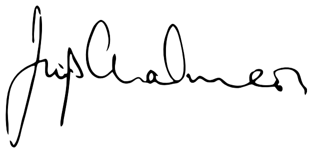
We also continue to invest heavily in our people, most recently updating our traditional classroom based learning for audit practitioners with regular webcasts on topical issues, professional developments and issues raised by our regulator. We have supplemented these webcasts with bespoke and interactive e-learning modules delivered direct to our audit professionals. As a result we are able to refresh industry and professional knowledge in an engaging and relevant format for all our audit partners and staff.

Investment and innovation will remain a key part of the PwC audit.

Building trust

As you would expect, we have strong governance arrangements, operational structures, policies and procedures and other arrangements to allow us to comply with relevant standards and requirements. However, I firmly believe that our people, our culture and our focus on audit quality is as, if not more, important than the systems that we have in place.

As auditors, we recognise the personal responsibility that the role places on us and the trust that is placed in us. Our challenge is to repay this trust through the delivery of our audit work to the high standards that are expected of auditors and the high quality standards that we set ourselves. I hope that this Audit Quality and Transparency Report demonstrates our unwavering commitment to audit quality.



James Chalmers
Executive Board member
Assurance

Review of audit engagements

2012 Audit Quality Review Team report

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

Our reputation and regulatory policy

Richard Sexton

Executive Board member
Reputation and Regulatory Policy

It is vital that we continue to engage in a constructive conversation with regulators, companies and investors to understand their perspectives on audit quality. Over the past year we have increased our efforts to have those conversations and the results have informed our audit practice strategy and operations.

As I enter my second year as Executive Board member for Reputation and Regulatory Policy, never has the transparency of what we do and how we do it as auditors been more important. My role on the Executive Board is simple; to lead our firm's contribution to the current debates and reviews that will shape the future of all of our businesses including our successful audit business which sits at the heart of PwC. Our public interest role as auditor to many of the UK's leading companies is of central importance to our firm and it is critical that we think about broader public policy and reputational, as well as, commercial issues.

Audit quality is of paramount importance to our firm. Our reputation is built on the quality of the audit work we perform. We do our utmost to deliver high quality audits. This means going beyond simple compliance with specific standards and regulatory requirements and exercising our professional judgement and determination to add value and insight through our audits and to look for continuous improvement in everything we do.

Doing the right thing

Independent, robust regulation contributes to audit quality, public perception and an understanding of our work. I continue to believe the UK has a world class regulatory regime which has been further enhanced by considered reforms in recent years. But let me be clear. I do not believe that we have high quality audits simply because we have a strong regulator – relying on regulation alone is a dangerous game. The major impetus for audit quality must, and indeed in over thirty years experience at PwC always has, come from within the firm. We continually emphasise the fact that every partner and member of staff has a personal responsibility to do the right thing through the exercise of good judgement and play their part in delivering high quality audits.

"As the UK's largest audit firm we recognise that we have a very significant public interest responsibility and we take it very seriously."

Building public trust

There is little question that continued economic difficulties, combined with a number of business failings and failures, have further eroded public trust and confidence in business. This loss of trust in business as a whole has also affected the audit profession. That is regrettable but entirely understandable. We long ago took the view that rather than bemoan this situation we had a responsibility to understand the underlying issues, to engage with a broad range of other interested parties and to develop new thinking and plans for action which can play a part in regaining public trust.

Perhaps the best example of this approach has been our Building Public Trust Awards programme. Launched ten years ago, the programme is designed to encourage best practice in public company and public sector reporting. We had hoped that the need for a programme of this kind would by now have disappeared. But, with every passing year, the decision we took to launch the project and the commitment we have made over the past decade looks more prescient.

Three years ago we took the decision to expand our interest in the broader debate around trust in business. Over this time we have hosted a number of debates and discussion forums, published thought pieces and partnered with other organisations, such as the Institute for Ideas, to make sure there is a breadth of thinking, and challenge, to our ideas about the steps that need to be taken to return business to a position of trust.

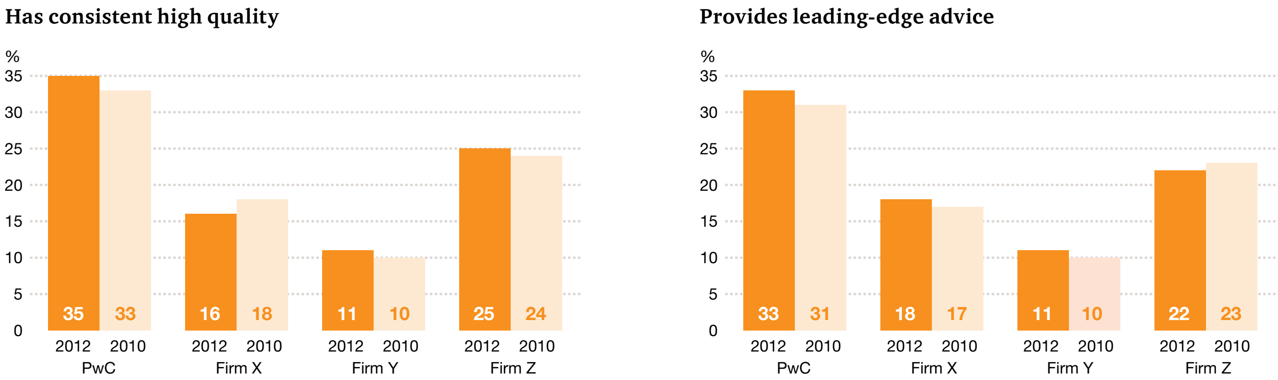
UK and European regulatory activity

In the UK we are part way through a Competition Commission (CC) investigation in to the statutory audit services market for listed companies. You will not be surprised to hear our view that this market, like every other in which we operate, is fiercely competitive and that our market position is the result of many years of investment, an unfailing commitment to quality and delivering the best service possible to our clients. We have backed this assertion up with a considerable body of evidence. Much of it is available for interested parties to view on the CC website (www.competition-commission.org.uk) and I would strongly recommend that anybody with an interest in this debate visit the CC website to hear our, and indeed other, views on the nature of competition in the UK audit market and contribute to the debate.

The European Parliament is also reviewing the operation of the audit market. This legislative process has its origins in a series of reforms proposed by the European Commission (EC). We support much of what the EC recommended, including European Union (EU) auditor passports that would make it easier for qualified professionals to move around the EU, and removing any artificial barriers to audit market entry such as restrictive bank covenants that prescribe the use of a very large audit firm. In addition the focus on good corporate governance is very welcome.

Brand Health Index[1]

One of the key measures of our reputation is our Brand Health Index score. The survey measures us against the other Big Four firms every two years. Respondents are asked 'Which of these firms comes to mind first as one that...':



1 The Brand Health Survey benchmarks PwC on a range of criteria and provides data in relation to our immediate competitors. It is commissioned by PwC and conducted every two years by a third-party research agency (Perspective Research Services).

As a matter of principle we do not support measures which we believe would be detrimental to audit quality including mandatory rotation of audit firms or moves towards the creation of audit only firms. In our view such measures would add cost and create significant disruption in the market and may actually reduce competition. There is no evidence to support the assertion that long tenure adversely affects audit quality, indeed there is evidence to suggest the opposite is the case.

Proposed changes to the Combined Code try to encourage periodic tendering of the audit, which reflects the overwhelming market view that reappointing your existing auditor, which may often be the result after a competitive process, is a perfectly legitimate outcome. A degree of accumulated knowledge and experience is a prerequisite for a quality audit. Any audit proposal decision should be based on the market being free to choose the best audit firm. In addition we all need to be wary of chasing audit prices down.

Our position on every audit reform proposal is simple. It must be grounded in evidence. It must improve not threaten audit quality, and the benefits must clearly outweigh the costs to the market.

A new agenda for audit

Every financial crisis, corporate collapse, or indeed high profile business scandal is almost invariably followed by a question about whether the auditors should have done more to identify or prevent the causes of the problem. In my opinion the profession has for too long tried to explain these questions away on the basis that there is an expectation gap, grounded in an unrealistic view of the scope and responsibilities of the auditor. The profession has not spent enough time trying to understand the expectations that investors and other stakeholders have of us and to engage in a constructive discussion that not only explains what we don't do, but more importantly tries to assess what users of accounts would value that we could do in future. However, we all need to remember that it is 'assurance' and not 'insurance' that the audit provides.

Our Progressive Agenda sets out a series of short and long term measures for auditors and audit clients to take which have the potential to create a more transparent, accountable and useful corporate report. The Progressive Agenda rightly started with a focus on our role as auditors. We have committed to act on the feedback we get from our regulators as quickly and effectively as possible in an effort to speed further improvements in the quality of our auditing.

To date we have seen a number of clients in the FTSE 100 embrace key aspects of the Progressive Agenda and carry this through to their public reporting with enhanced disclosures from Audit Committees of the key issues discussed with their auditors over the course of the reporting period.

We have also stepped up our efforts to innovate and improve the PwC audit. One good example is the Audit Transformation Programme which James Chalmers discusses in his statement on delivering quality audit on pages 2-3.

Working with our Public Interest Body

I am one of two members of the Executive Board to sit on our Public Interest Body (PIB). The group was set up in response to the Audit Firm Governance Code to make sure that the firm is managed in a way that supports our public interest responsibility.

You can hear the views of Sir Richard Lapthorne, our PIB Chairman, on pages 7-8 of this report. In my experience the PIB provides strong and insightful external perspectives and challenge on the governance of our firm. I believe the governance of our firm, which was already strong and well balanced, has been further enhanced by the PIB.

An open and honest conversation

I hope this report conveys the seriousness with which we approach our public interest responsibility and our willingness and desire to have a discussion with those of you who are interested in audit quality. If you have a point of view, or would like to meet to discuss audit quality, do please feel free to contact me.

Richard Sexton
Executive Board member
Reputation and Regulatory Policy

A report from the Public Interest Body

Sir Richard Lapthorne

Chairman of the Public Interest Body

This is my second annual report on the operation of the Public Interest Body (PIB) and in the less than two years since we were established we believe we have covered a lot of ground.

We have a very good level of participation in our meetings and we have built further on the solid foundations laid last year.

Before I report on our activities this year, it is worth reiterating a few of the opening comments I made in my initial report. First, the PIB's membership and activities reflect the objectives of the Audit Firm Governance Code, which states that the independent non-executives should improve confidence in the public interest aspects of the firm's decision-making, dealings with stakeholders and management of reputational risks. Secondly, the PIB is designed to complement the firm's already well established governance structure (more details of our membership can be found on pages 19-20). Finally, although we have certain duties that come from the Code on matters of public interest, we believe the best way for us to 'add value' is in offering the firm's leaders a different and independent perspective.

Evolution of our activities

This year we completed our 'awareness' sessions on understanding the significant elements of the firm, and we have now had the opportunity to engage with those responsible for managing the risks in each of four service lines of Assurance, Tax, Consulting and Deals. We also continued our programme of office visits. These have allowed us to meet a wider range of partners and staff and to gain a better understanding of the different markets the firm operates in. For example, given the size and significance of the operation, we thought it particularly important that we visit and talk to the partners running the administration of Lehman Brothers International (Europe) in Canary Wharf – the largest administration in history and, as a result, one that has a very high public profile.

Although we have representatives on the PIB from the Executive and Supervisory Boards, we felt it important for the non-executive PIB members to be able to meet as many of the members of those two Boards as possible. Hence informal events were held to allow us to meet all the Board members. In addition, each of the non-executives attended one of the UK Partner Meetings held in September 2011. We plan to attend the 2012 Partner Meetings as well and a part of the proceedings will be given over to reporting on our progress.

In our formal meetings we balance the agendas between regular items of business and more occasional 'deep dives' into specific areas. As standing items on the agenda, the chairs of the Executive and Supervisory Boards report to the other PIB members on their activities. This is important because it allows us to hear first-hand from those responsible for decision-making in the firm and to ask questions and make suggestions. We are briefed at each meeting on the firm's Risk and Quality processes and any contentious matters (for example disciplinary inquiries) affecting the firm. We discuss the firm's inspection reports from the Audit Quality Review Team (fomerly the Audit Inspection Unit) of the Financial Reporting Council (FRC) and we also have regular sessions on those matters specifically identified by the Code, for example concerning staff and partners and whistle-blowing.

> *“We will continue to shape our stakeholder engagement as we learn more about the expectations of these different groups.”*

Extensive discussion of the regulatory agenda

Undoubtedly the area of business on which we have spent the most time over the last year is the regulatory and public policy agenda. We have been updated at each meeting on how the firm is addressing the Competition Commission’s inquiry into the audit market for listed companies in the UK, the legislative proposals on Audit published by the European Commission and the recent series of consultations on important topics issued by the FRC. Extensive material has been presented to us on how the firm is responding to the matters raised in these initiatives and we have heard from PwC’s UK and Global public policy leaders. The non-executive members have been able to offer some different perspectives on these debates.

The members of the PIB are satisfied that the firm has followed an appropriate and comprehensive process in order to arrive at the public policy positions it is taking. Speaking for the non-executives, many of us, wearing other ‘hats’, act as buyers of professional services. We believe what is needed is a thoughtful, balanced and properly informed view of how the industry moves forward in the interests of the consumers of high-quality professional services, recognising the significant contribution professional services make to the UK economy.

Engaging with stakeholders

To keep in touch with opinion, issues and concerns, the firm needs to conduct a dialogue with its stakeholders about matters covered by the Code. As mentioned in my report last year, we have spoken with some of the Code’s authors to try to understand what they had in mind and, while some different views were expressed, this has enabled us to sharpen our focus on two groups – investors and the corporate community.

The organisations that regulate the audit sector also comprise an important constituency. The FRC has organised biannual meetings for the non-executives from all the audit firms covered by the Code in which we have actively participated. These meetings have reinforced the fact that firms have adopted the Code in accordance with the differing ways in which they are structured.

We will continue to shape our stakeholder engagement as we learn more about the expectations of these different groups. In the meantime, if any of PwC’s stakeholders in the investor and corporate communities would like to raise issues related to the Code, do please get in touch.

Reviewing our effectiveness

The one exception to PwC’s compliance with the Code reported last year was the conduct of an effectiveness review. We have addressed that and, although still early days in the PIB’s life, considered it would be useful to conduct such a review. The review was undertaken by PwC’s specialist on corporate governance matters, who has had no other involvement in the PIB and hence was able to offer a fresh pair of eyes. All members of the PIB including the firm members and secretariat were interviewed and a report produced.

Overall, the report shows that the dynamics and administration of our meetings are working well. Crucially, the PwC members recognise that the PIB has added value for the firm. That said, the report also generated recommendations for areas that we will address in the next 12 months in order to make the PIB more valuable and effective. We will work through these in the months ahead and I hope to report next year that we have made appropriate refinements to our objectives, scope of work and procedures.

Perhaps most importantly, the report demonstrates that while the members unanimously believe that the PIB should not be a decision-making forum, it does provide a setting where the firm’s positions on public interest matters can be debated and challenged. The report indicates that, with the benefit of almost two years’ experience, the members consider that the right constituencies are represented in the PIB and that PwC’s governance structure is regarded as an appropriate way to implement the Code.

Sir Richard Lapthorne
Chairman of the Public Interest Body

Read more about our Public Interest Body on pages 19-20.

Transparency report

1. Legal structure and ownership

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

(a) Ownership of PwC UK

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

	2012 number	2011 number
UK partners	**842**	815
Partners on secondment overseas	**30**	28
	872	843

(b) UK office structure

PwC UK operates out of 34 offices throughout the United Kingdom – a full list can be found at www.pwc.co.uk.

(c) Subsidiary undertakings of PwC UK

The principal subsidiary undertakings of PwC UK as at 30 June 2012 are:

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

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

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

(d) Principal lines of business

As of 1 July 2012, PwC UK operates through four principal Lines of Service (LoS) in the UK. These are Assurance, Consulting, Deals and Tax. Prior to 1 July 2012, Consulting and Deals formed a single Advisory Line of Service. Support services are provided by Internal Firm Services.

The primary services provided by each of the four principal Lines of Service are as follows:

Assurance

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

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.

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

Deals

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

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

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

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

Tax

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

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

2. The PricewaterhouseCoopers network

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

Introduction

In our view, the key factors that differentiate PwC among the world's leading professional services organisations are the breadth of the PwC network and the standards with which PwC member firms agree to comply. These standards cover important areas such as independence and risk management, people management, brand and communications.

(a) Legal structure of the network

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

The network provides the foundation for member firms to share knowledge, skills and resources, enabling PwC member firms to work together to provide high-quality services on a global scale to international and local clients while operating as local businesses.

PwC International is a private company limited by guarantee incorporated in England and Wales in which PwC firms are members. PwC UK is a member firm of PwC International. PwC International does not practise accountancy, provide services to clients, or do business with third parties. Instead, its purpose is to act as a coordinating entity for PwC member firms in the PwC network. PwC International works to develop and implement policies and initiatives that create a common and coordinated approach for PwC member firms where it's appropriate. PwC International focuses on areas like strategy, brand, and risk and quality.

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

(b) Size of the network

Member firms of PwC International provide industry-focused assurance, tax and advisory services to enhance value for their clients. Over 180,000 people in 158 countries share their thinking, experience and solutions to develop fresh perspectives and practical advice.

For the year ended 30 June 2011, PwC International member firms generated aggregate revenues of US$ 29.2 billion worldwide (2010: US$ 26.6 billion).

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

(c) Governance structures of PwC International

The governance structures of PwC International are as follows:

- **Global Board (the 'Board')** – The Board consists of 18 elected members and is responsible for the governance of PwC International and oversight of the Network Leadership Team and approval of network standards. The Board does not have an external role. Board members are elected by partners from all member firms every four years. The current board took up office in April 2009. Board members may serve for a maximum of two terms of four years. The Board meets four times a year.
- **Network Leadership Team (NLT)** The NLT sets the overall strategy for the PwC Network and the standards to which all member firms agree to comply. The NLT is made up of the Senior Partners of the US, the UK and China member firms of PwC International, together with the chairman of the PwC Network and a fifth member appointed by the Board. The chairman of the PwC Network and the fifth member may serve on the NLT for a maximum of two terms of four years in their respective capacities. The NLT typically meets monthly and on further occasions as required.
- **Strategy Council** – The Strategy Council is made up of the members of the NLT and Senior Partners of some of the largest member firms of PwC International. The Strategy Council, which meets between two and four times each year, agrees the strategic direction of the network and facilitates alignment in the execution of that strategy.
- **Network Executive Team (NET)** – This team, which reports to, supports and is appointed by, the NLT, coordinates key lines of service and functional areas such as Risk and Quality, Human Capital, Operations, and Brand and Communications across the PwC network. The NLT meets with the NET three to four times a year.

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

(d) Key features of the network

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

In order to use the 'PricewaterhouseCoopers' name, PwC member firms agree to follow network standards and be subject to periodic reviews by other member firms. PwC member firms' compliance with the network standards is monitored annually.

Membership of the PwC network depends on a member firm's implementation of common standards. Every member firm is responsible for its own risk and quality performance and, where necessary, for driving improvements. To support transparency and consistency, each member firm's Territory Senior Partner signs an annual confirmation of compliance with certain network risk management standards. As stated above, these cover a range of areas, including independence, ethics and business conduct, risk management, governance, anti-bribery and data protection and privacy.

In order to use the 'PricewaterhouseCoopers' name, PwC member firms agree to follow network standards and be subject to periodic reviews by other member firms.

There are some common processes to help member firms apply the standards. The major elements include:

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

(i) The way we do business

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

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

(ii) Sustainable culture

To promote continuing business success, member firms of PwC International nurture a culture that supports and encourages PwC people to make appropriate and ethical decisions, 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. There is also a culture of objectivity, professional scepticism and cooperation between member firms, and consultation supports this culture.

(iii) Quality policies and processes

Each member firm has policies that are based on network standards. Member firms also have access to common methodologies and supporting materials for many services. These methodologies and materials are designed to assist member firm partners and staff to perform their work more consistently, and to support their compliance with the way we do business. Each engagement leader is responsible to assigning partners and staff to a particular engagement and building the appropriate combination of professional competence and experience.

(iv) Quality reviews

Each member firm is responsible for monitoring the effectiveness of its own quality control systems. This includes performing a self-assessment of its systems and procedures, and carrying out, or arranging to be carried out on its behalf, independent reviews at the individual audit engagement level. In addition, PwC International monitors member firms' compliance with network and professional standards. This includes monitoring whether each member firm conducts objective quality control reviews and engagement reviews consistent with regulation and established processes. Within Assurance, this is known as the Global Assurance Quality Review (GAQR) programme. This is explained further in Section 5. PwC International also monitors whether a member firm has appropriately identified significant risks and is responding appropriately to those risks.

The overriding objective of the GAQR programme is to assess for each member firm that:

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

For Assurance work in the UK, the relevant standard on which the quality reviews are based is International Standards on Quality Control (UK & Ireland) 1: 'Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements' issued by the Auditing Practices Board (APB). Full details of PwC UK's system of internal control and internal quality control system for Assurance are set out in Section 5.

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

(e) Independence practices policy

Auditors must be objective in all aspects of their work. Independence is a cornerstone of this objectivity and has two elements: independence of mind and being seen as independent by others. PwC member firms reinforce both these elements through a combination of setting the right tone from the top, independent consultation on judgemental issues, regular training and careful observance of independence requirements.

(f) Network profit-sharing arrangements

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

3. Governance structure of PricewaterhouseCoopers LLP

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

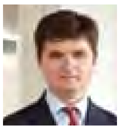
(a) The Executive Board

Ian Powell – Chairman and Senior Partner

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

Gaenor Bagley – People

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



James Chalmers – Assurance

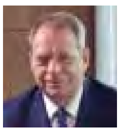
James graduated from Oxford University with an engineering degree and he joined the firm in 1985. He became a partner in 1997. Before joining the Executive Board in 2008 as Head of Strategy and Talent, he was a member of the Assurance leadership team. During his time in Assurance he has worked with multinational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

Richard Collier-Keywood – Managing Partner to 30 June 2012

Read law at Warwick University and was called to the Bar in 1983. He joined the firm in 1987, became a partner in 1992 and joined the Executive Board in 2003. He was previously head of our Tax Practice. Richard took on a new role as Network Vice Chairman from 1 July 2012.

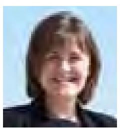
John Dwyer – Deals

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.



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. During his time with the firm Kevin has been on two secondments, one with an overseas bank and the other with a major UK financial institution.



Stephanie Hyde – Regions

Stephanie graduated from Brunel University with a mathematics and management degree. She joined the firm in 1995 and became a partner in 2006. Before joining the Executive Board in 2011, she led our Assurance practice in Reading and our mid-cap market in the South East.

Owen Jonathan – General Counsel, Risk & Quality*

Owen is responsible for the Office of General Counsel and enterprise risk, including compliance and independence. He read law at the University of Bristol. Before joining the firm as a partner in 2000, he was a partner at City law firm Norton Rose and later CEO of South China Morning Post (Holdings) Limited of Hong Kong. He joined the Executive Board in 2002.

Kevin Nicholson – Tax

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

Richard Oldfield – Markets and Industries

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

Richard Sexton – Reputation and Policy

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

Keith Tilson – Chief Financial Officer

Keith is in charge of Finance and Operations. He read economics at Cambridge University. After joining the firm in 1976, he spent four years in Sydney and became a partner in 1988. He joined the Executive Board in 1998. Before taking up his current role, he was Managing Partner Operations and Finance and before that Head of Advisory.

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.

* Margaret Cole joined the firm in September 2012, succeeding Owen Jonathan as General Counsel when he retires on 31 December 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 June 2016. The Chairman is elected by the firm's partners and he appoints the other Executive Board members, all of whom are partners in the firm. 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 2012 are set out in Table 3.1.

With effect from 1 July 2012, the membership of the Executive Board changed. Kevin Ellis moved from his role leading the Advisory business to take over the role of Managing Partner following Richard Collier-Keywood becoming Network Vice Chairman. John Dwyer and Ashley Unwin joined the Executive Board with responsibility for Deals and Consulting respectively. With the planned retirement of Owen Jonathan on 31 December 2012, Margaret Cole, formerly a Managing Director and Board Member at the Financial Services Authority, will succeed Owen in the role of General Counsel.

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

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

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

- The Risk Council, an Executive Board subcommittee, which is responsible for ensuring that the controls are in place to identify, evaluate and manage risk.
- Our Lines of Service and our Internal Firm Services, which document risks and the responses to them, carry out risk assessments annually and report to the Risk Council on how effectively they have managed risk during the year.
- Reports of 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 of the Supervisory Board.
- Our risk and quality functions, which oversee our professional services risk management systems and report to the Executive Board.

Furthermore, we have procedures to assess the risks associated with new clients, including whether they meet expected standards of integrity and to make sure that we are able to comply with independence requirements. As part of the annual audit cycle, we conduct risk reviews of audit clients, and decline to act for clients that, in our opinion, fall short of our standards.

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

Table 3.1
Executive Board as at 30 June 2012

	Length of service (years)	Board meetings A	Board meetings B
Ian Powell, Chairman and Senior Partner^^	6	12	11
Richard Collier-Keywood, Managing Partner	9	12	8
Gaenor Bagley, People	1	12	11
James Chalmers, Assurance	4	12	10
Kevin Ellis, Advisory	4	12	11
Stephanie Hyde, Regions	1	12	10
Owen Jonathan, General Counsel and board member responsible for Risk and Quality	10	12	10
Kevin Nicholson, Tax	4	12	11
Richard Oldfield, Markets and Industries	1	12	9
Richard Sexton, Reputation and Policy^^	6	12	10
Keith Tilson, Chief Financial Officer	14	12	11

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

Duncan Skailes

Chairman of the Supervisory Board

(b) Supervisory Board

The Supervisory Board, which is independent of the Executive Board, is made up of 15 members who are elected by the firm's partners for three-year terms of office. The Supervisory Board elects its own Chairman. Ian Powell, in his capacity as the firm's Chairman, is an *ex officio* member of the Supervisory Board. Additionally, two partners in the firm who have been elected to the Board of PwC International, the global board of the PwC Network, are also *ex officio* members.

The Supervisory Board generally meets monthly but may hold additional meetings as necessary. The three year term of office of the current elected members of the Supervisory Board began on 1 January 2010.

The Supervisory Board is responsible for overseeing the activities of the Executive Board on matters that it considers to be of concern regarding the well-being of PwC UK and the partners as a whole. These matters include national, legal, regulatory and fiscal requirements, implementation of global policies and the arrangements for effective communications between partners and PwC UK's management. The Supervisory Board holds regular liaison meetings with partners to gauge their views on the strategy and management of the firm.

Table 3.2	Length of service (years)	Board meetings	
		A	B
Duncan Skailes*, Chairman	6	16	16
John Dowty†, Deputy Chair	6	16	13
Colin Brereton*	6	9	8
Pauline Campbell†	3	16	12
Paul Clarke*	3	16	12
Katharine Finn	3	16	13
Martin Hodgson from 1 January 2012	1	8	7
Roy Hodson††	9	16	15
Rob Hunt†	3	16	14
Pam Jackson**	9	16	13
Mike Karp†	6	16	12
Roger Marsh	3	16	13
Pat Newberry	9	16	11
Ian Rankin*†	6	16	13
Matthew Thorogood	3	16	14
Graham Williams to 31 December 2011	6	8	7
Ex officio members:			
Gerry Lagerberg*^	12	16	12
Murray Legg^	3	16	15
Ian Powell	4	16	12

A = Maximum number of meetings could have attended.
B = Number of meetings actually attended.
* Senior Management Remuneration Committee member
** Senior Management Remuneration Committee Chairman
† Audit and Risk Committee member
†† Audit and Risk Committee Chairman
^ Member of the Board of PricewaterhouseCoopers International Limited

The Supervisory Board is also responsible for approving the Annual Report and choice of auditor, for recommending the admission of new partners and for approving transactions and arrangements outside the ordinary course of business; the Supervisory Board also has the ability to consult partners on any proposed significant change in the form or direction of PwC UK. In addition, the Supervisory Board is responsible for the process leading to the election of the firm's chairman and for checking that the policies on partners' remuneration are being properly and fairly applied.

The members of the Supervisory Board, who served through the year ended 30 June 2012, are shown in table 3.2. The Supervisory Board members' biographies are set out in Appendix 1.

(i) The Senior Management Remuneration Committee

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

(ii) Representation on the Public Interest Body

Duncan Skailes and Pauline Campbell sit, in their capacity as members of the Supervisory Board, on the Public Interest Body (PIB) to make sure that there is effective communication between the two bodies.

(iii) The Audit and Risk Committee

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

The Audit and Risk Committee monitors and reviews:

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

The Audit and Risk Committee met 10 times in the year ended 30 June 2012 (2011: 12 times).

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

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

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Report on the activities of the Audit and Risk Committee

Internal control

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

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

The Audit and Risk Committee also considered reports from other parts of the firm responsible for the governance and the maintenance of internal control, including in respect of compliance, independence, business conduct and ethics, including whistle-blowing and the risk of fraud.

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

External audit effectiveness and reappointment

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

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

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

Financial reporting

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

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

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

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

(c) Public Interest Body

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

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

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

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

The Senior Partner and Supervisory Board respectively decide which of the members of the Executive Board and Supervisory Board will sit on the PIB.

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

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

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

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

Length of service on the PIB and attendance records for the year ended 30 June 2012 are set out in Table 3.3.

Table 3.3	Length of service (years)	Board meetings	
		A	B
Sir Richard Lapthorne (Chairman)	2	4	4
Sir Graeme Davies	2	4	4
Dame Karen Dunnell	2	4	4
Sir Ian Gibson	2	4	4
Paul Skinner	2	4	4
Ian Powell	2	4	4
Richard Sexton	2	4	4
Duncan Skailes	2	4	4
Pauline Campbell	2	4	4

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

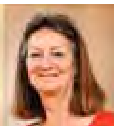
Independent non-executive members of the Public Interest Body are:

Sir Richard Lapthorne

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

Sir Graeme Davies

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



Dame Karen Dunnell

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

Sir Ian Gibson

Sir Ian Gibson is currently Chairman of Wm Morrison Supermarkets plc and also served as Chairman of Trinity Mirror plc up to May 2012. His executive career was spent mainly in the automotive industry, with 18 years at Nissan Motor Company Ltd where he was Chief Executive in the UK and Europe, and was on the Japanese main board. Previously, he was at Ford Motor Company for 15 years. Sir Ian has been a non-executive director at several companies, including GKN plc, Northern Rock plc and BPB plc, a Member of the Court of Directors at the Bank of England and has had several Government advisory roles.

Paul Skinner

Paul Skinner is a non-executive director at Standard Chartered plc, Air Liquide SA and the Tetra Laval Group. He is also Chairman of Infrastructure UK, a body that advises HM Treasury on the development of economic infrastructure. 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. He was later Chairman of Rio Tinto plc and a member of the Boards of INSEAD and the MoD.

PwC members (not pictured)

Ian Powell^, Richard Sexton^,
Duncan Skailes†, Pauline Campbell†

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

Independence of the non-executives

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

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

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

Other matters

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

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

(d) Terms of reference

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

4. The Audit Firm Governance Code

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

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

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

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

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

We believe that audit quality begins with the tone set by the leadership of the firm.

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 with regards to our values and 'who we are', which have also been embodied within the PwC UK Code of Conduct.

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

Independent non-executives

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

The PIB's purpose is to enhance stakeholder confidence in the public interest aspects of the firm's activities, through the involvement of independent non-executives. Further details of the activities of the PIB can be found on pages 7-8 and in Section 3.

Operations

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

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

- our policies and procedures for complying with 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 comply with applicable standards on auditing dealing with group audits, including reliance on other auditors, whether from the same network or otherwise
- how we manage potential and actual conflicts of interest
- how people can report concerns about the firm's commitment to quality work and professional judgement and values.

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

Section 7 sets out the main findings from the most recent Audit Quality Review Team (AQRT) (formerly the Audit Inspection Unit (AIU)) public report and comments on the process in place to address areas of concern identified by the AQRT and other regulators.

Reporting

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

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

The Annual Report includes:

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

The 2012 Annual Report can be found at www.pwc.co.uk/annualreport/index.jhtml.

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

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

Talking with stakeholders

The report from Sir Richard Lapthorne, Chairman of the Public Interest Body, on pages 7-8, and the commentary from Richard Sexton, Head of Reputation and Regulatory Policy on pages 4-6 discuss our activities in relation to talking with stakeholders.

Statement of compliance with the Audit Firm Governance Code

The Executive Board has reviewed the provisions of the Audit Firm Governance Code together with details of how the firm is complying with those provisions and has concluded that, as at 30 June 2012, PwC UK is in compliance with the provisions of the Audit Firm Governance Code.

5. Internal control and internal quality control system

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. We are committed to delivering the highest quality professional services and audit quality remains of paramount importance to the firm and our continued success in the marketplace.

Introduction

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

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

The objective of ISQC (UK&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
- reports issued by the firm, or by engagement leaders are appropriate in the circumstances.

In addition, compliance with International Standards on Auditing (UK and Ireland) issued by the APB requires PwC UK to have a quality control system for the audits of financial statements.

The policies and procedures that form our internal quality control system 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 Audit Quality and 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 system of internal control, including internal quality control system

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

1. Leadership responsibilities for quality within the firm.
2. 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 system incorporates each of the above elements. Part 7 deals with factors outside of the control of auditors, affecting audit quality, and part 8 explains our view of an additional key driver of audit quality in addition to those drivers identified by the Audit Quality Framework issued by the Financial Reporting Council (FRC). Parts 9 and 10 cover the review of the firm's internal control system and our statement on the effectiveness of the firm's internal quality control system for our Assurance practice.

Certain elements of the firm's internal quality control system are reviewed by the firm's regulators. It is also subject to review as part of the evaluation by PwC International of PwC UK's compliance with the Network Risk Management Standards. Updates and changes to the firm's internal quality control system, 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 system are available to partners and staff via PwC Inform, our web-based technical repository and our intranet site, the Portal.

1. Leadership responsibilities for quality within the firm

(a) Organisational structure

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

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

Within Assurance, Richard Winter succeeded Deian Tecwyn on 1 July 2012 as the Assurance Risk & Quality Leader, with responsibility to the Assurance Executive for risk and quality matters.

The Assurance Risk & Quality Leader also chairs the following subcommittees of the Assurance Executive:

- the Risk Management Steering Group, whose purpose is to agree significant risk management policies and discuss current risk management issues
- the Audit Steering Committee, whose purpose is to discuss and agree audit methodology issues and policy, and provide input into the development of PwC Audit, the audit methodology and tools used by all member firms of the PwC Network
- the Accounting Steering Group, whose purpose is to discuss and respond to accounting developments and issues.

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

(b) Culture and tone at the top

We believe that audit quality begins with the tone set by the leadership of the firm. We have developed an overview of the culture and behaviours we expect in our firm, which we describe as 'who we are' (see inside front cover). We will achieve our vision of building the iconic professional services firm by living and breathing a common set of behaviours.

2. Ethics

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

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

In addition, Tony Stewart-Jones, a partner within the firm, is PwC UK's Chief Compliance Officer who, supported by a team of specialists, assists 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 relevant ethical and professional obligations.

(a) Professional conduct

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

On joining the firm, all staff and partners are provided with a copy of the PwC UK Code of Conduct and must confirm annually that they are familiar with it. The Code of Conduct sets out what we stand for and is underpinned by the following overarching principles:

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

(b) Independence

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

(c) Whistle-blowing

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

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

The Code of Conduct encourages partners and staff to report and express concerns in good faith, fairly, honestly and respectfully. We are committed to dealing responsibly, openly and professionally with any genuine concerns raised about possible malpractice. If a genuine concern is raised, the individual raising the concern will be protected from losing their job, or suffering from any form of victimisation as a result. Provided that the individual acts in good faith, it does not matter if they are mistaken regarding the concerns that they raise.

(d) Confidentiality and information security

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

The firm's chief financial officer, Keith Tilson, is the Executive Board member responsible for information security. In this role he is supported by the Information Risk & Security Governance Group that is responsible for providing oversight, policy and strategic direction on information security matters. Membership of the Information Risk & Security Governance Group includes the firm's General Counsel, and comprises representatives from Risk & Quality, Information Technology and the Lines of Service.

As part of PwC UK's membership of 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 regarding handling of confidential information and personal data, and contractual terms govern the use and disclosure of information. The firm provides information security and data protection training upon recruitment, annual update training for all partners and staff thereafter, and training to various departments on an ad hoc basis throughout the year.

PwC UK operates an Information Security Management System which is certified as compliant with the requirements of ISO/IEC 27001:2005 for all client data that comes under its control or ownership.

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

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

Our policies and procedures include:

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

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

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

(e) Anti-bribery

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

Policies, training and procedures in respect of anti-bribery are in place to comply with the Code of Conduct and the Bribery Act 2010.

3. Acceptance and continuance of client relationships and specific engagements

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

(a) Acceptance and continuance systems

Within Assurance, we use two systems:

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

Both systems:

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

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

(b) Withdrawal from an engagement

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

The policies and procedures also deal with circumstances where we become aware of information after accepting the engagement which, had we been aware of that information earlier, would have led us to declining 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 appointment or we put in place arrangements to make sure that potential conflicts of interest are appropriately managed, including the use of restricted access rooms to work in.

4. Human resources

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

(a) Recruitment

PwC UK aims to recruit, train, develop and retain the best and the brightest staff, who share in the firm's strong sense of responsibility for delivering high-quality services. Across the firm, we recruited over 2,200 new people, including over 1,200 graduates and school leavers, in the year ended 30 June 2012.

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

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

- a degree partnership with Newcastle University (41 full-time positions in 2012, with shorter placements for 129 students over the course of the year)
- full-time paid professional roles for school leavers, including Higher Apprentices (98 positions in 2012)
- a three-day residential Talent Academy for first-year students (154 places in 2012)
- paid intern and sandwich placement opportunities for students (490 places in 2012).

Following the success of our partnership with Newcastle University, now celebrating its tenth year, we've recently launched a similar scheme through the Henley Business School at the University of Reading, and we're considering other programmes in the future.

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.

4.03
out of 5

3.96
out of 5
FY11

Engaging our people

Understanding what our people think about our firm is important to our strategy.`

These are our latest youmatter survey results.

(b) Performance evaluation

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

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

(c) Career development

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

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

Nine years at the top for students

We were delighted to be chosen as The Times Top 100 Graduate Employer of the Year for ninth consecutive year. We're the first organisation to win the award nine years in a row. The award is voted for by students and this year we managed to significantly improve our lead. We were also voted the sector specific Employer of Choice for Accounting for a 14th consecutive year.

Students at this year's PwC Talent Academy

(d) Promotion

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

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

(e) Remuneration

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

(f) Assignment of engagement teams

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

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

5. Engagement performance

The quality, effectiveness and efficiency of our audit service is critical to maintaining our audit registration with the ICAEW. We therefore invest heavily in the effectiveness of our audits, in the skills of our people and in our underlying audit methodology, as well as in making the right amount of time and resources available. We pay close attention to what our audit clients require from us, what they tell us we need to improve and to the findings of our regulatory inspections on the quality of our work. Details of the most recent regulatory findings can be found in Section 7. Just as important are the internal indicators and processes that routinely monitor the effectiveness of our risk and quality processes and provide timely information about the quality of our audit work and any areas for improvement.

(a) Methodology and tools

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

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

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

We completed the roll out of our non-audit engagement tool, MAP, to our Assurance practice this year. MAP has been used for some years in our Advisory practice and brings the benefits of enhancing compliance with our policies and the quality of our documentation across the wide range of non-audit services offered within the Assurance practice.

(b) Comprehensive policies and procedures

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

(c) Service delivery centres

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

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

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

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

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

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

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

In the areas where the delivery centres have been involved to date, we believe that the quality of the work has improved and this is reflected in feedback that we have received from certain regulators.

(d) Consultation and support

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

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

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

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

During the year ended 30 June 2012, a total of 560 consultations were dealt with (2011: 376) and 5,427 enquiries (2011: 5,647) covering audit, accounting and risk management issues. In addition, during the year ended 30 June 2012, 76 (2011: 44) technical panels took place on audit clients of which 58 (2011: 28) 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
- have an overall responsibility for reviewing and assessing the quality of the work done, its proper and timely documentation and the conclusions reached.

The engagement manager supports the engagement leader by:

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

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

(f) Engagement Quality Control Review

We appoint a Quality Review Partner (QRP) to conduct engagement quality control reviews of the audits of listed clients, other public interest entities and clients identified as high risk. QRPs are experienced partners who are independent of the core engagement team; they receive training when appointed as a QRP. QRPs are appointed to an engagement, based on their experience and expertise and, in the case of QRPs on FTSE 350 audit clients, their appointment is approved by a national panel of senior partners. A QRP forum operates to provide QRPs with a mechanism to discuss common issues, share experiences as to how they discharge their obligations and provide technical updates and training as needs arise.

The QRP is responsible for reviewing key aspects of the audit, including independence, significant risks and their responses, judgements, uncorrected misstatements, documentation of work done in the areas reviewed, the financial statements, communication with those charged with governance and the appropriateness of the audit report to be issued. QRPs are involved throughout the audit process so that their input is timely. The QRP will seek to challenge the audit team in the judgements they have made and work done. Their review is completed and any matters raised are resolved to the QRP's satisfaction in advance of the audit report date.

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

(g) Differences of opinion

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

(h) Engagement documentation

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

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

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

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

(i) Audit reporting

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

(i) Reporting to audit committees

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

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

(ii) External reporting

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

In addition to the audit opinion, in certain situations we also have reporting obligations to regulators and to other organisations specified by UK law such as the Financial Services 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 an annual quality review programme, in which independent teams of partners and staff review completed engagements to assess compliance with our quality standards and regulatory requirements. Details of the Assurance programme are set out below.

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

In accordance with the Audit Regulations of the ICAEW, we undertake an annual Audit Compliance Review (ACR), which includes reviews of a sample of audit engagements and tests on the effectiveness of the firm's controls in functional areas such as staff performance evaluation, training and independence.

The ACR tests compliance with the ICAEW Audit Regulations and with many of the policies and procedures established to comply with ISQC (UK&I) 1. Additional testing on the requirements of ISQC (UK&I) 1 is undertaken over areas not covered in the ACR. Any issues identified are followed up and an action plan is developed and implemented.

(b) Global Assurance Quality Review Programme

The PwC Network has established a review programme for Assurance practices. This includes a risk-based planning phase, followed by an assessment of controls over quality at the Assurance level, (the Quality Management Review (QMR)), which in turn assists the determination of the nature, timing and extent of detailed testing by way of Engagement Compliance Reviews (ECR).

(i) Quality Management Review

The QMR assesses the effectiveness of a member firm's internal quality control systems, including compliance with professional standards such as ISQC 1. A QMR is performed every three years with an update being performed in the intervening years. The aim of the update is to monitor progress on the remediation of any control issues and assess the impact of any new developments on the internal quality control systems. Control issues identified during the QMR are specified as either 'meriting attention' or 'requiring immediate action'. The QMR is led and resourced from another PwC Network firm.

PwC UK was last subject to a QMR in 2011. The QMR team identified three control issues. None of the control issues raised were viewed as creating the possibility of engagements not being compliant with applicable professional standards. The update QMR performed in 2012 confirmed that two of the control issues had been addressed and the third was in the process of being completed. No new control issues were noted aside from those already identified by the firm's regulators and from our own ISQC (UK&I) 1 testing.

(ii) Engagement Compliance Reviews
Within Assurance, PwC UK carries out independent reviews at the individual engagement level known as the Engagement Compliance Reviews (ECR). The key features of the ECR are as follows:

- a review of completed audit engagements of individuals in the firm who sign audit reports (known as Responsible Individuals)
- a review of completed non-audit engagements
- all Responsible Individuals are subject to review of their audit work at least once every three years in accordance with the ICAEW Audit Regulations, but such reviews may be more frequent due to the nature of the clients being reviewed (e.g. certain high-profile clients are reviewed more frequently)
- engagement leaders who perform non-audit work are subject to review at least once every five years but, depending on the nature of the non-audit work performed, the engagement leader may be reviewed more frequently
- the programme is conducted annually
- reviews are led by experienced partners supported by directors and managers who are independent from the office and business unit that performs the work and the 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 Responsible Individuals and of non-audit engagement leaders
- the results are reported to the Assurance Executive, the Executive Board of PwC UK and PwC International.

148 audit engagements (2011: 163) were reviewed in 2012, covering 38% (2011: 46%) of the firm's Responsible Individuals. 93 non-audit engagements (2011: 75) were also reviewed.

Each engagement reviewed is classified as either 'compliant', 'compliant with review issues', or 'non-compliant':

- 'compliant' – relevant auditing and accounting requirements have been complied with in all material respects
- 'compliant with review issues' – circumstances such as the following will lead to this conclusion:
  - required audit procedures not performed or not documented relating to a significant account balance or area
  - procedures not substantially performed in accordance with professional standards
  - audit procedures that failed to detect a material departure from applicable Generally Accepted Accounting Practices
  - the audit report did not conform to professional standards.

But in all these cases, sufficient other work has been performed.

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

In 2012, 137 audit engagements (2011: 155), representing 93% (2011: 95%) of the audit engagements reviewed, were classified as either 'compliant', or 'compliant with review issues'. 91 non-audit engagements (2011: 72), representing 98% (2011: 96%) of the non-audit engagements reviewed, were classified as either 'compliant', or 'compliant with review issues'. Following further consideration of the audit work, all of the audit opinions on engagements classified as 'non-compliant' were considered appropriate.

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

Significant matters identified by the ECR and any consistent themes are addressed as part of the annual technical training programme and updates for the practice. This includes timely feedback to the practice through quarterly Quality-in-Practice webcasts and issuing additional or revised guidance to assist teams.

Any additional guidance is generally issued though the fortnightly technical update email and is reinforced within business units by specifically designated partners and champions through a variety of mechanisms, including webcasts, breakfast briefings, group meetings and voicemails.

(iii) The Member Firm Report
A Member Firm Report is prepared by the international team leader assigned to PwC UK by the Global Assurance Risk & Quality Leader. The report covers the results of both the QMR and ECR for that year. The Member Firm Report also includes a conclusion with respect to the PwC UK's quality control systems.

In 2011, PwC UK's internal quality control system was classified as 'providing reasonable assurance with exceptions'. This means that the internal quality control system provides reasonable assurance of performing and reporting on assurance engagements in compliance with relevant laws and regulations with certain exceptions, while not being significant, merited being brought to the attention of the Assurance leadership.

PwC UK responded to the points raised within the 2011 Member Firm Report and developed an action plan to address the exceptions noted. These actions were assigned to specific individuals and significant progress has been made addressing these matters. The Member Firm Report for 2012 will be issued in October 2012.

(c) Quality key performance indicators
Quality key performance indicators (KPIs) are set each year and are aimed at creating behavioural change in areas where improvement in quality is considered necessary. The quality KPIs are updated annually to take account of matters arising from regulatory reviews and the ECR, so that they focus on those aspects of an audit where need for improvement has been identified.

In the year to 30 June 2012, 14 audit quality KPIs were assessed, covering various aspects of the audit from planning to completion and 8 non-audit quality KPIs were 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 firstly by business units and then centrally.

The overall audit quality KPI score for the year ended 30 June 2012 was 96.1% (2011: 94.9%) against a target score for both years of 95%. Although the score is above the target level, we are not complacent about the quality of our work and recognise that continued focus is needed. As in previous years we are therefore, making changes to the 2013 audit quality KPIs to help deliver further improvements in key aspects of the audit process.

The overall non-audit quality KPI score for the year ended 30 June 2012 was 92.7% (2011: 94.7%) against a target score for both years of 95%. The reduced score in 2012 was primarily due to acceptance procedures not being completed in a timely manner.

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 Owen Jonathan, the Executive Board member responsible for Risk and Quality. We will look carefully and promptly at any complaint we receive. Clients may also contact the ICAEW or the institute that the individual PwC UK partner or member of staff is a member of.

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

The Accounting and Actuarial Discipline Board (AADB) deals with cases that raise or appear to raise important issues affecting the public interest in the UK and which need to be investigated to determine whether or not there has been any misconduct by an accountant or accountancy firm, or by an actuary. We have a number of open AADB investigations.

Following our acknowledgment that our work in preparing reports to the Financial Services Authority regarding JP Morgan Securities Limited had fallen short of the standards required of us, we have accepted a fine imposed upon PwC UK. However, we have also learnt from this matter. We have contributed to development of industry wide guidance in this area and have implemented a comprehensive programme of guidance and training for partners and staff involved in this type of work.

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 audit quality that are outside of PwC UK's control.

Regulatory and political environment

Audit has been subject to more intense political and regulatory scrutiny in the period since the global financial crisis which started in 2007. In the UK there have been Select Committees of both the House of Commons and the House of Lords which have considered the role of auditors in relation to the issues which led to the disruption of the global capital market.

PwC UK has sought to make a constructive contribution to these reviews. We have expressed the view that there is no evidence that auditors failed to fulfil their duties in the period leading up to the global financial crisis. However we do recognise that there are lessons to be learned and that there is scope to discuss what more auditors can do to apply the lessons learned from this period. One practical example of a lesson that has been learned is the reintroduction of a tripartite dialogue between the Bank of England, the financial services regulator and the major audit firms which audit large banks.

In the UK the Office of Fair Trading took the decision in 2011 to refer the audit market for large listed companies to the Competition Commission (CC) for a full market investigation. PwC UK has cooperated fully with the CC and we have submitted a considerable body of evidence, much of which is now available for public inspection on the CC website (www.competition-commission.org.uk).

In Europe, the European Commission's audit reform proposals continue to be discussed and reviewed by the Parliament and Member States. We remain supportive of proposals which will improve audit quality, such as greater transparency by audit committees and enhanced audit reporting. However we remain opposed to a number of measures proposed by the European Commission including mandatory rotation of audit firms and further restrictions on the provision of certain non-audit services which would deny choice to the market and have a detrimental impact on audit quality.

In the UK and Europe we continue to make the case for any reform to be proportionate, evidence based and where the costs and potential benefits have been carefully evaluated before adoption.

This area is discussed further in Richard Sexton's views on our reputation and regulatory policy on pages 4-6.

8. Key drivers of audit quality

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

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

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

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

9. Review of the firm's internal control system

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

The Executive Board has overall responsibility for PwC UK's internal control system and for reviewing its effectiveness. It has reviewed the systems of internal control in operation effectiveness throughout the year ended 30 June 2012, and up to the date of approval of this Transparency Report, using a process that involves:

- written reports and/or confirmations from relevant senior partners, committees, the Risk Council and functions concerning the operation of those elements of the system for which they are responsible
- reports of periodic reviews of the UK firm's performance and quality, which have been carried out independently by the PwC network
- internal audit work carried out by the Internal Audit function, which reports to the Audit and Risk Committee
- reports from the firm's regulators
- reports from the firm's external auditors.

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

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

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

The Executive Board is satisfied that PwC UK's internal quality control system for Assurance is operating effectively.

6. Independence policies and practices

Policies and guidance

The PwC Network Independence policy, which is based on the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants, contains minimum standards with which member firms of PwC International have agreed to comply, 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 Public Company Accounting Oversight Board of the US ('PCAOB') are in certain instances more restrictive than the IESBA code and the policy includes provisions that are specifically applicable to SEC restricted entities.

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

The policy covers, among others, the following areas:

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

Systems

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

- the Central Entity Service (CES), which contains information about corporate entities including audit clients and their related securities. CES assists in determining the independence status of clients of the firm when considering a new non-audit engagement or business relationship
- the Global Portfolio System (GPS), which all member firm partners, directors and practice managers 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 global system that facilitates communication between a non-audit services engagement leader and the audit engagement leader, documents the potential independence threats of the service and proposed safeguards, and acts as a record of the audit engagement leader's conclusion on the acceptability of the service.

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

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

Training and confirmations

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

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

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

Promoting compliance

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

In PwC UK, a violation of independence policies, by a partner or staff member, has consequences which may include a fine or other disciplinary actions, 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, directors and managers
- compliance testing of independence controls and processes
- central monitoring of independence KPIs, including the quality of AFSs
- annual assessment of the firm's adherence to the PwC Network's risk management standard for Independence.

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

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

Based on the reviews outlined above, we confirm that we have conducted an internal review of independence practices during the year ended 30 June 2012.

Becoming independent of Aviva plc

On being asked of our interest in tendering for the appointment as auditors of Aviva plc, PwC UK gave considerable attention to the position and the steps that the firm would need to undertake to become independent of Aviva and its subsidiaries globally. The Aviva proposal and independence teams worked closely together to identify any matters which might bear on our independence from Aviva.

As well as making use of the global PwC Network systems, this also involved contacting the independence teams in each of the territories that Aviva operates in.

This exercise generated a significant amount of information for review from across the PwC Network. The proposal and independence teams worked together to identify and consider any independence issues and the actions that would be necessary to become independent of Aviva. This exercise allowed us to set out for Aviva the matters that needed to be considered and enabled us and Aviva to conclude that it would be possible to become independent of Aviva. We therefore proceeded with our tender for the audit.

Our planned responses to the issues identified were communicated to Aviva as a key part of our proposal document and discussed when we met with the selection panel. On being offered appointment as Aviva's auditors, it was then necessary to implement our planned responses to the independence issues that had been identified, especially as it was necessary to be independent of Aviva before formally accepting appointment.

The completion of these activities allowed us to formally confirm to Aviva that we met the relevant independence requirements from 1 January 2012 and prior to accepting appointment as auditors on 22 March 2012.

It was a challenge for PwC to become independent of Aviva given the global reach of both Aviva and the PwC Network. However, it was a challenge that the firm and Aviva were able to meet. The process created closer working between the PwC engagement and independence teams that we believe will be of benefit to our relationship with Aviva going forward.

7. External monitoring

(a) Regulators in the UK

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

Each year, the Financial Reporting Council's Audit Quality Review Team (AQRT), formerly the Audit Inspection Unit (AIU), and the ICAEW's Quality Assurance Department (QAD), undertake inspections of the quality of the firm's work as statutory auditors. The AQRT also reviews the firm's policies and procedures supporting audit quality and shares the results of its work with the QAD.

The remit of the QAD is to monitor the quality of individual audits at all audit firms. But, they do not review the audits of entities with listed equity or listed debt or of entities designated as being of major public interest, as they fall within the scope of the AQRT. The full scope of independent inspection by the AQRT can be found at www.frc.org.uk.

The results of the 2011/12 inspections undertaken by the AQRT and QAD were reported to the ICAEW's Audit Registration Committee (ARC) and copied to PwC UK. In May 2012, the ARC considered the findings arising from the AQRT's and QAD's inspections and confirmed the continuance of the firm's audit registration.

AQRT Public Report on the 2011/12 Inspection of PwC UK

The AQRT issued their public report on the 2011/12 inspection of PwC UK on 15 June 2012. A full copy of the report is available on the FRC website at www.frc.org.uk.

The report sets out the principal findings arising from the AQRT's inspection of PwC UK for the year to 31 March 2012. The inspection comprised of reviews of individual audit engagements and a review of the firm's policies and procedures supporting audit quality.

The AQRT reviewed 14 completed audit engagements relating to FTSE 100, FTSE 250 and other listed and major public interest entities with financial year ends between 30 June 2010 and 31 March 2011. In addition, the AQRT undertook two follow up reviews to assess the extent to which prior year findings on those audits had been addressed on the following year's audit.

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

Overall, the AQRT concluded that the firm placed considerable emphasis on its overall system of quality control and had appropriate policies and procedures in place for its size and the nature of its client base in most areas subject to the AQRT's review. Nevertheless, the AQRT identified certain areas where improvements were required to these procedures.

The AQRT highlighted the following key messages to which the firm should pay particular attention in order to enhance audit quality:

- make sure an appropriate level of professional scepticism is exercised in the audit of goodwill and other intangible assets and property, plant and equipment
- make sure appropriate involvement by group auditors at the planning stage in component auditors' risk assessments and planned procedures as well as at the completion stage in the evaluation of the sufficiency and appropriateness of their work for group audit purposes
- make sure the nature and extent of threats to the firm's objectivity and independence arising from non-audit services provided to audited entities and relevant safeguards are reported to Audit Committees
- make sure the partner performance appraisal process is improved, in particular that partners evaluate their performance against audit quality-related objectives
- make sure there is no adverse impact on audit quality as a result of the firm's initiatives to improve audit efficiency in the light of competitive pressures.

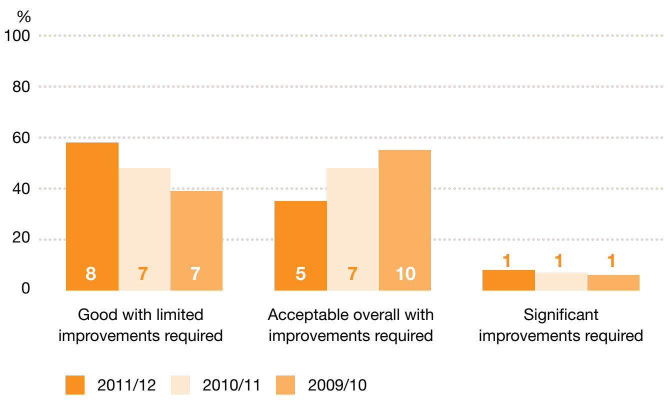
The two follow up reviews undertaken by the AQRT showed that the issues raised in the prior year were addressed on these audits, resulting in improvements to audit quality in the relevant areas.

Of the 14 audits reviewed in 2011/12 (15 in 2010/11), the AQRT concluded that:

- eight audits (seven in 2010/11) were performed to a good standard with limited improvements required
- five audits (seven in 2010/11) were performed to an acceptable overall standard with improvements required, and
- one audit (one in 2010/11) required significant improvement.

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

AQRT report findings



QAD findings

The QAD issue us with a copy of the private report which they prepare for the Audit Registration Committee of the ICAEW. This report is not published, or publicly available.

In summary, the QAD concluded that the firm has been successful in addressing the issues identified during the previous visit and that the standard of audit work continues to be high. Of the ten files subject to review, eight were assessed as complying with audit regulations, although some minor areas for improvement were noted on all of them. The other two files were assessed as generally acceptable, although a small number of improvements which were required to fully comply with the audit regulations were identified. There were no files where significant improvement was required. A follow up review was also undertaken on one audit subject to review in the prior year and the QAD concluded that the issue raised in the prior year had been successfully addressed.

The issues raised by the QAD in their report this year covered areas such as related party considerations, subsidiary audits, the wording of engagement letters and management representation letters, and the documentation of independence threats and safeguards and reporting these to management.

The QAD also commented favourably on the changes that PwC UK introduced in 2010 regarding the completion of disclosure checklists and the rollout of the firm's new audit software. The QAD believe that these changes have been beneficial in improving the quality of financial statements and the quality of our audit documentation.

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 the inclusion of particular topics in mandatory training events.

The Head of Assurance, the Assurance Risk & 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 Financial Services Authority.

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

(b) Overseas regulators

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

- USA
- Japan
- Canada
- the Crown Dependencies of Jersey, Guernsey and the Isle of Man.

As a requirement of these registrations, PwC UK is subject to monitoring by the relevant regulatory bodies. Under arrangements with the relevant regulatory authority in the Crown Dependencies, the AQRT undertakes the review of Crown Dependency audits as part of its review of PwC UK.

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

The PCAOB inspected PwC UK in 2011. The PCAOB's inspection covered both the firm's quality control procedures and reviews of the audit files for a number of engagements and included liaison with the AQRT. The PCAOB has not yet formally reported its findings to the firm.

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

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.

8. Financial information

Consolidated financial information

The following information is extracted from the consolidated financial statements of PwC UK for the year ended 30 June 2012:

- consolidated profit for the financial year before members' profit share was £727m (2011: £656m)
- consolidated profit available for division among members of £672m (2011: £622m).

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 2012, which shows the relative importance of UK-related statutory audit work, is shown below:

	2012 £m	2011 £m
Statutory audits and directly related services for audit clients	570	547
Non-audit services to audit clients	348	363
Services to audit clients	918	910
Services to clients we do not audit	1,493	1,371
UK firm revenue	2,411	2,281
Revenue from non-UK subsidiary undertakings	210	180
Group revenue	2,621	2,461
Revenues from statutory audits and directly related services for audit clients as a percentage of UK firm revenue	24%	24%

Audit profitability

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

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

	2012 £m	2011 £m
Revenue	570	547
Operating profit	85	89*

* 2011 comparative restated to reflect an enhancement to the cost allocation methodology.

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

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

9. Remuneration of partners

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

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

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

In addition, the 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 their performance has been assessed and the annual financial statements have been approved. The Supervisory Board approves the process and oversees its application.

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

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

Given the diverse roles and responsibilities each partner undertakes, the weighting given to each of the above criteria varies, depending upon those roles and responsibilities.

Each member's performance income, which in the year ended 30 June 2012 represented on average, approximately 36% of their profit share (2011: 37%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the member'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 members' 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 members' 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 members' monthly drawings, based on a percentage of their individual responsibility income.

10. Public interest entities

A list of the public interest entities for whom we issued an audit opinion between 1 July 2011 and 30 June 2012, who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008) can be found at www.pwc.co.uk/annualreport/index.jhtml.

Appendix 1: Supervisory Board biographies

1. Supervisory Board

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

John Dowty is a Deals partner and is the COO of our Deals business and the global leader of our Delivering Deal Value business. He joined the firm in 1980 and was admitted as a partner in 1992. He chairs the Strategy and Governance Committee of the Supervisory Board.

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

Pauline Campbell is an Assurance partner in, and COO of, our London Top Tier business unit where she deals with listed companies. She joined the firm in 1985 and became a partner in 1996. She is a member of the Public Interest Body.

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

Katharine Finn is an Assurance partner in the West & Wales business unit. She joined the firm in 1990 and became a partner in 2006.

Martin Hodgson (from 1 January 2012) is an Assurance partner in the London Mid Tier practice. He joined the firm in 1977 and became a partner in 1991.

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

Rob Hunt is a Deals partner leading the middle market Business Recovery Services team in London. He joined the firm in Birmingham in 1984 and became a partner in 1996.

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

Mike Karp is a Tax partner in London and acts as global relationship partner for a number of clients. He joined the firm in 1979 and became a partner in 1990.

Roger Marsh is a Deals partner, the Leeds Office Senior Partner and leads the Government and Public Sector practice in the North. He joined the firm in 1976 and became a partner in 1988.

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

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

Matthew Thorogood is a Tax partner in Human Resources Services part of the Tax practice in London. He joined the firm in 1986 and became a partner in 2001. He chairs the Partner Affairs Committee of the Supervisory Board.

Graham Williams (to 31 December 2011) an Assurance partner leading the Risk Assurance practice for the Government and Public Sector practice within Assurance. He joined the firm in 1980 and became a partner in 1991. He chaired the Partner Affairs Committee of the Supervisory Board up to 31 December 2011.

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

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

Ian Powell is also an ex officio member of the Supervisory Board.

Appendix 2: Glossary

AIU – Audit Inspection Unit

APB – Auditing Practices Board

AQRT – Audit Quality Review Team (formerly the AIU)

The Board – the Global Board

The Code – the PwC UK Code of Conduct

FRC – Financial Reporting Council

FRRP – Financial Reporting Review Panel

Governance Code – the Audit Firm Governance Code

Group – PwC UK and its subsidiary undertakings in the UK, Channel Islands and Middle East, as set out on page 9

ICAEW – Institute of Chartered Accountants in England and Wales

IFAC – International Federation of Accountants

IFRSs – International Financial Reporting Standards

The Instrument – Statutory Auditors (Transparency) Instrument 2008

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

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

NET – Network Executive Team

NLT – Network Leadership Team

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

PIB – Public Interest Body

POB – Public Oversight Board

PricewaterhouseCoopers – the network of member firms of PwC International

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

PwC – the network of member firms of PwC International

PwC International – PricewaterhouseCoopers International Limited

PwC Network – the network of member firms of PwC International

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

QAD – Quality Assurance Department of the ICAEW

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

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

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

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

We have prepared the Transparency Report, in respect of the financial year ended 30 June 2012, in accordance with the provisions of the Statutory Auditors (Transparency) Instrument 2008 (the 'Instrument') issued by the Professional Oversight Board ('POB') of the Financial Reporting Council ('FRC'). This report also incorporates the key drivers of audit quality set out in the Audit Quality Framework issued by the FRC in February 2008.

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

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

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

This report was approved by the Executive Board of PricewaterhouseCoopers LLP and signed on its behalf by Ian Powell, James Chalmers and Richard Sexton on 28 September 2012.

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