



Building trust through assurance Transparency Report

Year ended 30 June 2018



pwc

Building trust through assurance

Assurance at a glance

Our pursuit of quality

Partner and staff survey

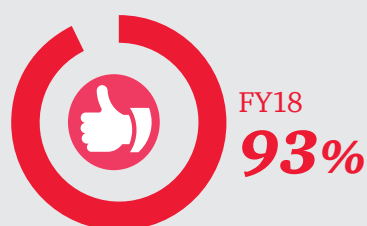
The leaders I work with encourage me to deliver high quality services



FY17: 85%

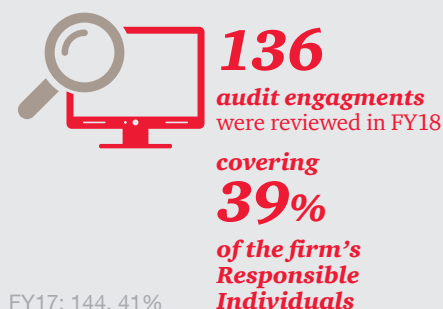
Audit quality reviews – internal

Results of firm's own audit quality reviews – percentage compliant or compliant with review matters



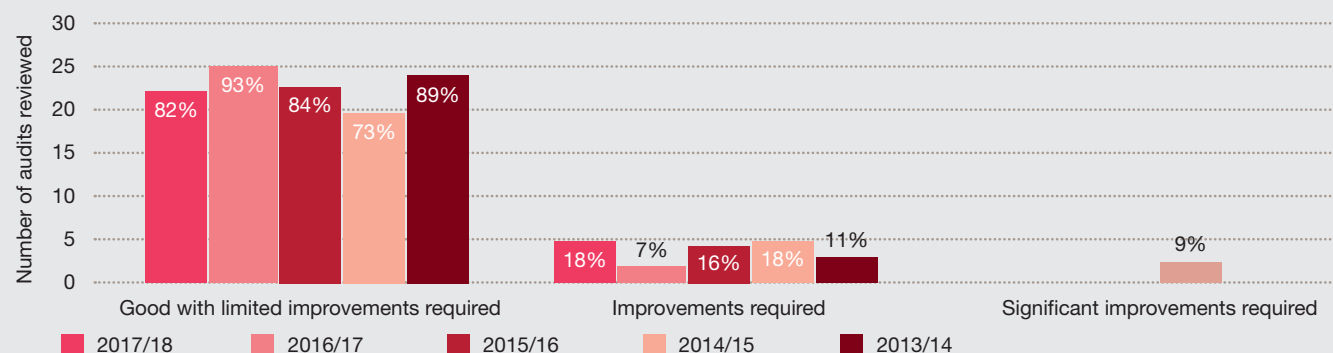
FY17: 94%

Number of audit engagements reviewed and the annualised percentage of Responsible Individuals subject to the firm's own audit quality reviews



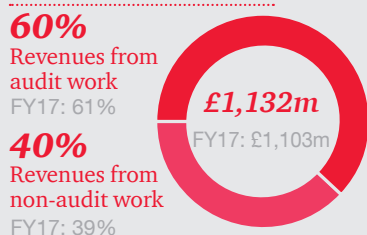
FY17: 144, 41%

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



Revenue

Assurance UK revenues



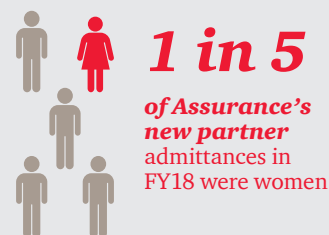
Investing in our people

Investment in training and development



2016 calendar year: 1.60m

New partner admissions



FY17: 1 in 5; FY16: 1 in 4

For more on the Audit Quality Indicators, including training, see section 16 of this report, and for human resources see section 7.



Contents

Welcome to our 2018 Transparency Report	1
Update from the Chair of the Supervisory Board	3
Update from the Chair of the Public Interest Body	5
Update from the UK Head of Assurance	11
1 Governance	15
2 The PricewaterhouseCoopers Network	27
3 Internal control and internal quality control systems	33
4 Leadership responsibilities for quality within the firm	35
5 Relevant ethical requirements	36
6 Acceptance and continuance of client relationships and specific engagements	38
7 Human Resources	39
8 Engagement performance	45
9 Monitoring	51
10 Factors outside the control of auditors affecting audit quality	55
11 The FRC's key drivers of audit quality	56
12 Review of the firm's internal control system	57
13 Statement on the effectiveness of the firm's internal quality control system	62
14 Independence policies and practices	63
15 External Monitoring	65
16 Audit quality information	70
17 EU Public interest entities	77
18 Financial information	78
19 Remuneration of partners and Independent Non-Executives	79
Appendix 1	81
Legal structure and Ownership	
Appendix 2	85
Biographies of Board and Committee members	
Appendix 3	91
Committees and their role in the firm's governance	
Appendix 4	93
List of EU and EEA statutory auditors that are members of the PwC network	
Appendix 5	95
EU Public Interest Entities	
Appendix 6	105
Glossary	
Appendix 7	107
Audit Firm Governance Code (2016) Compliance	





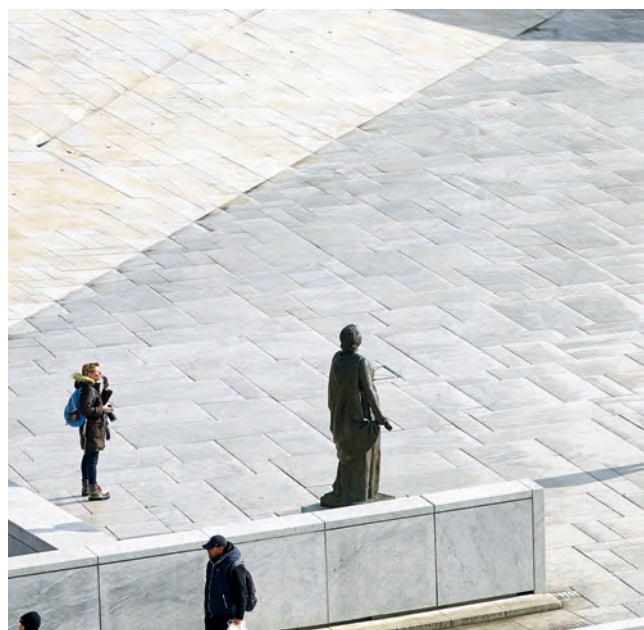
Kevin Ellis

Welcome to our 2018 Transparency Report

This report plays an important role in providing transparency around our governance, our professional obligations and responsibilities to deliver high quality audit and non-audit services.

Helping investors, regulators, those companies that are subject to audit, shareholders and wider society understand our governance framework is critically important at a time when business as a whole and our profession in particular are under intense media and regulatory scrutiny.

Within this report you can read information about the governance and stewardship of our UK firm in this introduction and in updates from Anne Simpson, our Supervisory Board Chair; Lord Gus O'Donnell, Chair of our Public Interest Body; and Hemione Hudson, who leads our audit and assurance practice, each of whom I work closely with in my capacity as Senior Partner and Chair of the Management Board.



Each of the board updates considers key priorities and activities over the year and provides perspectives on our governance, purpose, culture and values and how we work to create trust and confidence. More information about the activities of the Management Board, Supervisory Board and Public Interest Body can be found on pages 19 and 20.

Our purpose is to build trust in society and solve important problems and in everything we do we seek to bring our purpose to life. I believe our purpose has never been more relevant given our role in the capital markets, the societal contribution we deliver through our work clients, the investment we make in training and development of our people and the thousands of jobs we create across the UK each year.

We take seriously our public interest responsibilities and this year we were disappointed that we received sanctions from our regulator, the Financial Reporting Council (FRC), in respect of our historical audit work on BHS and Tenon. While these sanctions are not representative of the thousands of audits that we undertake each year, we have acknowledged where we have not lived up to the standards that we, and others, expect of ourselves and we have learnt the necessary lessons.

While our Audit Quality Review results (the annual assessment of audit quality undertaken by the FRC) were the highest among the largest accounting firms, we are disappointed that the results are slightly down on the exceptional result in the prior year (and we note the FRC has expressed concern at the decline), the FRC's assessments of our work over the past five years demonstrates a consistently high level of audit quality.

This year, I've stated publicly that our profession is at a pivotal moment. Our firm has been performing audits since 1849 and we are committed to continuing to invest in audit to ensure its relevance and sustainability in the future. It is also essential that we continue to improve understanding of the purpose and value of audit in the interests of the capital markets and to continue to attract and retain auditors with the right skills and experience.

In order to deliver high quality audits we call on a breadth of skills across our multi-disciplinary practice. Our people are critical to good governance and culture and we ensure that the tone at the top is embedded and reflected throughout the firm. I believe that not only 'what' we do, but 'how' we do it should be treated with the importance it deserves and I believe that our culture reflects this.

Our governance oversees what I as Senior Partner and my colleagues on the Management Board do, and how we and the firm execute the decisions taken.

This year we undertook a review of our firm's governance and are currently implementing a number of recommended changes. More information on the Review can be found on page 16.

The Governance Review together with the independent external effectiveness review of the PIB will, I am sure, help us develop our governance further and contribute to delivering on our purpose of building trust in society and solving important problems.

Kevin Ellis
17th September 2018





Anne Simpson

Update from the Chair of the Supervisory Board

I am very pleased to report on the Supervisory Board (“SB”) and its activities in the year.

Membership of the Supervisory Board

The SB comprises 12 elected members, as elected by the partners, the Senior Partner ex officio and the Global Board members from the UK firm, also ex officio to the extent they are not also elected SB members. Elected SB members have a term of four years each, and this is staggered, so that six of the twelve elected positions on the SB are up for election every two years. Details of members in the year are included in Appendix 2 of this report.

We have excellent cross Line of Service representation and diverse experience and skillsets on the SB, which is brought to bear in our discussions with and the support and challenge we provide to management. We would like to see even greater diversity on the SB, and we are working towards this in our next round of elections later in 2018 when six positions are rotated.

PwC’s Governance Review

I was pleased to lead the Governance Review on behalf of partners with the late Dame Helen Alexander and then Sir Ian Gibson from the PIB providing independent input and challenge.

The Governance Review considered the firm’s governance structures and looked at other firms in the PwC Network and externally at other large entities. We also had academic input, conducted partner workshops and held discussions with the Management Board, Supervisory Board and Public Interest Body. We concluded that the structure of the main Boards worked well for the firm. We acknowledge that other firms and companies have different structures but we concluded that the current governance structure worked best for PwC at present, subject to some improvements.

We will therefore be updating the Committee structures and looking at whether the Members’ Agreement should be amended to provide for simplification, greater clarity and understanding of our governance arrangements. As a major governance document, changes to the Members’ Agreement will need a vote of the partners.

Further information on the Governance Review is included on page 16 of this report.

Activities

The SB is responsible for considering, challenging and giving guidance to the Management Board in those matters which we consider to be of concern to the partners.

In terms of our activities, we met regularly during the year, and considered the key items from the Senior Partner and the Management Board. We receive strategic updates and determine, in certain circumstances in accordance with the requirements of the Members' Agreement, when partners may be required to leave the partnership ("involuntary retirements"), and approve INE appointments to the PIB.

In our role as givers of guidance to the Management Board, we considered reputational, regulatory and legal matters, such as BHS and Tenon and the FRC's Audit Culture Thematic Review, certain ongoing engagements such as Carillion, as well as the firm's implementation of Network policies and interaction with our Middle East Alliance Supervisory Board. In our role in relation to partner HR matters we considered partner admissions, retirements and remuneration policies.

It is clear from the output of the Governance Review that the firm's culture is of great importance to partners. The SB has an important role, along with the Management Board, in articulating and role modelling the firm's culture and behaviours. This complements the role of the PIB which also has an important role in providing objective views on the firm's culture and behaviours and promoting an appropriate culture underpinned by sound values and behaviours within the firm.

Further information on our work is included on pages 19 to 20 of this report.

The SB is a key part of PwC's governance, reflecting the position of partners in the firm as owners of the business. We spend time engaging with the partnership, particularly through our twice yearly engagement meetings, and getting Partners' thoughts and concerns to then raise these with management.

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The Supervisory Board is a key part of PwC's governance, reflecting the position of partners in the firm as owners of the business ”

We are a very effective link between management and partners.

Additionally, I sit on the PIB. This allows me to represent partners in discussions with our INEs over wider reputational and public interest matters for the firm.

The governance role of the SB complements that of the PIB. The SB looks at governance from the perspective of the partners, whereas the PIB has a public interest lens. These different perspectives help to ensure different views and ideas are taken into account by the firm's management.

The SB currently has four committees, each of which has been active throughout the year, and each of which regularly provides reports to the SB. The Partner Affairs Committee meets regularly to consider matters affecting partners to ensure they are treated fairly, for example in relation to admission and retirement and the operation of the partner income system. The Senior Management Remuneration Group plays an essential role in the determination of the objectives and reward of the Management Board, including the Senior Partner, and certain other senior partners. The Group ensures the firm's partner income system is applied fairly and independently. The Strategy and Governance Committee has been particularly active this year including working on the upcoming SB election process and procedures, as well as helping to shape the SB's agenda. The Audit & Risk Committee has also been busy this year, including overseeing the recruitment of a new Head of Internal Audit following the retirement of the previous head, and monitoring and reviewing the integrity of the group's financial statements. A report from the Audit & Risk Committee is set out on pages 25 and 26.

We look forward to the implementation of the new structures agreed under the Governance Review and although I retire as Chair of the SB on 31 December 2018, I am confident that the SB will continue to provide effective governance to help the firm achieve its purpose.



Lord Gus O'Donnell

Update from the Chair of the Public Interest Body

I am very pleased to report on the Public Interest Body and its activities in the year.

Membership of the Public Interest Body

The PIB has again been very active this year not only in terms of business but also with changes to its membership.

After the untimely death of Dame Helen Alexander, we went through a long process to find another INE, particularly in light of the need for high calibre independent candidates who are not conflicted through other appointments and/or positions held and a desire to improve the diversity of the INEs. A shortlist was produced and interviews held following which a recommendation was made by the Senior Partner, having discussed with me as Chair of the PIB, and approved by the Supervisory Board. We were delighted that Samantha Barrass agreed to join the PIB. Samantha is the Chief Executive of the Gibraltar Financial Services Commission and was previously Executive Director at the Solicitors Regulation Authority. Samantha brings a wealth of experience as a regulator and we look forward to working with her. The process for her appointment included a pre-meeting with the FRC for the first time. This was voluntary and we thank Samantha and the FRC for their co-operation. I would also like to thank Sir Ian Gibson for agreeing to remain as an INE for a further year to May 2019, Justin King who agreed to remain an INE for a further term of two years from 1 July 2018, and Paul Skinner who has agreed to remain as an INE until October 2019.

Details of PIB members in the year are included in Appendix 2 of this report together with more details of the INE appointment process.

Activities

The PIB continues to set its own agenda on matters that we think are in the public interest including those of significant societal or systemic interest for the firm and for audit in particular, including compliance with applicable professional standards, legal and regulatory requirements. We have paid particular attention to the culture of the firm, risk, audit quality, operations and people. We have also been closely involved with the Governance Review and provided input into to the FRC's thematic review of audit culture, as well as meeting with investors and regulators.

The PIB has had regular updates on, and gives consideration to, the regulatory and litigation issues faced by the firm in the year. In particular, in relation to the 2014 audits of BHS and Taveta Group, the PIB shared the disappointment that the audit methodology was not followed, leading to serious shortcomings with this audit work. We will be maintaining an interest as to how the firm will be responding, including the enhanced monitoring activities. The PIB was also disappointed to see a reduction in the firm's performance in the FRC's Audit Quality Review for the year, from the previous year's very high scores over the past five years, though the PIB noted that these results were the highest among the largest accounting firms.



In relation to both of these matters the INEs felt that the firm has learned from them and continues to strive for the highest quality work and the PIB will continue to focus on matters like this in the year ahead. The PIB has also discussed the independent review of the FRC led by Sir John Kingman announced by the Department for Business, Energy and Industrial Strategy (BEIS). The INEs welcome the review and look forward to considering the review report which we understand is due to be published by the end of the calendar year. The PIB will then consider the potential implications for the audit profession and the firm. In addition, the activities of the Competition and Markets Authority in relation to competition in the audit market are high on the PIB's agenda.

Additionally, the Brexit negotiations continue and these present risk and opportunities for business and the firm, and we are conscious of the geopolitical issues in some areas of the world affecting business, competitors and the PwC Network.

The INEs also meet after each PIB meeting without management present to consider matters separately and I provide feedback on PIB meetings on behalf of the INEs to the Senior Partner. By invitation Sir Ian Gibson has attended a meeting of the firm's Audit and Risk committee as an INE representative.

Reputation

The reputation of the firm, and business more widely, is of particular interest to the PIB. In the

year we have had: a parliamentary inquiry over Carillion, significant adverse media publicity for audit firms in general and auditors of larger listed companies with the 'Big Four' in particular, challenges both to and from regulators including in relation to the BHS audit, and other regulatory investigations, such as Tenon.

A Parliamentary inquiry looked at the causes of Carillion's failure, the effectiveness of the regulators and the role of auditors, as well as PwC's role in assisting the Official Receiver on the liquidation. The appointment was discussed at the PIB, including the policies, processes and safeguards the firm has in place to maintain independence and manage conflicts of interest, from acceptance through to completion of an engagement. From the public interest perspective, it was clear that PwC was appointed because of the firm's ability to deliver the scale, skills and experience required at speed to minimise the disruption caused by Carillion's collapse.

There has been a wider negative media theme for business in general, however we see the positive benefits of both the firm and business. It is worth remembering that audit is a key provider of trust in the capital markets.

A particular challenge for audit is the wider public and media perception of what audit does under the current regime and the reality of what it can actually do. The firm has been very mindful of this and has been providing a balanced and positive response to these challenges.

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What has been clear to the INEs is the commitment and determination of the firm's people to continuously improve and be the leading professional services firm ”

Culture, values and governance

The firm's culture has been an ongoing matter of interest for the INEs and is discussed frequently at PIB meetings. We believe that an appropriate culture, based on the pillars of the firm's values, (acting with integrity, making a difference, care, working together and reimagining the possible) exists in the firm. This has been demonstrated in the papers and presentations given to us, the processes for decision making and in the INEs interactions with staff and partners. Following the Audit Culture Thematic Review and the Governance Review the PIB, with management and the SB, is looking at how we can help the firm develop its culture in the coming year.

The culture has been particularly noticeable when the firm has needed to make judgements over certain work and certain clients. Whilst those discussions are naturally confidential, the information provided to the INEs has helped us understand the firm's systems and processes for making these decisions and, where appropriate, suggest how these might be improved. The PIB also receives updates from the Risk and Quality team (that is embedded into the firm's decision making processes to ensure good governance) on the Speak Up (whistleblowing) Helpline and the annual employee survey, in order to help the INEs gauge the feelings and concerns of staff.

I believe that the firm's culture is an open and supportive one, where partners are supported by management while delivering first rate performance. Support for staff is also evident. We were very pleased for example with the work done by the firm on mental health, which included seminars and online training for Partners (including board members) and staff hosted by members of the Samaritans to encourage people to speak up on mental health issues. The firm has had significant changes this year including the closure of offices, relocation

of staff and some stretch of resources – it is encouraging that the firm recognises that these issues can cause significant stress for people and provides support to them if needed. As change continues with Brexit, automation and digitisation of work, this type of support by the firm and other businesses will be welcome.

Partners and staff have continued to work hard to deliver the firm's purpose and to deliver the highest quality services to its clients in Assurance and the other Lines of Service. What has been clear to the INEs is the commitment and determination of the firm's people to continuously improve and be the leading professional services firm. We believe that the strength of the firm's culture and governance helps with this. The firm has a strong management team led by Kevin Ellis, supported by his Management Board. We have governance oversight from the perspective of partners with the Supervisory Board and we have independent oversight from the INEs in relation to the public interest aspects of the firm's activities.

Effectiveness

This year we have conducted an independent externally facilitated effectiveness review of the PIB. For this we used Moss Perform who have appropriate experience in performing these reviews. They have brought independent challenge to how we perform, via individual meetings with each member of the PIB and others who either present to the PIB or are involved with the PIB's governance. Those meetings were followed up with a detailed questionnaire. Moss Perform also attended the joint SB and PIB meeting on 2 May 2018 and the full PIB meeting that followed that day. They provided their results and recommendations to me prior to reporting back to the PIB at its 19 July 2018 meeting.

2018 PIB External Effectiveness Review

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In a climate where public interest issues have accelerated rapidly and dramatically in the UK, the PIB has established its place as an important source of counsel for the PwC partners around navigating public interest issues and helped inform the debate for them to make better decisions”

Moss Perform, 2018

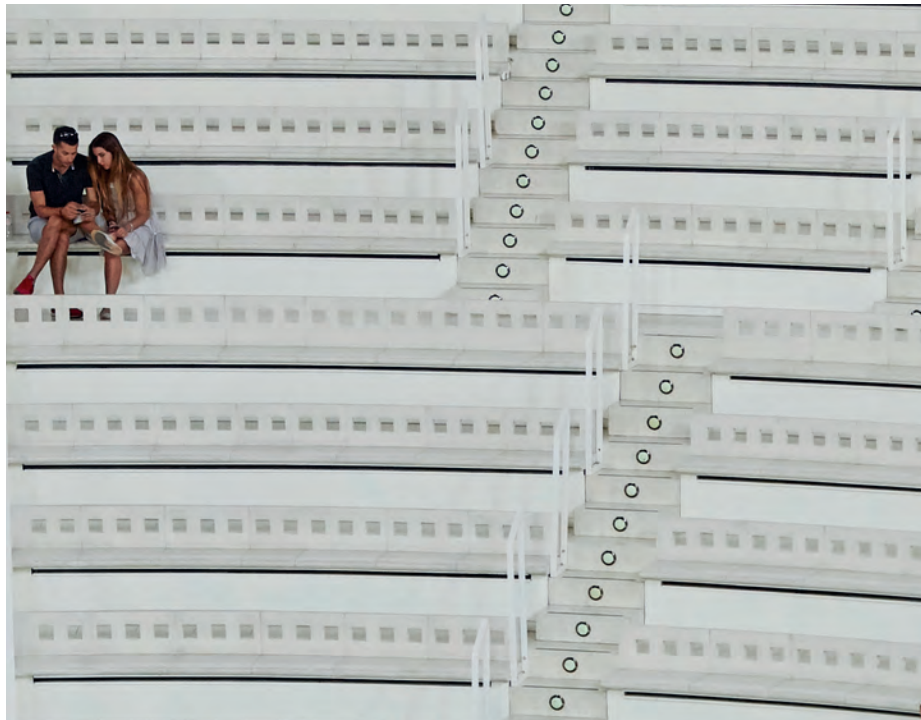
Moss Perform was invited to observe, interview and review the PIB over a period of several months in order to assess its effectiveness.

Moss Perform concluded that the PIB today is effective and in good working order, noting that it is an effective oversight body, especially given evolving regulatory frameworks and in response to very real shifts of what is in the realm of the public interest, notably accelerating over the past twelve months. As a high-calibre oversight body, it takes its responsibilities seriously and professionally and is offered the independence, strategic scope, empowerment and ‘agility’ to operate effectively.

Although functioning well, the effectiveness review highlighted areas which could make the PIB even more effective. These included focussing on succession planning and diversity to ensure quality and appropriate skills, and the firm leveraging the INEs more, and using them more tactically and possibly earlier.

It is intended the majority of the recommendations will be implemented by the end of 2018 to coincide with the election of the new SB members and the implementation of recommendations from the Governance Review.

The Summary Report from the PIB External Effectiveness Review can be found on the firm’s website: <https://www.pwc.co.uk/who-we-are/2018-pib-external-effectiveness-review.html>



Audit Firm Governance Code

We use the Audit Firm Governance Code as a guide to good governance as well as a compliance requirement. We compare ourselves and how we do things with other high performing organisations. We look for improvements in effectiveness and efficiency through the PIB's involvement in the firm's governance, collectively enhancing the firm's performance in meeting the purpose of the Code. In particular in all our discussions we are conscious of our role in promoting audit quality, helping the firm to secure its reputation more broadly, and reducing the risk of firm failure.

As INEs, we are free to determine our agenda to discuss and consider those issues we feel are of the highest importance to our stakeholders including investors and the wider public. We receive regular updates from the firm's Ethics Partner who has a reporting line into the PIB. Appropriate indemnity insurance is in place in respect of legal action against an INE and sufficient resources are provided by the Firm to enable each INE to perform their duties. This includes, where considered appropriate and necessary to discharge their duties, access to independent professional advice at the expense of the Firm.

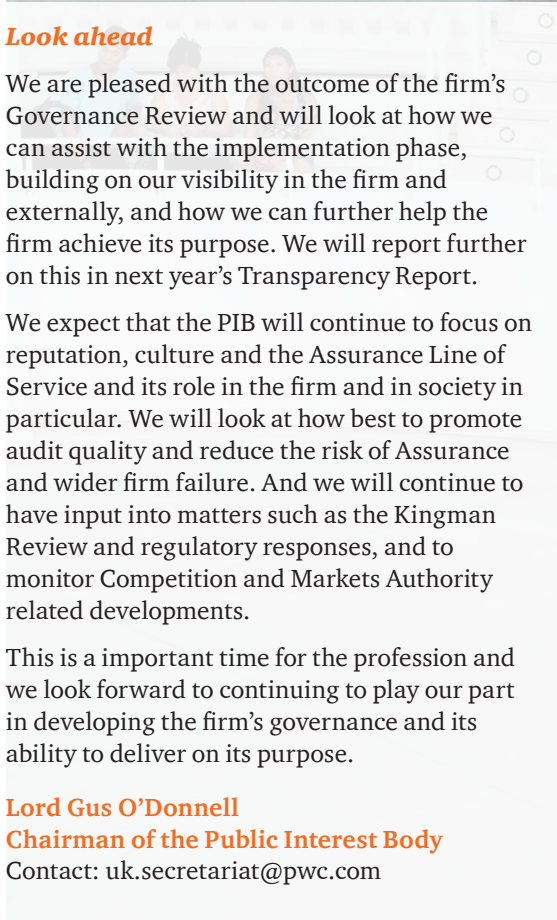
Look ahead

We are pleased with the outcome of the firm's Governance Review and will look at how we can assist with the implementation phase, building on our visibility in the firm and externally, and how we can further help the firm achieve its purpose. We will report further on this in next year's Transparency Report.

We expect that the PIB will continue to focus on reputation, culture and the Assurance Line of Service and its role in the firm and in society in particular. We will look at how best to promote audit quality and reduce the risk of Assurance and wider firm failure. And we will continue to have input into matters such as the Kingman Review and regulatory responses, and to monitor Competition and Markets Authority related developments.

This is an important time for the profession and we look forward to continuing to play our part in developing the firm's governance and its ability to deliver on its purpose.

Lord Gus O'Donnell
Chairman of the Public Interest Body
Contact: uk.secretariat@pwc.com







Hemione Hudson

Update from the UK Head of Assurance

Audit is part of a wider reporting and governance system including companies, shareholders, non-executives, legislators and regulators. All have important roles to play, and in my regular conversations with investors, audit committee chairs and non-executive directors, they all tell me they value audits, and see them as playing a critical role in underpinning confidence and trust in the capital markets. A strong and respected audit profession helps to maintain the UK's leading position in the capital markets and its global reputation as a trusted place to do business.

The role and value of audit has had intense scrutiny in recent weeks and months.

The debate has touched on several different areas, including competition and choice, conflicts of interest and auditor independence, and audit quality and relevance. Understanding each of these areas is important, but it's essential to look at each separately in order to identify the best way forward. This is a critical debate and we are engaging with all stakeholders to understand their perspectives and help create an audit market fit for the future.

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A strong and respected audit profession helps to maintain the UK's leading position in the capital markets and its global reputation as a trusted place to do business

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Assurance in 2018

Before we discuss each aspect of the debate, what does PwC's Assurance business look like today? I am pleased that our Assurance UK revenue reached £1,132million, up by 2.7% on the previous year. Our private company audit business is growing strongly, whilst our listed company audit business continues to be impacted by the mandatory firm rotation regime. The box below sets out some of the major audits we've won following a competitive tender this year, and of course we also have clients who have awarded their external audit mandate to another firm.

In addition to our statutory audit business we provide non-statutory assurance services over areas of risk not covered by the financial statements audit. These services help our clients manage risk across a wide range of areas including cyber threats, contract and commercial risks and regulatory risk.

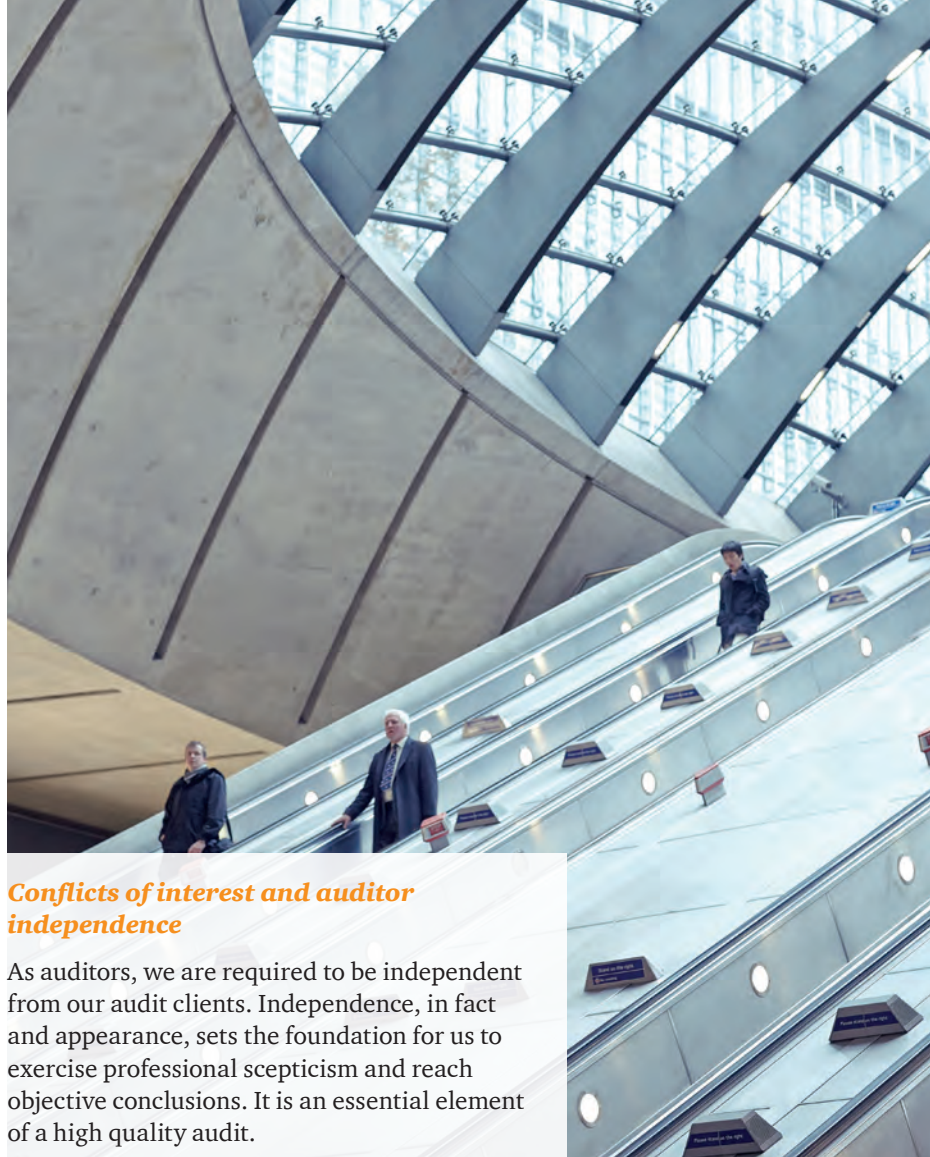
We continue to recruit and promote talented individuals throughout our Assurance practice, both in statutory audit and priority growth areas. In particular, we are hiring more technologists than ever before, to enhance and build our data capability. Our ability to recruit the best talent is critical to our provision of high quality audit and assurance services.

Competition and Choice

An area that continues to generate commentary and debate is choice in the audit market, particularly in respect of large listed company audits. Recent and extensive audit reforms in the UK and EU have strengthened the role of audit committees, encouraging competition between market participants to be fierce, with a particular focus on audit quality. However, the reforms have not increased choice in the large company audit market, indeed since the introduction of the mandatory audit firm rotation regime, concentration in the FTSE350 audit market has increased slightly.

Arguably, the level of investment required (both in regular rotation and in audit technologies) and the level of regulatory scrutiny involved has not made it an attractive enough proposition for other market players.

We would welcome more choice in the market as it would increase the resilience and sustainability of our profession. We are committed to supporting the Competition and Markets Authority to find practical remedies designed to increase choice if they decide to undertake a study of the market.



Conflicts of interest and auditor independence

As auditors, we are required to be independent from our audit clients. Independence, in fact and appearance, sets the foundation for us to exercise professional scepticism and reach objective conclusions. It is an essential element of a high quality audit.

We take matters of independence very seriously. As a multi-disciplinary practice, we can draw on experts in any given field the firm operates in as soon as is required in our audits, however there are also a number of situations where real conflicts of interest could occur. Identifying and preventing such conflicts is an integral part of our daily working practices. Our governance procedures also require us to address situations where there could be a perception of a conflict, even if in reality there is no actual conflict of interest. All of this is overseen at the highest levels of our firm, with our Public Interest Body receiving a regular report on management of actual and perceived conflicts from our Ethics Partner.

Nonetheless, some stakeholders have continuing concerns in this area, and we recognise that further change may be needed to rebuild their trust.

The need for stringent management of actual or potential conflicts means that on occasion a company's choice of professional service provider may be restricted. Many of our larger listed clients have experienced the practical impact of this as they've considered rotating their auditor at the same time as implementing new restrictions on the provision of non-audit services.

Major audits we've won this year:

- Thames Water
- Linklaters
- Johnson Matthey PLC
- Domino's Pizza Group
- Victrex PLC
- Revolution Bars
- Diploma PLC
- Jupiter Asset Management Limited
- Close Brothers

Audit quality

Audit quality is the cornerstone of our business and we continually review and update our audit processes in response to internal and external audit findings.

For the third year running, the findings of the Audit Quality Review showed that none of our audits had been assessed as requiring significant improvement. The results of the Audit Quality Review also showed that 82% of all our audits, and 84% of our FTSE 350 audits, have been assessed as being within the top category of 'Good or limited improvements required' (compared to 93% and 91% respectively last year).

We set high standards for our audits, and are committed to continual improvement in audit quality. We have reflected at length on the results of this year's inspection findings. Whilst we are naturally disappointed that the AQR has assessed there to be a reduction in the proportion of audits requiring no more than limited improvements, their assessment over a longer timeframe (the last five years) shows a consistently high level of audit quality. That broader picture is also consistent with both our own internal review findings as well as with the findings from inspection of our work by other regulators.

A high quality audit necessarily involves challenge and debate with management. An audit which results in a clean audit opinion may well involve substantial and difficult debates with the company, resulting in changes to the annual financial statements before the auditor is satisfied that they give a true and fair view. However, at the point of issuing our opinion there is limited external visibility of this degree of challenge, and our professional responsibilities for confidentiality mean that we are constrained from any detailed discussion of this aspect of the audit process. Long form audit reports give some insight into the areas where most audit effort has been spent, and we would encourage all interested shareholders to study these reports carefully, and to follow up with the company's Audit Committee if further questions arise.

When difficult issues arise, depending on their nature, it is either mandatory or good practice for a PwC audit partner to consult within the firm (see page 47 for details on the number of technical panels and consultations conducted in FY18).

This year, there have been a number of incidents where our past audits have been criticised and these are discussed on page 54 of the report. We understand that the delivery of statutory audits is a matter of the highest public interest and we expect that our work will be subject to regulatory and public scrutiny and challenge.

The FRC's investigation of our audits of BHS and Taveta Group, for the year ended 30 August 2014 found that the conduct of the firm and the audit partner fell significantly short of the standards to be reasonably expected. We recognise and accept there were serious shortcomings with this audit work. We are sorry that our work fell well below the professional standards expected of us and that we demand of ourselves.

We take any failings very seriously and significant challenges are investigated in detail at the highest levels of the firm. Where these situations arise, whatever the eventual outcome, there are always lessons that can be learnt for the future and we are committed to continuous improvement.

Culture

The Financial Reporting Council's report on the results of their recent Audit Culture Thematic Review finds that firms are investing considerable time and effort in their cultures and embed their purpose and values in day to day activities. The FRC also reported that firms have robust processes to sanction poor quality work or behaviour. However, areas for further improvement were also identified across the profession, including the need to reinforce the societal value of audit and to better monitor the degree to which a desired culture is embedded.

Feedback we have received recognises PwC's values and culture are being embedded consistently across the firm. Our firmwide values – to act with integrity, work together, care, reimagine the possible and make a difference – underpin our commitment to quality. Every day I see our people's commitment to delivering robust audits – large and small, across all sectors and throughout our global network.

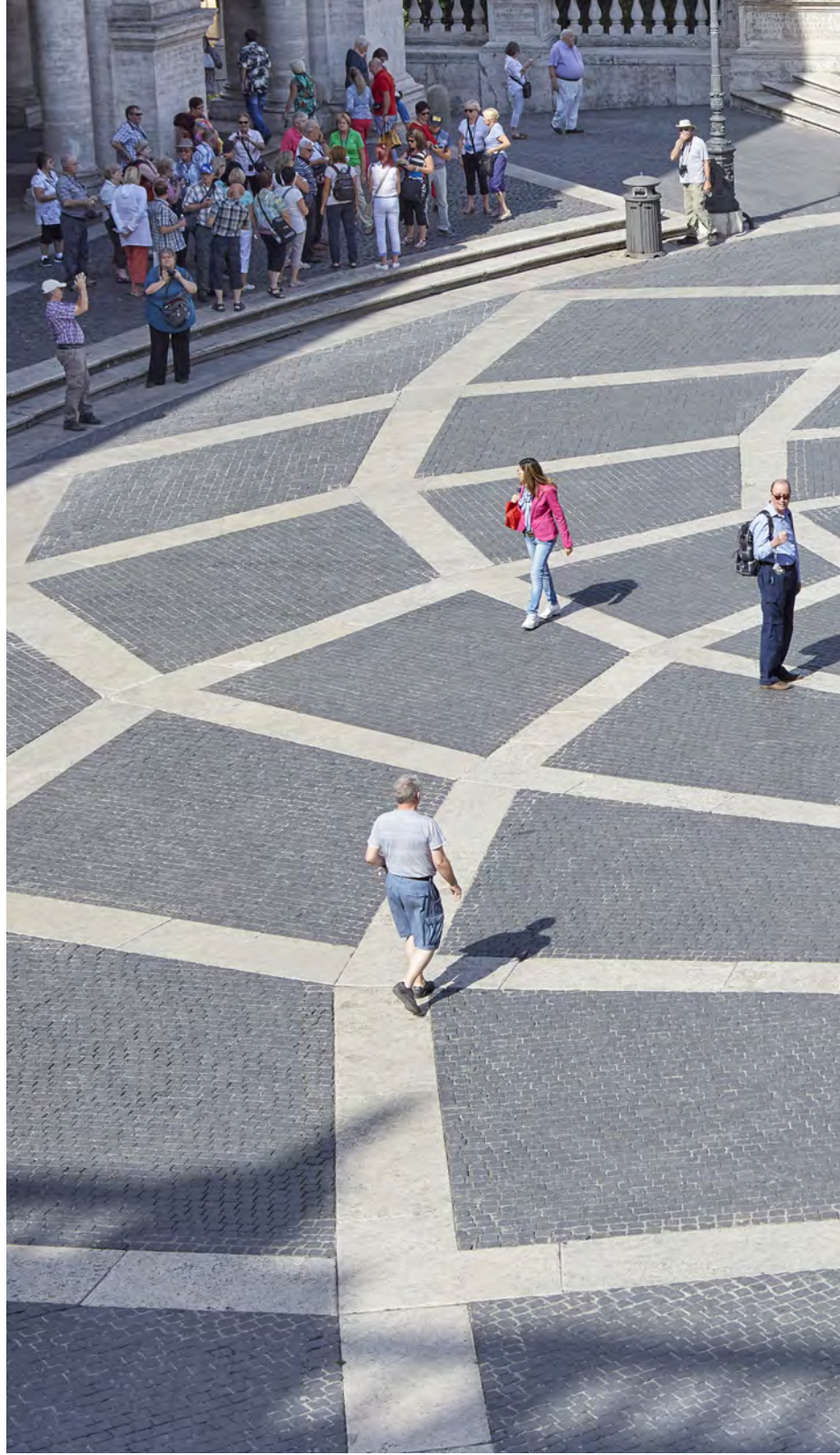
The FRC's feedback on areas for further improvement is valuable, and we will be embracing their suggestions in full.

Confidence in the future

Recent commentary on audit has raised questions about the continuing relevance of today's statutory audit model. The dissatisfaction expressed by some stakeholders is indicative of a persistent "expectation gap" between the actual scope of the statutory audit and the expectations of wider society. I strongly believe that the time is right for assertive action to address this expectation gap. As a profession, we need to take brave steps and allow the audit to deliver more. We are therefore strongly supportive of the Audit Quality Forum's proposed independent review of the scope of audit and look forward to its recommendations.

The Audit Quality Forum initiative is only one of several reviews of the corporate reporting and audit "ecosystem". As I mentioned earlier, the Competition and Markets Authority may initiate a study of the audit market, and Sir John Kingman is leading an examination of the scope and powers of the FRC. We welcome all of this work and will continue to engage and collaborate wherever we can, and the outcomes will be reviewed by our Boards.

I believe that today's audits are a valuable part of promoting trust in the capital markets. However, the current levels of challenge of the audit profession mean that we must be open and ready for change. PwC's purpose is to build trust in society and to solve important problems. Helping to create and deliver an audit system fit for the future really brings our purpose to life.



1

Governance

Introduction

This Governance section explains the firm's governance arrangements. We explain the roles of the Senior Partner and Management Board and its committees, the Supervisory Board and its committees, and the Public Interest Body. Each of the Chairs of the boards and the PIB has provided a personal statement on pages 1 to 9. We have also included a case study on the Governance Review conducted by the firm on page 16, and an overview of our Audit Governance arrangements on page 18.

The firm's governance is guided by the firm's purpose – to build trust in society and solve important problems. This runs as a guide to our decision making process and our risk appetite, and 'what' and 'how' we do business in the interests of our partners and stakeholders.

Further information on our Network and its governance is contained on pages 27 to 32.

Good governance

We have regard to good governance practices under the Audit Firm Governance Code and examples of good practice, for example from the UK Corporate Governance Code (2016). During the year we considered that we complied with the AFGC in full. Further information on our compliance, including our governance KPIs, is provided on page 23.

We look to enhance our governance as part of our ongoing commitment to quality.

Within our governance arrangements, we acknowledge and support the heightened interest in audit and assurance services and the quality of our provision of these. We have a common cause with investors, regulators, government and society to ensure the right actions are taken to build world-leading levels of trust in audit and the profession itself. Audit quality is fundamental to the success of our firm and we look to continually improve our governance arrangements to support this.

For example, the roles of the INEs arose from the original AFGC in 2010 and the desire to have external oversight in this key area for firms that provided audit services to large clients. We determined that the best way to achieve this was to have a separate PIB comprised of a majority of INEs. By having a separate body able to determine its own agenda and with high calibre INEs, the firm considered this to be the most appropriate way to ensure the public interest is served, by helping it to ensure audit quality in addition to the wider public interest issues.

We concluded last year that it was the right time to review our firm's governance arrangements, and in the year we undertook a significant project to do so (see the Governance Review case study overleaf).

Stakeholders and dialogue

We recognise that with around 18,000 employees, 900 partners, 60,000 alumni and with a turnover of over £3bn and a substantial regulated business, we are a substantial firm with many stakeholders.

We therefore look to communicate with our stakeholders through various channels, for example engaging with investors regularly, including individual meetings and with the Company Reporting and Auditing Group who met with the PIB members as well as management representatives. In the year, representative internal stakeholder engagement included the Senior Partner holding town hall meetings with staff, utilising technology for live webcasts; biannual partner meetings led by the Management Board with partners from across the firm; and regular communication via multiple platforms to all partners and staff.



Governance Review

Case study

Working Group

The Governance Review was led by Anne Simpson, Chair of the Supervisory Board, with independent oversight and challenge provided initially by the late Dame Helen Alexander and latterly by Sir Ian Gibson in their capacity as INEs on the PIB.

A Working Group was established and met periodically between May 2017 and May 2018. The Working Group membership was intentionally comprised of individuals across-Line of Service and cross-generational. The review was conducted with the following overarching principles in mind, namely a board and committee structure to govern the firm that will:

1. support the long term success of the UK business
2. take account of the firm's partnership ethos and recognise how this differs from a corporate culture
3. align with Network governance practices
4. reflect the regulatory environment
5. understand and manage risk appropriately
6. consider stakeholder interests.

The principles were designed with a view to determining the best governance arrangements for the firm to (i) achieve its ongoing strategic success, whilst protecting and enhancing its reputation and acting in the interests of the partners, (ii) meet applicable regulatory requirements, and (iii) to complete (i) and (ii) in an efficient and effective manner.

Methodology and stakeholders

The review consisted of one to one interviews, group workshops and a high level desk based document review. One to one meetings took place with all members of the MB, members of the PIB and other key internal roles to gather views and opinions on the design and operational effectiveness of the governance arrangements in place.

Two workshops were held with members of the SB to discuss governance design and operational effectiveness from the perspective of partner representation.

Meetings were also held with partners across the Network to understand governance practices in the largest territories, as well as meeting external parties to discuss governance structures across large and complex organisations including other partnerships, corporates and government bodies.

Four workshops were held with members of the broader partnership to assess how well the firm's governance structures are understood and need to be understood by partners. The partner workshops were intentionally designed to reflect a diverse population including: Lines of Service, gender, generation, grade, regions and internal and external partner recruits. In addition, questions for partners relating to the firm's governance were included in the autumn 2017 SB engagement exercise.

The Working Group was also supported by an academic as an external advisor specialising in governance and leadership within professional services firms.

Conclusion and recommendations

The Governance Review concluded that, at this time, our Board structures worked best for our governance and in the interests of our stakeholders including partners, regulators, staff and the wider public.

The Governance Review didn't identify any fundamental flaws in our governance practices but did highlight a number of areas where we should evolve them to help address the interests of our stakeholders, particularly in the light of increased regulation and scrutiny and alignment with our global network.

There are four main observations arising from the review:

- A common understanding of the firm's partnership ethos is needed;
- Enhance the empowerment of some of the firm's boards and committees and increase the training of some of their members;
- Roles and responsibilities in the firm's governance arrangements need to be made clearer in some cases; and
- Current governance arrangements are complex and would benefit from increased transparency.

Various alternatives were considered to address the observations noted. The more significant recommendations include:

- Increasing engagement with partners about the firm's partnership ethos so there is an agreed and more aligned understanding of it;
- Increasing the profile of the INEs and the value they bring to the broader partnership;
- Inviting an INE to sit on certain committees of the SB;
- Refreshing the terms of reference for the SB's Senior Management Remuneration Group to include clear oversight responsibility for talent management, succession planning and remuneration for the Management Board (and to rename the committee as the Talent and Remuneration Committee);
- Separating the SB's Audit & Risk Committee into two committees: an Audit committee and a Risk Committee, allowing for greater focus and ensuring people with the right skills and experience are involved in risk oversight;
- Establishing an Executive Risk Committee to enhance the focus on risk management;
- Assessing the need for a fundamental rewrite of the Members' Agreement to modernise it and make it easier to understand;
- Refreshing the terms of reference for the SB to include specific responsibility for formal review and challenge of the firm's strategy, the firm's risk appetite and risk framework, and actual risk; and
- Retaining two oversight Boards, the SB and the PIB, to reflect the different stakeholders they represent and ensure the independence of the PIB but to seek more effective working practices between the two.

It's intended the recommendations will be implemented by the end of 2018 to coincide with the election of the new SB members. If changes are needed to the Members' Agreement, these changes will require a partner vote which would take place in 2019.

An Overview of Audit Governance

The Audit Context

Audit is part of a wider reporting and governance system including companies, shareholders, non-executives, legislators and regulators. All have important roles to play in supporting and enhancing the capital markets.

A strong and respected audit profession helps to maintain the UK's leading position in the capital markets and its global reputation as a trusted place to do business.

The PwC Audit

Trust is at the heart of every human relationship, every transaction, every market, and everything PwC Assurance stands for.

Reliability

- Fundamental to the integrity of the capital markets;
- Comfort for stake holders that information is relevant and reliable;
- Trust over numbers providing the confidence to make decisions and take action; and
- Emerging technologies will bring new dimensions to the audit, allowing auditors to focus on quality, value and insight more than ever before.

Audit Governance

The Firm undertook thousands of audits last year. The vast majority of these took place without any issues. An audit which results in a clean audit opinion may well involve substantial and difficult debates with the company to ensure that the annual financial statements give a true and fair view. However due to our professional obligations for maintaining confidentiality, externally there is very limited visibility of the challenges and debates which may have taken place, and often do.

When issues arise, depending on their nature, it is either mandatory or good practice for the auditor to consult within the firm.

For the more complex issues, we hold Technical Panels for this purpose made up of three audit partners reviewing the issues and recommending solutions. In FY18 there were 55 Technical Panels held on audit clients (FY17: 34). For less complex issues, consultation or enquiry with our technical staff takes place. In FY18 there were 3,878 of these consultations (FY17: 3,604), and 7,620 enquiries (FY17: 7,904).

When issues, such as failure to comply with the Companies Act 2006 or accounting standard requirements or other relevant laws and regulations, are unable to be resolved successfully through consultations/Technical Panels combined with discussions with client management and audit committees, this leads to the publication of qualified audit reports. We had 853 consultations in FY18 on qualified audit opinions that we issued (FY17: 818).

Future Audit Governance

Despite the value of today's audit, we must be open and ready for change – we are constantly innovating in the way we perform audits and the governance around them to focus on the quality of the audit.

The profession is working hard to enhance audits. Technology is an enabler for positive change. Over the last few years PwC has invested some \$500m globally in new technologies to improve audit quality and we will continue to invest heavily to ensure that audits keep pace with the rapidly changing world.

Artificial Intelligence (AI) and machine learning are helping move audit from a sample testing approach to one where in the future the entire population of transactions can be evaluated. This will let us visualise data in different ways, increasing the chance of spotting unusual items or trends. We are also using Natural Language Processing to read and examine data volumes never possible before – analysis and validation can be automated in order to provide assurance more regularly and more completely.

We will continue to invest in our Audit governance to help support and enhance the audit thereby building trust in companies and capital markets in accordance with our Purpose.

“

Our governance is guided by our purpose – to build trust in society and solve important problems ”

Financial Reporting Council Audit Culture Thematic Review

During the year, the FRC conducted its Audit Culture Thematic Review and published its ‘Audit Culture’ report in May 2018. The FRC’s focus on culture was welcome and important given the vital role audit firms play in underpinning the capital markets and wider societal contribution to building trust. We were pleased the report recognised that our values and culture are being embedded consistently across the firm.

We agree with the FRC that there must be a continual focus across the profession on promoting a culture that is committed to delivering consistently high quality audits. The FRC’s report included several suggestions for development and the firm is reviewing these. For example, we are looking at and addressing ways of increasing the visibility in the firm of the INEs, how to improve awareness of the INE role more generally and their role in promoting firm culture.

Additionally, we are reviewing the prominence of the role of audit and its value as a career and how we encourage and support people. Quality depends on being able to attract and retain the brightest and best people. We are fortunate to be an attractive place of work for aspiring people – we are the largest private sector recruiter of graduates and have developed our school leaver schemes, having recruited 146 full time members of professional staff through this route in FY18. We are able to give our people a wide range of experience to build their business understanding and industry insights, and this is true across all roles in the firm, including audit.

Governance structure and leadership

How is PwC’s Governance Structured?

Our governance structure reflects our partnership model. We have a Senior Partner who, once elected, forms their Management Board and Committees. The Supervisory Board is made up of elected partners and certain ex-officio members. The Public Interest Body is made up of Independent Non-Executives, plus representatives from the firm’s Management Board and Supervisory Board, being the Senior Partner, Chair of the SB and Head of Assurance as at 30 June 2018.

The Boards’ activities are governed by the Members’ Agreement, and Terms of Reference which are available on the firm’s website <https://www.pwc.co.uk/who-we-are/terms-of-reference-governance-structure.html>. Each member of the Management Board is subject to formal, rigorous, and ongoing performance evaluation. In addition, consideration is given to PwC’s global Network standards. Support is given to the Boards by our Secretariat team who are responsible for advising on governance matters. A diagram setting out the firm’s governance structure is on page 19.

How often do the Boards meet and what is member attendance?

We have board meetings scheduled for over a year ahead but with additional meetings as and when required. Meeting attendance by individuals is provided with their biographies in Appendix 2.

Activities

The key matters considered in the year by our governance bodies were strategy, culture, people, quality, performance, regulation and reputation. Within these matters, the governance of key risks facing the firm (including cyber, regulatory and litigation risks) were considered and included on the Boards' agendas. Further information on our risks and how these are managed is contained on page 57, and more detail in relation to each of the Boards is set out below.

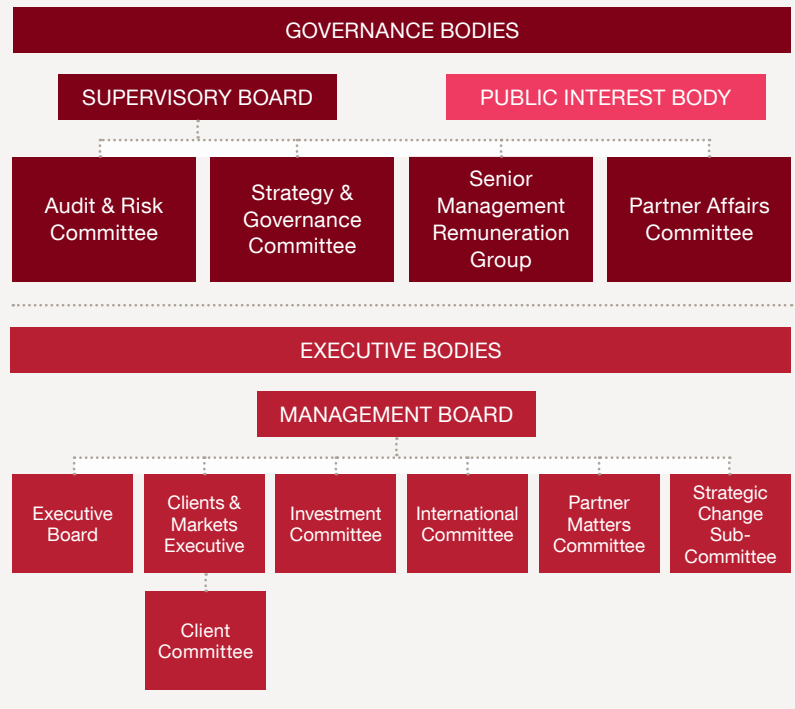
What did the Boards focus on in the year?

The **Supervisory Board** considers a wide range of issues and has supported, given guidance to and challenged the Senior Partner and the MB on many of the key issues for the firm such as risk, strategy, reputation, people matters and culture. The SB has particular insight on the views of the partners of the firm and reflects those in conversations with management. In the year it met 13 times (excluding ad hoc meetings).

The SB obtains partner insights on a range of topical matters and utilises different methods for doing so including regular engagement meetings with partners around the country at which partners can speak directly to SB members on matters of concern. Partners are able to review notes of these SB meetings via the Partner Bulletin Board.

The SB is supported by its Committees. The Partner Affairs Committee considered matters to ensure that partners, individually and collectively, were fairly treated as partners by the firm and that the firm had appropriate processes and procedures to ensure the successful development of partners over the course of their careers. The Senior Management Remuneration Group determined senior management remuneration including that of

PwC UK



the Senior Partner, Management Board, and any UK partners on the Global or EMEA Leadership Team, and reviewed the talent management for these groups. The Strategy and Governance Committee reviewed and commented on matters which are strategic for the partnership, and considered the SB's forward agenda. The Audit & Risk Committee considered the external audit (including the effectiveness of the auditor), internal controls and internal audit, risk and risk management, the Annual Report, the Transparency Report and Sustainability Scorecard, and approved the annual financial statements.

The SB has two members who are also Global Board members and provide Network updates and a Network perspective at SB meetings.

The **Public Interest Body** has considered a wide range of issues, particularly as the independent Chair determines the PIB's agenda, focusing on matters of public interest. The PIB also includes the Senior Partner, the Head of Assurance and the Chair of the SB. In the year it met formally five times.

In particular during the year, the INEs oversaw the firm's policies and procedures for promoting audit quality; helped the UK firm to secure its reputation more broadly including for Assurance and in its non-audit business; and considered matters to reduce the risk of firm failure resulting from Assurance matters and more widely. In accordance with the Audit Firm Governance Code, the role of the INEs included enhancing 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.

Additionally the INEs regularly received updates on compliance with professional standards, and legal and regulatory requirements. In addition to those duties prescribed by the AFGC, the members of the PIB provide input on other matters, including the public interest aspects of: the firm's strategy, external reporting, and policies and procedures relating to operational risk management, internal control, quality and compliance more broadly, including its promotion and people management.

Accordingly during the year the PIB considered these matters regularly. In particular, the PIB received reports at each meeting from the Ethics Partner in relation to ethical walls and their performance, and met with the Global Board members to gain their perspectives of the wider PwC Network.

In addition, twice during the year, the PIB and SB held short joint meetings to ensure both bodies had the opportunity to discuss matters of common interest.

The **Management Board** was formed by the Senior Partner in July 2017 to consider and provide oversight of the long term strategy and certain partner matters under the Members' Agreement (such as dealing with involuntary retirements for partners).

Since its inception, the MB has spent considerable time on strategic matters utilising the knowledge and experience of

both Executive Board and Clients and Markets Executive members. The formal meetings are scheduled to be held at least quarterly but further ad-hoc meetings have also been held for strategy sessions and certain partner matters. In the year the MB met nine times. At its formal meetings, the MB considers matters in line with its Terms of Reference, including Assurance updates.

The **Executive Board**, which is a committee of the MB, meets more frequently, at least monthly, for a full day. In the year it met 15 times. During the year, the EB considered the day-to-day governance and business performance of the firm. Accordingly the EB consists of senior executives including the chair of the CME (but not the Line of Service Leaders

who sit on the CME). The Executive Board received updates from its members, with topics including: people, technology and investments, litigation and investigations, clients and markets, finance, international matters, and regular business updates from Lines of Service leaders and subject matter experts.





Compliance with the Audit Firm Governance Code

The EB and PIB have reviewed the principles and provisions of the Audit Firm Governance Code together with details of how the firm is complying with those. Following this review, the EB, on behalf of the MB, has concluded that, as at 30 June 2018 the firm is in compliance in full with the principles and provisions of the Audit Firm Governance Code.

The AFGC requirements included for the first time a requirement for firms to determine governance KPIs and report against them. The EB, SB and PIB considered these at separate meetings, providing suggestions and input for the current year. The KPIs were determined and are set out in the table below.

In terms of considering adoption of provisions from the UK Corporate Governance Code applying to listed companies, the firm decided that it would wait until the new UK Corporate Governance Code and related guidance was published. The new Code, applicable from 1 January 2019, was published in July 2018 and the firm is reviewing this. The firm will then consider whether further enhancements to the firm's governance through the adoption of the Code or Guidance would be beneficial. The firm has therefore determined at the present time not to formally adopt provisions from the UK Corporate Governance Code (2016) in addition to those incorporated in the Audit Firm Governance Code.

Governance KPI	Notes	Performance
<p>Board attendance</p> <p>Management Board, Executive Board, Supervisory Board, Public Interest Body members should attend a sufficient number of meetings as set out in the Terms of Reference.</p>	<p>Sufficient meetings should be held for the Boards to achieve their objectives and in line with their Terms of Reference. Attendance should be achieved by all members for 80% of meetings.</p>	<p>The number of meetings and attendance was in line with the firm's requirements, except for certain members of the SB, EB and MB. These attendance records will be considered further for FY19. Attendance records of individual participants of each Board are stated in Appendix 2.</p>
<p>Board composition</p> <p>That there is a diverse mix on each Board, taking into account, for example, the 30% Club (a club which seeks a minimum of 30% of Boards to be women) and BAME targets.</p> <p>That there is a diverse population of people presenting at Board meetings (eg an annual update from each LoS and different mix of presenters at each meeting).</p>	<p>Information on the composition of the MB, SB and PIB is on the firm's website, www.pwc.co.uk/who-we-are.html</p> <p>Board presentations include sponsors and presenters to help achieve a diverse population of people presenting at Board meetings.</p>	<p>MB – 4 out of 12 MB members are female, and 1 BAME member.</p> <p>SB – 5 out of 13 SB members are female and 2 BAME members.</p> <p>PIB – 2 members of the PIB are female, this has increased to four PIB members from 1 July 2018.</p>
<p>Board activities</p> <p>That meetings are formally scheduled for the following year and sufficient balance is given in the forward agendas for: strategy; governance; internal controls and risk management; financial performance; and people.</p>	<p>The Chair and the Secretary regularly meet to consider the matters appropriate for future meetings to ensure that sufficient time is spent on the most relevant matters for the firm. This is also considered during the Board effectiveness reviews.</p>	<p>The firm considers that this was complied with in the year.</p>
<p>Board effectiveness</p> <p>That formal effectiveness reviews are carried out annually and externally every three years as set out in the AFGC and summaries of outputs published.</p> <p>That Terms of Reference of Boards and Committees are reviewed annually.</p> <p>That the minimum number of INEs, and the appropriate balance of management and INEs on the PIB, is achieved in accordance with the Terms of Reference.</p>	<p>In addition to the information in this Transparency Report, the firm will write more about the output from the reviews and actions taken next year. The firm is considering reviews for the Management Board, Supervisory Board and Executive Board.</p> <p>Following the Governance Review, the firm is reviewing the Boards and Committees' Terms of Reference.</p> <p>PIB Terms of Reference are available on the firm's website and the composition is determined by the Members' Agreement.</p>	<p>PIB external effectiveness review carried out in FY18 with Moss Perform.</p> <p>Terms of Reference are due to be reviewed in Autumn 2018.</p> <p>The number of INEs was reduced to four following the passing of Dame Helen Alexander in FY18. Sir Ian Gibson's term was extended by one year from May 2018. Justin King's term was extended by two years on 1 July 2018 and Paul Skinner by one year from 1 October 2018. Samantha Barrass was appointed as an INE on 1 July 2018, taking the number of INEs back up to five.</p>

Governance KPI	Notes	Performance
Values		
Integrity, compliance, whistleblowing, and people surveys are reviewed at least annually (and updates from PAC/PMC at least half yearly).	Integrity is covered at all Board meetings. Compliance is covered at the Audit & Risk Committee, PAC (sanctions) and EB meetings. Whistleblowing is discussed at PIB and A&RC meetings. People surveys are discussed at EB and PIB meetings. The MB and EB receive PMC reports and minutes. The SB receive PAC reports.	The firm considers that it complied with this KPI ensuring certain matters relating to the firm's values and reputation are considered during the year, including by the INEs.
INEs review reputation, the risk register and audit quality at least annually.	Reputation and audit quality is covered at every PIB meeting. The top risks are discussed and agreed with the PIB, SB and EB (on behalf of the MB). The PIB receive quarterly Risk and Quality updates.	These matters were reviewed during the year and confirmed at the July 2018 PIB meeting.
Systems and Risk		
Boards review effectiveness of firm's systems of internal control at least annually.	The EB receives regular updates from the Risk Council in order to assess both the key risks and the adequacy of related controls.	The firm considers that it complied with this KPI ensuring certain matters relating to the firm's operations and oversight by the A&RC are considered during the year. The A&RC met 9 times in FY18.
Audit & Risk Committee meet at least 4 times a year.	Annually the A&RC confirm an Internal Audit plan which is compiled using a risk based approach. Internal Audit reports are received by the A&RC and EB periodically. In addition, the External Audit team report to the A&RC at least annually.	
Dialogue		
Firm shall meet with investors at least annually (eg the Company Reporting and Auditing Group).	INEs met with the CRAG on 22 February 2018.	The firm considers that it complied with this KPI through internal and external dialogue, investor engagement and considering sustainability matters during the year.
INEs attend a Supervisory Board meeting at least annually.	The PIB and SB have held two joint meetings this year. Paul Skinner joined the SB meeting on 13 March 2018.	Further work on the involvement of the INEs following the governance review will be reported on next year.
Firm should consider the perspective of listed companies and their investors by, for example, inputting into consultations.	Investor engagement was covered at PIB meetings as part of the Corporate Affairs update. The firm has responded to the UK Corporate Governance Code consultation.	Whilst compliant, the firm will consider further engagement with investors.
The Boards should consider the Sustainability KPIs at least annually.	Sustainability year-end report is approved by the EB (on behalf of the MB) and A&RC in September.	The EB (on behalf of the MB) and A&RC considered this in September 2018.

The Audit & Risk Committee Report

The Audit & Risk Committee of the Supervisory Board comprises five members of the Supervisory Board, having both audit and non-audit backgrounds. The A&RC met 9 times in the year ended 30 June 2018 (FY17: 11 times). The Chief Operating Officer and Managing Partner International, the Chief Risk Officer and General Counsel, the Head of Internal Audit, the external auditors, Crowe U.K. LLP (Crowe) and an Independent Non-Executive may attend the Committee's meetings by invitation. Both the internal and external auditors meet privately with the Committee without management present.

The Committee monitors and reviews:

- The effectiveness of the firm's internal control and risk management systems;
- The firm's policies and practices concerning compliance, independence, business conduct, including whistleblowing and fraud;
- The scope, results and effectiveness of the firm's internal audit function (and during the year the recruitment and appointment of a new Head of Internal Audit, Jemma Newson).
- The effectiveness and independence of the firm's statutory auditor;
- The reappointment, remuneration and engagement terms of the firm's statutory auditor including the policy in relation to, and provision of, non-audit services;
- The planning, conduct and conclusions of the external audit;
- The integrity of the Group's Financial Statements and digital annual report and the significant reporting judgements contained in them;
- The firm's Transparency Report and Sustainability Scorecard; and
- The firm's Modern Slavery Act statement.

Internal control and risk management systems

The Audit & Risk Committee's review of internal controls includes considering reports from the firm's Risk Council and internal and external auditors. A member of the Committee attends the Risk Council meetings throughout the year. In view of the planned retirement of the firm's Head of Internal Audit at the end of 2017, the Committee oversaw the process to identify a suitable successor. The process included the Committee and members of the management team interviewing various internal and external candidates. Jemma Newson, a Director in the Firm's Risk Assurance division, served initially as the acting Head of Internal Audit and was then subsequently appointed to the role on a permanent basis. Jemma brings with her a wealth of Internal Audit experience and the Committee was wholly supportive of her appointment to the role.

During the year the Committee considered and approved the internal audit work programme including its risk assessment, proposed audit approach and coverage, and the allocation of resources. The Committee reviewed the results of the internal audit work programme and considered the adequacy of management's response to matters raised, including the implementation of recommendations.

The Committee also considered reports from other parts of the Firm charged with governance and the maintenance of internal control, including in respect of independence, compliance, whistle-blowing, fraud, data security, business continuity management and the management of the Firm's own tax affairs. The Committee reviewed and considered the statements in the section commencing on page 33 of this report in respect of the systems of internal control, and concurred with the disclosures made.

Financial reporting

The Committee carried out its responsibility for monitoring and reviewing the integrity of the Group's Financial Statements by reviewing formal updates provided by management on key accounting developments and by reviewing the Financial Statements with both management and the external auditors. The significant issues the Committee considered in relation to the Financial Statements for the year ended 30 June 2018 are set out below.

The Committee has discussed these with Crowe, together with Crowe's areas of particular audit focus described in the independent auditor's report on our Financial Statements.

Revenue recognition and the valuation of unbilled amounts for client work

The Committee reviewed the Firm's approach regarding revenue recognition and the carrying value of unbilled amounts for client work. The review of revenue recognition focused partly on client assignments with complex contractual terms, which are continuing to become more common as the range of the Firm's activities increases, as well as on certain exceptional items. The review of the valuation of unbilled amounts of client work was mainly undertaken on a Line of Service basis as the assessment of the carrying value is affected by the nature of the services being provided and the contractual terms of the assignments. These reviews included discussions with management and the internal and external auditors. The Committee was satisfied that the Firm's approach to revenue recognition and to the valuation of unbilled amounts for client work were appropriate.

Provisions for claims and regulatory proceedings

The Committee considered that this continued to be a complex and higher risk area given the current political, regulatory and economic environment, the higher expectations of regulators and the inherent judgement involved in determining provisions. The Committee considered the controls that were in place to ensure the appropriateness of judgements and estimates made in determining the level of provisioning. The Committee was briefed by the Firm's Head of Litigation and Regulatory Investigations on the status of claims and regulatory matters involving the Firm, considered the Firm's insurance arrangements and reviewed the settlement levels of historic claims. While the assessment of provisions is a judgmental matter, the Committee was satisfied that the level of provisions held was reasonable based on the information available.

Following consideration of the matters presented to it and discussion with both management and Crowe, the Committee was satisfied with the judgements and disclosures included within the Financial Statements. The Committee also reviewed the form and content of the Group's 2018 Annual Report and Accounts.

External audit

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

- Reviewing Crowe's plans for the audit of the Group's Financial Statements, the terms of engagement for the audit and the proposed audit fee;
- Considering the views of management and the Crowe engagement partner on Crowe's independence, objectivity, integrity, audit strategy and its relationship with the Group; and
- Taking into account information provided by Crowe on its independence and quality control.

The external auditors are engaged to provide non-audit services where there are business benefits in doing so, their objectivity and independence would not be compromised and no conflict of interests would be created. Suitable approval processes are in place to ensure that these criteria are met before Crowe is engaged to provide non-audit services. Fees paid to Crowe for audit and non-audit services are set out in our Financial Statements.

The non-audit assurance services provided during the year related to sustainability reporting, grant claims, regulatory compliance and controls assurance. Non-audit services constituted 18.6% (FY17: 15.9%) of Crowe's total fee for the Financial Year. Having considered a number of factors including audit effectiveness, business insight, tenure and approach to audit partner rotation, the Committee concluded that it was appropriate for Crowe to be reappointed as external auditor.

2

The PricewaterhouseCoopers Network

We are constantly looking at ways to provide greater clarity about who we are, what we do and how we do it. We see this commitment to transparency as a clear responsibility and the inevitable consequence of the impact our business has on our stakeholders, the capital markets and the communities in which we live and work.

It really matters to us that we engender confidence in the entire PwC Network by putting this principle of transparency into practice.

We believe that the key factors that differentiate PwC among the world's leading professional services organisations are the talent of our people, the breadth of the PwC network and the standards with which PwC firms comply.

These standards cover important areas such as service quality, governance arrangements, independence, risk management, people and culture, and brand and communications. PwC firms agree to follow common policies and PwC Network standards, and their compliance with these standards is monitored regularly.

(a) PwC Network

PwC is the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services. Together, these firms form the PwC network. 'PwC' is often used to refer either to individual firms within the PwC network or to several or all of them collectively.

In many parts of the world, accounting firms are required by law to be locally owned and independent. Although regulatory attitudes on this issue are changing, PwC member firms do not and cannot currently operate as a corporate multinational. The PwC network is not a global partnership, a single firm, or a multinational corporation.

For these reasons, the PwC network consists of firms which are separate legal entities. The firms that make up the network are committed to working together to provide quality service offerings for clients throughout the world.

Firms in the PwC network are members in, or have other connections to, PricewaterhouseCoopers International Limited (PwCIL), an English private company limited by guarantee. PwCIL does not practice accountancy or provide services to clients. Rather its purpose is to act as a coordinating entity for member firms in the PwC network. Focusing on key areas such as strategy, brand and risk and quality, the Network Leadership Team and Board of PwCIL develop and implement policies and initiatives to achieve a common and coordinated approach among individual firms where appropriate.



Member firms of PwCIL can use the PwC name and draw on the resources and methodologies of the PwC network. In addition, member firms may draw upon the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. In return, member firms are bound to abide by certain common policies and to maintain the standards of the PwC network as put forward by PwCIL.

The PwC network is not one international partnership and PwC member firms are not otherwise legal partners with each other. Many of the member firms have legally registered names which contain “PricewaterhouseCoopers”, however, there is no ownership by PwCIL. A member firm cannot act as agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm, cannot obligate any member firm, and is liable only for its own acts or omissions.



People



(b) Size of the network

Member firms of PwCIL have a common purpose to build trust in society and solve important problems and provide industry focused assurance, tax and advisory services to enhance value for their clients. Over 236,000 people (FY17) in 158 countries (FY17) share their thinking, experience and solutions to develop fresh perspectives and practical advice.

For the year ended 30 June 2017, PwCIL member firms generated aggregate revenues of US\$37.7 billion worldwide (2016: US\$35.9 billion). Aggregate revenues for the year ended 30 June 2018 will be available from October 2018 in the PwC Global Annual Review which can be found at www.pwc.com/annualreview. The PwC Global Annual Review also contains further financial and other information about the PwC Network.

A list of PwC Network audit firms and sole practitioners that are statutory auditors in European Union and European Economic Area Member States can be found in Appendix 4.

Total turnover achieved by statutory auditors and audit firms from EU/EEA Member States that are members of the PwC network resulting, to the best extent calculable, from the statutory audit of annual and consolidated financial statements is approximately €3.0 billion. This represents the turnover from each entity's most recent financial year converted to Euros at the exchange rate prevailing at that financial year end date.

(c) Governance structures of PwCIL

The governance structures of PwCIL are as follows:

- Network Leadership Team (NLT) – The NLT is responsible for setting the overall strategy for the PwC Network and the standards to which PwC Network firms agree to adhere;
- The NLT is made up of the Chairman of the PwC Network; the Senior Partners of the US network firm, the UK network firm and the Asia Pacific and Greater China PwC network firm; and a fifth member appointed by the Board, currently the Senior Partner of PwC Europe. The Chairman of the PwC Network and the fifth member may serve on the NLT for a maximum of two terms of four years each in their respective capacities. The terms of the other NLT members are limited by the arrangements in their respective firms. The NLT typically meets monthly and on further occasions as required;
- Strategy Council – The Strategy Council, which is made up of the leaders of the largest PwC Network firms and regions, agrees the strategic direction of the PwC Network and facilitates alignment for the execution of this strategic direction. The Strategy Council meets at least quarterly and as required;
- Global Leadership Team (GLT) – This team is appointed by, and reports to, the NLT, including the Chairman of the PwC Network. Its members are responsible for implementing the strategy set by the NLT and leading teams drawn from PwC Network firms to coordinate activities across all areas of PwC's business; and
- Global Board (the Board) – The Board, which currently consists of 18 elected members, is responsible for the governance of PwCIL and oversight of the NLT. The Board does not have an external role. Board members are elected by partners from all PwC firms around the world every four years. The current Board, with members from 13 countries, took up office in April 2017. Board members may serve a maximum of two terms and the normal term is four years. The Board meets four times a year and on further occasions as required.

(d) Key features of the network

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

Each PwC member firm's Territory Senior Partner, Kevin Ellis for PwC UK, signs an annual confirmation of compliance with our Network Standards.

These standards are regularly reviewed and updated as necessary. These cover a range of areas, including independence, ethics and business conduct, enterprise risk management, governance, anti-corruption, anti-money laundering, anti-trust, and information protection.

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

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

- The way we do business;
- Sustainable culture;
- Policies and processes; and
- Quality reviews.

(i) The way we do business

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

(ii) Sustainable culture

To promote continuing business success, PwC member firms nurture a culture that supports and encourages PwC people to behave appropriately and ethically, especially when they have to make tough decisions.

PwC people have ready access to a wide array of support networks within their respective member firms – both formal and informal – and technical specialists to help them reach appropriate solutions.

The foundations of PwC's culture are objectivity, professional scepticism, cooperation between PwC member firms and consultation.

(iii) Policies and processes

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

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

(iv) Quality reviews

Each PwC 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 have carried out on its behalf, an independent review.

In addition, the PwC Network monitors PwC member firms' compliance with network quality expectations, and risk and quality standards and policies. This includes monitoring not only whether each PwC member firm conducts an objective quality control review programme, but also includes consideration of a member firm's processes to identify and respond to significant risks.

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

For Assurance, the quality control review programme is based on relevant professional standards relating to quality controls including International Standards on Quality Control 1: 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements' (ISQC 1) and where applicable, the US Public Company Accounting Oversight Board (PCAOB) Quality Controls Standards.

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

- Quality management systems are appropriately designed, are operating effectively and comply with applicable network standards and policies;
- Engagements selected for review were performed in compliance with applicable professional standards and PwC Audit requirements; and
- Significant risks are identified and managed appropriately. See below for further details.

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

(e) Development of global audit methodology, technology and tools

(i) Global audit methodology

PwC's global audit methodology is developed by the Network Assurance Methodology Group (NAMG). NAMG has responsibility for the maintenance and update of global audit policies and guidance, included within: the PwC Audit Guide; libraries of audit steps for our global Enterprise Resource Planning (ERP) system (Aura); and template letters and other documents for use by engagement teams.

The UK, along with other member firms, support NAMG by seconding staff to work alongside the permanent staff. There are also a number of review and consultation groups, comprising representatives from member firms including PwC UK, which provide input to NAMG via regular conference calls and review of materials prior to release to the PwC network.

The Audit Methodology Leaders Group, which includes senior representation from PwC UK, exists for the purpose of ensuring global alignment of methodology priorities, sharing of territory emerging matters, providing input on PwC's response to proposed auditing and assurance standards, and acting as a forum for discussion.

(ii) Global audit technologies and tools

The governance of Global Assurance technology and tools is covered by two complimentary committees, the Global Assurance Implementation Team is responsible for oversight and implementation of assurance technology solutions. The future technology strategy and investment is overseen by the Global Assurance Project Approval Committee. Both groups include the Global Assurance Chief Operating Officer and Chief Digital Officer, along with partner representation from major territories, including the UK.

The Assurance Transformation agenda is supported by a network of cluster and territory Assurance Transformation Partners and Managers responsible for the roll-out, implementation and support of new technologies and initiatives.

Our unique technologies and tools, which are under continual review and enhancement to improve audit quality and efficiency, include:

- Aura, our global audit ERP system – New features and functionality for Aura are developed at a global level to reflect technology initiatives to improve quality and efficiency, themes from external and internal quality reviews and feedback from global users. Request for new features and functionality are approved by the Assurance Working Group, which is composed of PwC partners and directors and IT specialists from across the network including PwC UK. Aura changes impacting methodology aspects involve NAMG, risk management, legal and IT specialists as appropriate. Prior to release to the network, changes are tested globally through a collaborative testing approach involving a number of member firms, including PwC UK. In addition Aura specialists work closely with global and member firm learning and education functions in determining the extent of any training requirements and the development of appropriate materials; and



- Other applications, such as Halo, Connect, Count and PwC's Confirmation System (see section 8 for further details) either involve global teams of audit and IT specialists developing the concept or involve a territory, such as PwC UK, taking the lead on behalf of the network. Input and approvals are obtained from relevant methodology, risk management, legal and IT specialists as appropriate. PwC UK has had a significant involvement in the development of these global applications.

(f) Independence

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

PwC member firms reinforce both of these elements through a combination of setting the right tone from the top, independent consultation on judgemental issues, detailed policy requirements including prescribed processes to safeguard independence, regular training, and careful observance of independence requirements. See section 14 for further details.

(g) Financial arrangements

PwC UK and its subsidiary undertakings have no profit-sharing arrangements under the PwCIL network framework. Details of PwC UK's strategic alliances with certain other PwC Network firms are explained in more detail in the PwC Financial Statements 2018. The profit-sharing arrangements of PwC UK are set out in section 19, Remuneration of Partners and Independent Non-Executives.

3

Internal control and internal quality control systems



Quality comes from more than the systems and processes that are embedded in the way we work to achieve compliance with standards and regulation, important though these are. Quality audits that bring unexpected and far-reaching benefits do not come from an unthinking compliance mindset but from a knowledgeable, questioning, imaginative and insightful approach. 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.

“

Quality audits that bring unexpected and far-reaching benefits do not come from an unthinking compliance mindset but from a knowledgeable, questioning, imaginative and insightful approach.

”

Introduction

PwC UK’s Assurance quality objective is to have the necessary capabilities in our organisation and to deploy our people to consistently use our methodologies, processes and technology in the delivery of high quality services in an effective and efficient manner to fulfil the valid expectations of our clients and other stakeholders. These objectives are based on International Standard on Quality Control (UK) 1 – ‘Quality control for firms that perform audits and reviews of financial statements and other Assurance and Related Services Engagements’ (ISQC (UK) 1).

ISQC (UK) 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) 1 is for the firm to establish and maintain a system of quality control to provide it with reasonable assurance that:

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

In addition, compliance with ISQC (UK) 1 and the FRC's International Standards on Auditing (UK) requires PwC UK to have quality control systems.

Further:

- as a Registered Auditor regulated by the Institute of Chartered Accountants in England and Wales (ICAEW), we are required to comply with the Audit Regulations and Guidance ('Audit Regulations') issued by the ICAEW. Compliance with the Audit Regulations is required to enable the firm to retain its audit licence in the UK;
- we are also registered with the ICAEW as a Licensed Practitioner for the reporting on ATOL returns, and there are a number of individually Licensed Practitioners in the firm;
- we are also registered with the ICAEW as a Local Auditor for the delivery of public sector audit work, there a number of individuals registered Key Audit Partners in the firm; and
- we are also required to comply with the policies and regulations of a number of other regulatory bodies which PwC UK is either registered with, as a condition of ongoing registration to perform audits of certain entities, or regulated by. These regulatory bodies include the Financial Reporting Council, Public Sector Audit Appointments Limited, NHS Improvement, the Financial Conduct Authority and the Prudential Regulation Authority in the UK. PwC UK is also registered in a number of other countries and is required to comply with the relevant regulations of these countries, see section 15 on page 65. For example, The Public Company Accounting Oversight Board in the US.

Consequently many of our policies and procedures have been designed and implemented to ensure that we comply, and that we can demonstrate compliance, with not only the Audit Regulations of the ICAEW, but also with the policies and regulations of other regulators with which PwC UK is registered.

The policies and procedures that form our internal quality controls systems have been documented, and are embedded as part of the firm's day-to-day activities. There is a monitoring regime in place to enable the Management Board to review the extent to which these policies and procedures are operating effectively and to respond to issues that arise. For further information on this monitoring regime, please refer to section 9 of this report.

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

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

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

Leadership responsibilities for quality within the firm

Relevant ethical requirements

Acceptance and continuance of client relationships and specific engagements

Human resources

Engagement performance

Monitoring

In the sections which follow, we set out how our internal control and internal quality control systems incorporate each of the above elements, how audit quality is affected by factors outside the control of auditors, and explain our view of the key drivers of audit quality identified by the Audit Quality Framework issued by the Financial Reporting Council (FRC). We also cover the review of the firm's internal control systems and our statement on the effectiveness of the firm's internal quality control systems for our Assurance practice.

Certain elements of the firm's internal quality control systems are reviewed by our regulators, primarily the Audit Quality Review team of the FRC but also by the Quality Assurance Department of the ICAEW and the Public Company Accounting Oversight Board of the USA. In addition, the PwC Network monitors PwC UK's compliance with ISQC (UK) 1 and PwC's Network Risk Management Standards. Updates and changes to the firm's internal quality control systems, as well as points needing reinforcement, are communicated to partners and staff via mandatory training and other technical communications. Details of the firm's policies and procedures, which form part of the internal quality control systems, are available to partners and staff via Inform, our web-based technical repository and other repositories linked from our intranet site, SparkPad UK.

4

Leadership responsibilities for quality within the firm

(a) Organisational structure

The Executive Board, on behalf of the Management Board under Kevin Ellis' chairmanship is responsible for the firm's internal control and internal quality control systems.

Responsibility for implementing this system rests with management, but the day-to-day operation of these systems and monitoring of risk is delegated to Compliance, Internal Firm Services, and the individual Lines of Services, as appropriate.

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

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

The firm's Chief Risk Officer and General Counsel, Margaret Cole, is the member of the Management Board responsible for Risk and Quality, Compliance and Corporate Affairs. In addition, each Line of Service has a lead Line of Service partner, and another partner responsible for risk management and quality control. Within Assurance, Hemione Hudson is the Head of Assurance (and therefore of the Assurance Executive), and Richard Winter was the Assurance Risk and Quality Leader during the year, with responsibility on the Assurance Executive for risk and quality matters. He is being succeeded by Mark Gill on 1 October 2018.

The following committees deal with the management of risk and quality within Assurance:

- the Risk Management Steering Group, whose purpose is to agree significant risk management policies, discuss current risk management issues, and approve new services;
- the Audit Steering Committee, whose purpose is to discuss and agree audit methodology policy and issues. The committee provides input into the development of PwC Audit, the audit methodology and tools used by all member firms of the PwC Network, and the

delivery model for assurance engagements which includes Service Delivery Centres;

- the Accounting Steering Group, whose purpose is to discuss and respond to accounting developments and issues; and
- the Learning and Education Committee, whose purpose is to approve the form and content of technical training.

(b) Culture and tone at the top

PwC's core purpose is to build trust in society and solve important problems. Our purpose reflects 'why' we do what we do and our strategy provides us with the 'what' we do. 'How' we deliver our purpose and strategy is driven by our culture, values and behaviours.

Our core set of shared values state that when working with our clients and colleagues, we:

Act with integrity

- Speak up for what is right, especially when it feels difficult;
- Expect and deliver the highest quality outcomes; and
- Make decisions and act as if our personal reputations were at stake.

Make a difference

- Stay informed and ask questions about the future of the world we live in;
- Create impact with our colleagues, our clients and society through our actions; and
- Respond with agility to the ever changing environment in which we operate.

Care

- Make the effort to understand every individual and what matters to them;
- Recognise the value that each person contributes; and
- Support others to grow and work in the way that brings out their best.

Work together

- Collaborate and share relationships, ideas and knowledge beyond boundaries;
- Seek and integrate a diverse range of perspectives, people and ideas; and
- Give and ask for feedback to improve ourselves and others.

Reimagine the possible

- Dare to challenge the status quo and try new things;
- Innovate, test and learn from failure; and
- Have an open mind to the possibilities in every idea.

Relevant ethical requirements

5

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

David W. Adair was PwC UK's Ethics Partner, a role defined by the FRC's Ethical Standard until 30 June 2018. He was 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. He was succeeded by Bill MacLeod on 1 July 2018.

In addition, the Chief Compliance Officer who, supported by a team of specialists, is responsible for assisting the firm in meeting its professional conduct obligations. All partners and staff undertake regular mandatory training so that they understand the ethical and professional requirements under which we operate. All partners and staff are also required annually to confirm that they are aware of and will continue to follow all relevant ethical and professional obligations.

(a) Professional conduct

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

On joining the firm, all staff and partners are made aware of the PwC UK Code of Conduct and must confirm annually that they are familiar and have complied with it. The PwC UK Code of Conduct is based on the PwC Purpose and our core set of shared values. It sets out a common framework around how we are expected to behave and do the right thing. These help guide our behaviours and build trust:

- In how we do business ;
- With each other;
- In our communities; and
- In how we use information.

The Code emphasises that Speaking Up is part of our culture, and includes a framework for helping us decide the right thing to do in specific circumstances.

(b) Independence

The firm has specific policies, procedures and practices relating to independence, which are explained in more detail in section 14.

(c) Speak Up helpline

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

The Speak Up helpline number for partners, staff and third parties is 020 721 25233.

The PwC UK Code of Conduct encourages partners and staff to speak up when dealing with behaviour or facing a situation that doesn't seem right. Partners and staff have a responsibility 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. We also protect against any form of retaliation.

All calls to the Speak-Up Helpline are dealt with by trained individuals within our Professional Behaviour team, and the matters raised are discussed regularly with Jon Walters, the firm's Business Conduct Leader, who is responsible for making sure that the issues raised are appropriately investigated and resolved. The Business Conduct Leader would discuss any significant matters with Margaret Cole, the Management Board member responsible for Risk & Quality, Compliance and Corporate Affairs, and there are annual updates provided to the firm's Public Interest Body and the Audit & Risk Committee of the Supervisory Board.

(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 Operating Officer, Warwick Hunt, is the Management Board member responsible for information security. In this role he is supported by the Cyber Committee, and the Information Management Steering Committee, which are responsible for providing oversight, policy and strategic direction on information risk and cyber security matters.



Membership of the Committees comprises representatives from Risk and Quality, Office of General Counsel, Network Information Security, Information Technology and the Lines of Service. These committees' objectives are to:

1. Provide overall governance and oversight of the Information Management programme;
2. Act as an approval body for Information Management policies and procedures;
3. Agree and allocate Information Management accountability and responsibilities;
4. Identify and initiate Information Management remediation projects; and
5. Monitor progress of the Information Management programme.

The firm is bound by and all partners and staff are required to comply with the ICAEW's fundamental principle of confidentiality. There are also other legal and regulatory obligations on partners and staff about handling 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.

In previous years, the Global PwC network launched a programme in response to the EU General Data Protection Regulation (GDPR) and other worldwide data protection regulatory changes. That programme was designed to implement a robust and consistent approach to data protection compliance across the PwC network and within each member firm. PwC UK launched a UK GDPR implementation programme in early 2017. Its main areas of focus were:

- updating our policies, contract templates, and agreements with clients and suppliers to reflect the new legal requirements under GDPR;
- training our people, and embedding good data handling practices and behaviours, and helping individuals understand their role in ensuring the firm acts in a way that is compliant with the principles of GDPR;
- reviewing our IT systems, policies and governance with a view to implementing technical and organisational measures designed to protect personal data in our possession, in line with the requirements of GDPR;
- reviewing our third parties and their level of GDPR compliance;
- identifying all processing of personal data and undertaking risk assessments; and
- updating our incident response and data subject rights processes.

We are also registered with the UK Data Protection authority. Our registration can be seen on The Information Commissioner's Office website under reference Z7486412. Our standard privacy notice is available to the public at <https://www.pwc.co.uk/who-we-are/privacy-statement.html>

PwC UK operates an information security management system, which is certified as compliant with the

requirements of ISO/IEC 27001:2013 for all client data that comes under its control or ownership by virtue of a contract for services between PwC UK and a client.

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

- information is protected from internal and external threats;
- confidentiality, availability and integrity of information is maintained;
- statutory regulatory and contractual obligations are met; and
- 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 removable media;
- secure and PwC managed apps for data accessed by mobile devices;
- software restricting the use of removable media;
- data classification to ensure correct handling of data;
- access to engagement files – both electronic and hard copy paper files – is restricted to those with a 'need to know' and is regularly reviewed;
- regular backup of data on individual laptops and PCs;
- secure workspace policy – including clear-desk, both in our offices and at client sites;
- securing hard copy files when they are not in use;
- remote access to our network via a secure virtual private network, or equivalent technology;
- policies on the transmission of data by email outside of the organisation; and
- restricted access to operational areas of PwC UK and our buildings.

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

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

(e) Anti-bribery

We are opposed to bribery in any form. The PwC UK Code of Conduct makes it clear that it is unacceptable for our people to solicit, accept, offer, promise or pay bribes whether directly or through a third party.

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

(f) Preventing facilitation of tax evasion

We are opposed to tax evasion and the facilitation of tax evasion. In accordance with the PwC UK Code of Conduct, it is unacceptable for anyone providing services for or on behalf of PwC to evade tax or to facilitate tax evasion.

Policies, training and procedures designed to prevent the facilitation of tax evasion are in place.

Acceptance and continuance of client relationships and specific engagements

6

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 IT systems:

- Acceptance and Continuance (A&C) is used for all audit work; and
- Clientwise 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 a potential or an existing client or engagement are manageable, and whether or not PwC UK should be associated with a particular client, its management and/or the proposed services in question; and
- contain triggers that require consultation within business units and with the Business Unit and UK National Assurance risk management partners. This allows the right people to make the right decisions at the right time and also enables the firm to put in place safeguards to mitigate identified risks.

The systems facilitate risks to be properly assessed and appropriate policies to be followed, together with the determination of actions, in response to those identified risks.

In addition, for engagement or client acceptance decisions that carry significant risks to the firm or that relate to particularly sensitive or confidential circumstances, the firm convenes a Client Committee, a sub-committee of the Clients and Markets Executive (CME).

(b) Relationship checks, independence assessments and conflicts of interest

Before accepting a new engagement we perform:

- checks to identify relevant relationships – these checks are performed by a dedicated relationship checking team within Compliance. Where potential conflicts of interest are identified, we either decline to accept an engagement or we put in place arrangements to make sure that the potential conflicts of interest are appropriately managed, including, where appropriate, the use of restricted access rooms to work in; and
- in the case of new audit clients, an independence assessment – this is a comprehensive assessment which, depending on the nature and complexity of either the relationship or the structure of the prospective audit client, is either performed by a dedicated team within Compliance or by the prospective audit engagement team with advice from Compliance. The assessment covers all

aspects of independence in relation to a new potential audit client. This enables us to identify existing relationships including business relationships, non-audit services and firm arrangements and determine whether:

- those relationships which are prohibited by the FRC Ethical Standard can be terminated before we are appointed as auditor. Where this is possible, the non-audit service providers in the PwC Network are instructed to terminate the service prior to our appointment and confirm that they have done so. If we are unable to terminate the non-audit service before our potential audit appointment, we decline the audit appointment; and
- for those relationships which are permissible and can continue after our appointment as auditor, they may create a threat to our independence and objectivity. Where threats are identified and appropriate safeguards could be put in place, these are discussed and agreed with those charged with governance prior to appointment. Where the threats to our independence and objectivity are insurmountable, we decline the audit appointment.

(c) 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. This could occur for a variety of reasons, such as threats to our independence being too great to apply effective safeguards in our judgement, or because we are required to under the UK's mandatory firm rotation rules. We have previously resigned from audits where we were provided with evidence during the course of our audits which our testing revealed to have been falsified. We also notify those charged with governance in good time when our tenure as auditors is limited when mandatory firm rotation rules require the entity to rotate their auditor, or put the position of auditor out for a competitive tender process. Our policies in this area include the need for appropriate consultations both within the firm and with those charged with governance at the entity, together with ensuring compliance with legal and professional obligations. Where we have a duty to do so, we also inform regulators of our resignation when such matters arise.

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

7

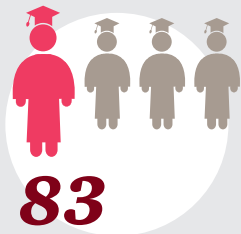
Human Resources

Our global PwC values and behaviours have been communicated across the global PwC Network during the year. They define the shared aspirations and expectations we have for working with our clients and each other. The common values and behaviours guide how we behave, make decisions, treat each other and serve our clients to: act with integrity, make a difference, care, work together and reimagine the possible.

(a) Recruitment

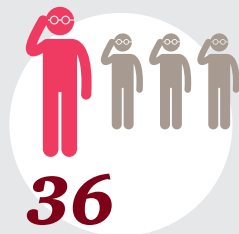
PwC UK aims to recruit, train, develop and retain the best and the brightest staff who share in the firm's strong sense of responsibility for delivering high-quality services. Across the firm in the FY18, we recruited over 4,744 new people, including 1,297 graduates and school leavers. We invest in a range of approaches to recruit talented students at any stage of their academic life. In FY18, places offered included:

Across the firm in the FY18, we recruited:



full-time Flying start Graduates from our degree partnership with the ICAEW

FY17: 69



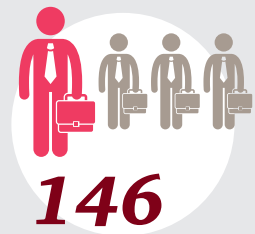
first and second year students attended our two day residential Talent Academy

FY17: 72



paid intern and placement opportunities

FY17: 648



full time paid and professional roles for school leavers including Higher Apprentices

FY17: 151

We have always believed that the best audits are performed by bright and intelligent people. Accordingly, we maintain a strategy of accepting strong graduates into our audit business and set a high academic threshold. However, we recognise that the traditional graduate entry route to a professional career at PwC UK does not suit every gifted student.

To help us create a sustainable pipeline of talent we invest in a range of approaches to encourage talented students to join us at any stage of their academic life. These include:

Across the firm in the FY18, we recruited:



over 4,744

new people, including

FY17: 3924



1,297

graduates and school leavers

FY17: 1539

We invest in a range of approaches to recruit talented students at any stage of their academic life. In FY18, places offered included:



83 FT and 373 shorter placements

students in our degree partnership with the ICAEW and the Universities of Newcastle, Nottingham and Reading

FY17: 69FT and 336 shorter placements



36

first and second year students attended our two day residential Talent Academy

FY17: 72



146

full-time paid professional roles for school leavers including Higher Apprentices

FY17: 151



29

students of all year groups participated in our 'Tech Academy' work experience events


FY17: 30



577

paid intern and placement opportunities for students

FY17: 648



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.

Our recruitment process is closely aligned to The PwC Professional framework, enabling us to select the best talent, based not only on their technical skills but also on their behaviours and ways of working.

We believe that investing in a broad range of skills, experiences and backgrounds puts us in a stronger position to understand and meet the needs of our clients. This year we have continued to recruit a more diverse range of talent, in particular to encourage more talented women and those from different social backgrounds in to our organisation. This has included recruiting 176 students onto our 'Women in Business' programme. We also recruited 249 people onto our 'Business Insight Week' work experience programme for sixth form students, focused on improving access to the profession. Included in this was this year's winner of the NSEC (National Schools Employability Challenge). This is a competition run by PwC in partnership with Rate My Apprenticeship, challenging school students to demonstrate their employability skills across a number of stages. The top prize is a week-long placement at PwC. 2018 also saw us extend our Employability outreach into secondary schools with careers related visits to 328 schools.

Our commitment to apprenticeships also expanded with the introduction of Technology Degree Apprenticeships at Queen's University Belfast and The University of Glasgow, this supplemented our existing Technology Degree Apprenticeships at the Universities of Birmingham and Leeds.

(b) Technical knowledge, professional skills and values

Our people develop technical knowledge, professional skills and values through the work they perform, the coaching received from others and from formal learning activities that they undertake throughout the year to enable engagement leaders and staff working on engagements to be suitably trained and competent to perform assurance services. Based on the information set out the following sections of this report and review process covered in section 9, we are able to confirm that engagement leaders and

staff working on such assignments are competent and suitably trained to complete their assignments.

i) Practical experience and coaching

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

ii) Formal learning

Our PwC Professional career progression framework underpins a training curriculum which provides a wealth of opportunities for our people to build professional skills and knowledge to support the delivery of high quality assurance services to our clients.

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

We have a training curriculum that includes talent and milestone programmes as well as our technical and business skills training programmes.

We continue to invest in our training curriculum, and in 2017 introduced 237 engagement leader led, local office based workshops for our qualified staff to focus on priority behavioural topics and set a tone of involvement and commitment from Partners and Directors (and local business units).

We have also continued with the roll out of our professional skills curriculum for all staff, much of which is mobile-based and can be completed at any time and when on the move.

We support many individuals to complete professional qualifications that are required or relevant to their role. Our industry groups operate specialist training programmes relevant to their sectors.

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



Our practices to develop and maintain capabilities and technical competence include:

- all partners and staff complete annual risk and quality update training spanning matters relating to compliance, independence and ethics;
- all partners and staff confirm that they have complied with the firm's development policy within the general annual confirmation including completing and retaining appropriate records; any exceptions are investigated;
- all relevant partners and staff are required to complete a learner profile to identify their annual mandatory Assurance technical training requirements based on the experience, grade and role of each individual;
- the provision of a mandatory technical training programme which comprises both foundation and update training as well as specific training for auditors of US PCAOB or AICPA and Financial Services clients. Foundation programmes build auditors' technical capabilities. Annual update training addresses new external requirements, internal policy or methodology changes and the remediation of observations raised through internal quality reviews and external inspections;
- the consideration of training needs on an on-going basis. We release guidance and/or training materials as appropriate throughout the year. This allows us to respond to emerging performance gaps promptly when they are identified;
- monitoring the completion of mandatory training. Failure to complete mandatory training by set deadlines results in disciplinary steps being taken which can ultimately lead to dismissal from the firm;
- reviewing the training programme for compliance with PwC network standards;
- equipping our tutors with effective instructor skills and having processes in place to measure the effectiveness of our training; and
- the assessment of our programmes through a number of evaluation techniques.

iii) Access to reference material and subject matter experts

The firm maintains online reference materials covering all aspects of policy, procedure and methodology as well as a library of all relevant auditing, accounting and ethical standards.

To keep technical knowledge up to date, partners and staff receive regular electronic update communications on technical and regulatory topics as they arise. A helpline of technical subject matter experts is also available.

c) Performance evaluation

We continue to invest in equipping our partners and staff with the coaching and management skills needed to give honest feedback, to continually improve performance. We expect feedback to be provided regularly throughout the year by all staff and partners. We've continued to focus on real time feedback using our 'Snapshot' tool which enables our people to take a snapshot of their progress during the year. Snapshot provides a point-in-time picture, or 'snapshot', of how others observe an individual's progress against the PwC Professional framework. It is designed to help our people reflect on their strengths, what they've learned and areas for focus as they move forward.

Feedback forms a key element of our annual appraisal process. All partners and staff assess their performance against their agreed objectives and against grade-related skills and capabilities based on The PwC Professional.

The review process covers technical competence and quality, and consideration is given not only to what an individual has achieved, but also how they achieved it. We continue to place particular focus on the contribution and impact each person has made to the firm. Our focus is on supporting our people to have rich conversations with their people manager about their contribution and how they have demonstrated the PwC Professional attributes.



Individuals with lower performance will progress more slowly, and where performance is unsatisfactory corrective action is taken.

Our bonus plan is aligned to an individual's impact and contribution with higher performers receiving more. Individuals with sustained higher performance also have the opportunity to progress more quickly.

d) Career development

We develop our people through the 70/20/10 model, which is premised on successful and effective individuals learning lessons from a combination of 70% on-the-job experience, 20% coaching and 10% formal training programmes. 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 career coach assigned to them, who is responsible for their performance management, coaching and well-being. The career coach works with individuals to understand their unique strengths and development areas, and assess what opportunities are available to help them to acquire and further develop any necessary skills.

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

We continue to recognise that completing our Graduate Programme represents a key decision point in our people's careers. To support our people at this point in their career, we continue to promote the "Senior Associate Transfer Window" which provides clear visibility of, and access to, opportunities to move to new or different career paths within the firm.

All employees have access to an in house Careers

Service. The Careers Service sits in Resource Management and consists of a team of professional career coaches who provide impartial, confidential and personalised careers support and coaching. The service is accessible to anyone in the firm, up to and including Director.

This service will typically offer individual employees the opportunity to explore how an individual can enrich their current role, gain an insight into other opportunities, work towards promotion or through a transitional phase of their career, or discuss how to overcome personal barriers that may hinder their progression. The service also provides CV and Interview support.

(e) Promotion

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

Within Assurance, the process for promotion to director and admission to partnership involves a formal assessment of the quality of the individual's work and their adherence to ethical requirements and professional standards. The process includes a written assessment against the PwC Professional framework and the proposed business case for promotion, and an interview with a panel of partners who seek to corroborate that assessment and business case. We take this process seriously and will not promote an individual to director or admit an individual to the partnership if we have concerns about the quality of their work.



(f) Remuneration

In determining remuneration for our staff, we carefully balance several elements including: the economic climate, the external market; engagement and recognition of people's hard work, including the quality of the work they deliver; the performance of the firm; and investment for the future. We have common firm-wide reward principles, but in rewarding our people we reflect different markets and skills. We have a firm-wide bonus plan, but individual bonuses are determined by each Line of Service.

We review pay and bonus by gender, ethnicity and different working patterns (full time to part time).

We have conducted Equal Pay Reviews for more than 10 years. We published our gender pay gap for the first time four years ago, being the first in our sector to do so. This is one of the many activities we undertake to ensure our employment policies and practices are fair.

We also separately reported our gender pay and bonus gap under the Gender Pay Gap regulations for the first time last year. We also reported our mean BAME pay and bonus gaps.

In 2018 our single figure mean regulatory gender pay gap was 12.2% (April 17: 13.7%). Our single figure mean BAME pay gap is 13.5% (April 17 12.8%). Our single figure gender pay gap does not take into account objective reasons for pay difference such as grade, location or performance level. In line with good practice, we therefore adjust this figure for the different demographic across the grades; this adjusted pay gap figure for gender is 2.1% (April 17: 2.9%) and for BAME is less than zero.

In 2018 we voluntarily published our earnings gap including partners. This data, unlike the regulatory pay gap data is based on actual pay and bonus for employees and financial year distributable income for partners. Our mean gender pay gap was 43.2% (2017: 43.8%) and mean BAME pay gap 35.7% (2017: 35.9%). While the majority of our gender and BAME pay gaps have improved, they still reflect the fact that we have more non-BAME men in senior roles within the business.

We continue to take actions to address any gaps and also to take action through wider policies and activities to make sure our policies and practices are fair. This includes actively reviewing decisions on out of cycle payments, experienced recruitment and during our pay and bonus rounds.

Pay differences reflect the proportion of women and ethnic minorities in senior roles and we are committed to doing more to reduce these differences.

(g) Assignment of engagement teams

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

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

(h) Diversity

Our goal is to empower all our people to be the best they can be, seeking to ensure they can all fulfil their potential, whatever their background.

Never before has the need for diverse talent been more critical to the success of our business; as we look to the future and our plans to grow our business we will need to work with different types of people, bringing different skills, experiences and perspectives and leveraging these assets will demand a highly inclusive working environment. Creating these conditions requires the efforts of all, particularly our partners, and this has remained our focus for 2018.



Our strategy is to deliver an inclusive working environment which enables the delivery of our grade pool targets for gender and ethnicity at manager grade and above. Our three priority areas to achieve this are:

- 1 Our leaders set the tone from the top
- 2 We have visibility of diverse role models in leadership positions
- 3 We give our minorities equal opportunities to progress their careers

We continue to focus on ensuring that all of our talent processes are inclusive, that our work opportunities are allocated fairly and proportionately, and that we closely manage our talent pipelines. We are achieving greater leadership accountability for diversity by requiring our business leaders to own and deliver their grade pool gender/BAME targets out to 2020 with success recognized with a financial upside. Progress is reviewed by our Executive Board on a quarterly basis as part of our Balanced Scorecard report. Our grade pool targets were again published in our FY18 Annual Report according to our subscription to HM Treasury's Women in Finance Charter.

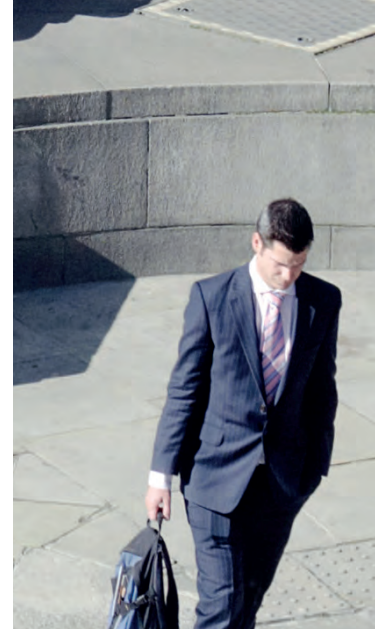
In 2017 we were the first professional services firm to publish our BAME pay gap, and the first to publish our gender pay gap disclosures required under The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

Our Talent and Diversity Council (the 'Council') is tasked with driving fairer and more transparent identification and assessment of our talent, with the primary objective of bringing greater diversity through to senior roles in the firm and this of course is not just limited to gender and ethnic diversity. This year the Council commissioned an investigation into the under-representation of black, Asian and minority ethnic (BAME) staff in senior roles and recommended action to drive change including our #Colourbrave campaign to support open conversations on racial equality.

This isn't a quick fix particularly in the context of the Professional Services sector, where it is acknowledged that there is further work to be done in respect of diversity, though we are in it for the long term and recognise sustained efforts pay off. Of our existing partners, 27% are female and 17% from a minority ethnic background. We're making progress but not on a sufficiently sustained basis. For example, this year 25% of our new internal admissions to the partnership were female; this compares to 19% last year and 28% the year before that. Our target is 30% each year as a minimum, reflecting the female director pool from which the admissions are drawn. The goal of the Council is thus to focus on ensuring that we have a healthy and diverse pipeline to support this ambition.

During FY18 we continued to offer our Back to Business programme for women returning from maternity leave or career breaks, and rolled out our Inclusive Leadership training to Partners and Directors.

Mental health remains a priority and we have worked with The Samaritans to produce comprehensive elearning available for all. Our third Green Light To Talk day, when we encourage our people to talk about mental wellbeing, ran across our UK network and was again shared with members of the City Mental Health Alliance across London.



8

Engagement performance

The quality and effectiveness of audit is critical to all of our stakeholders. We therefore invest heavily in the effectiveness of our audits, in the skills of our people, in our underlying audit methodology, the technology we use, and 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 regulatory inspections on the quality of our work. Details of the most recent regulatory findings can be found in section 15. Just as important are the internal indicators and processes that routinely monitor the effectiveness of our risk and quality processes, and provide timely information about the quality of our audit work and any areas for improvement.

(a) Methodology and tools

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

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

PwC Audit is underpinned by Aura, our global audit documentation system which is used across the entire PwC Network. Aura supports teams in applying our methodology effectively, by creating transparent linkage between risks, required procedures, controls and the work performed to address those risks, as well as providing comprehensive guidance and project management capabilities. Aura provides audit engagement teams with:

- a single instance global software with embedded global, territory and industry specific audit procedures enabling consistency, synergy and scale;
- a systematic risk-based approach, meaning that we focus on the things that matter;
- a workflow technology that allocates audit procedures and individual tasks on personalised dashboards, enabling the timely execution and review of work;
- a workshare feature designed for shared service centres and group audits, allowing us to work more collaboratively across borders, eliminating duplication of effort; and
- real time monitoring of engagement quality and progress – anytime, anywhere and on any device (e.g. laptop, iPad, iPhone and other mobile devices).

Aura is regularly enhanced. New Aura features and functionality are developed at a global level to reflect technology initiatives to improve quality and efficiency, themes from external and internal quality reviews and feedback from global users. In 2018, we have implemented further enhancements to build on the success of the 2015 major release of Aura (version 6). Aura's transition to a wholly online application will accelerate in 2018 and Aura Online, the online version of Aura, will by 2019 become the only instance of Aura. This will improve speed of access and of upgrades.

Aura is supported by a series of electronic tools which are accessible via a range of electronic devices ranging from tablets to PCs and smartphones. These tools include:

- **Aura Now** – a monitoring tool that provides real-time information on the quality and status of audit engagements. It visualises the progress of an engagement against planned dates, which enables us to prioritise our effort; and
- **Connect** – a web-based portal designed to provide fast, efficient and secure sharing of documents and information with our clients. Connect monitors the status of information flows on a real-time basis – it's simple to use and allows both the client and audit team to track status at an overall engagement and individual level anytime, anywhere. There are currently over 7,000 Connect sites created in the UK with some 186,000 internal and external users given access to those sites. A new build (version v3) was released in July 2018 which improves performance, introduced a cross-site dashboard and additional effective functionality.

Also part of the Connect suite released in July 2018 was Connect Audit Manager, a new global internal workflow tool for multi-location audit coordination. It provides direction to teams across the PwC network on what they need to do and when, and automates the coordination workflow on multi-location audits from creating and issuing instructions to signing off and returning inter-office reporting, sending documents directly to Aura.

- **Halo** – data assurance tools that allow us to better identify and assess risks and determine where to focus audit efforts. The analytical and visualisation capabilities allow us to analyse patterns and trends, identifying unusual and high-risk transactions, and providing invaluable insight to both our engagement teams and our clients. There are four Halo products being used by our engagement teams, with over 7,500 instances being created for our most mature product – Halo for Journals – and over 1,000 instances published so far this year for Halo for Funds. Our most recent product, Halo for Investments has grown from approximately 200 instances last year to 800 now.

Global development on our data auditing capabilities continues, with the UK firm being a leading contributor and implementor. We continue to focus on standardising activities to enhance effective and efficient working practices for our teams and clients in respect of data extraction, increasing levels of automation in the process, and extending the applications and data analysis functionality available. The Halo suite was awarded the prestigious ‘Audit Innovation of the Year’ from The Accountant & International Accounting Bulletin in 2016, and our application of machine learning to journals analysis (GL.ai) received the same award in 2017.

Two further electronic tools are increasingly used by engagement teams:

- **Count** – a web based portal and mobile application that facilitates the end to end process for inventory counts for both cycle and year-end inventory counts; and
- **PwC’s Confirmation System** – a secure, web-based portal that facilitates an automated and standardised global end – to – end (‘paperless’) confirmations process. It includes safe and secure handling of confidential data, real time status of confirmations and reports which identify who did what and when throughout the process. The tool is now fully embedded into our audit following its launch in 2016.

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

Aura can also be used for many of the non-audit engagements carried out by our Assurance practice, such as internal audit engagements and service organisation controls assurance engagements performed in accordance with ISAE 3402, AT-C 320 and AAF01/06. Aura can also cater for various types of engagements, including capital markets and sustainability.

For other non-audit engagements, our Assurance practice uses a non-audit engagement documentation tool, MAP, which has been used for many years in our Consulting practice, and in a number of member firms across the PwC network. MAP helps us to ensure compliance with our policies and consistent quality of documentation.

(b) Comprehensive policies and procedures

The firm has policies and procedures governing accounting, corporate reporting, regulatory and auditing practice. These are regularly updated to reflect new professional developments, changes in our operating environment and emerging external issues, as well as the needs and concerns of the practice and regulators. These policies and procedures are supported by guidance that PwC UK provides to its professionals on how best to implement them.

The policies, procedures and guidance are available in electronic files, databases and on web based applications. These are readily accessible to our people remotely at any time.

(c) Distributed Delivery Model

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

(i) Service Delivery Centres

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

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

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

In the areas where the delivery centres have been involved to date, we believe that the quality of the work has improved. Service Delivery Centres are also subject to annual quality reviews.

The firm uses the services of PwC Network service delivery centres in Katowice (Poland), Bangalore and Kolkata (India) to perform a variety of procedures, the most common of which are:

- casting, cross-referencing, internal consistency and quality review of financial statements;
- assisting audit teams with detailed testing, including vouching to supporting documentation, reconciliations and recalculation of amounts;
- managing the preparation of requests for, and subsequent receipt of, external confirmations;
- assistance with data extraction and transformation for use in the audit of journals; and
- related parties searches and other client knowledge management.

(ii) Other

During 2017 and 2018, we have established Centres of Excellence, with the intention that these Centres will deal with complex technical areas which engagement teams may come across less frequently, such as the auditing of share based payments, earnings per share calculations, and defined benefit pension schemes. We are also in the process of exploring other delivery models along with other member firms from the PwC Network, with the objective of further enhancing audit quality.

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

(d) Consultation and support

Consultation is a key element of quality control. The firm has policies setting out the circumstances under which consultation on accounting, auditing and risk management matters is mandatory.

The firm's technical experts track new developments in relevant areas and provide updates to the appropriate professional staff.

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

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

ARQ, whose remit is to establish the Assurance Practice's technical risk and quality framework, supports audit and non-audit engagement teams within Assurance in a number of areas, including accounting and corporate reporting, risk management and audit methodology. ARQ also helps teams to meet professional standards, regulatory and legal requirements and in some instances, provides support to clients when the need arises.

For example, ARQ performs quality reviews on interim review reports, preliminary announcements and annual IFRS financial statements of certain audit clients prior to issue. For a selection of audits, ARQ reviews certain aspects of the audit work on a real time basis, as the audit progresses. These reviews aim to be primarily a coaching exercise focusing on risk assessment, the resolution of judgmental matters and our reporting to Those Charged with Governance. They are flexible and will, on occasion, involve a more in depth review of detailed audit working papers.

During the year ended 30 June 2018, a total of 3,878 consultations were dealt with (FY17: 3,604) in addition to 7,340 enquiries (FY17: 7,904) covering audit, accounting and risk management issues.

Where an engagement has particular complexities, risk characteristics or auditing or accounting areas requiring significant judgement (e.g. in some situations where uncertainty exists around a client's going concern or impairment assessment), engagement leaders may consult a panel of experienced client-facing partners, technical experts and, in some cases, specialists in particular audit or industry areas ('technical panel'). During the year ended 30 June 2018, 55 (FY17: 34) technical panels took place on audit clients.

(e) Supervision and review

The engagement leader and senior engagement team members 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, Engagement Quality Control Reviewer (known in PwC Audit as the Quality Review Partner), and that all matters arising have been appropriately addressed.

The engagement leader is expected to:

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

Senior engagement team members support the engagement leader by:

- setting an example in the performance of the audit and its documentation by being involved throughout the audit, including identifying the risks and being satisfied that they are responded to appropriately;
- striving for continuous quality improvement, challenging engagement team members and applying rigour to the audit process;

- fostering an integrated coaching culture and demonstrating a willingness to learn and coach others;
- together with the engagement leader, putting in place arrangements for timely reviews of audit work and documentation, and, taking into account the nature, extent and level of reviews already performed by other members of the team, satisfying himself or herself that the work performed and documentation are consistent with the understanding of the engagement; and
- reviewing work done and the record of the audit, including considering the quality of the audit process and the results of the work and the documentation of conclusions.

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

(f) Engagement quality control review

We appoint a Quality Review Partner (QRP) to conduct engagement quality control reviews of the audits of listed clients, other public interest entities and clients identified as higher risk or higher profile. During the year we reviewed the definition of Higher Profile Clients to include those private companies which employ 10,000 or more individuals in the UK (excluding subsidiaries of a UK listed company which is audited by PwC UK).

QRPs are experienced individuals who are independent of the core engagement team; they receive training when appointed as a QRP and on an annual basis thereafter.

QRPs are appointed to an engagement based on their experience and expertise. The QRP is responsible for reviewing key aspects of the audit including independence, significant risks and responses to these risks, 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 discusses the results of their review with the Key Audit Partners (which include those engagement leaders of material components in group engagements which are involved in the group audit) on EU Public Interest Entity engagements defined by the FRC Ethical Standard.

The QRP will seek to challenge the audit team in the judgements they have made and work done. Their review is completed and any matters raised are resolved to the QRP's satisfaction in advance of the audit report date.

Second partners are required to be appointed to certain types of non-audit work and, depending on the nature of the engagement, may fulfil a role similar to that of a QRP on an audit. In other situations, their role is defined and agreed with the engagement leader and evidenced on the file.

(g) Differences of opinion

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

(h) Engagement documentation

At the end of an engagement, teams are required to assemble the hard copy paper file and then archive both this and the electronic file in accordance with our own policies which are more stringent than those laid down by professional standards.

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 either within the office or off-site.

Unless required for legal, regulatory or internal review purposes, electronic and hard copy paper files are only accessible by members of the engagement team or certain individuals under certain circumstances in certain central functions, such as compliance or risk and quality 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 audit report date, but can be as long as 12 years after the balance sheet date in some instances.

(i) Audit reporting

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

(1) Reporting to audit committees

When reporting to audit committees and those charged with governance in 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 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. This includes highlighting judgements made by management in preparing the financial statements that we believe are important to an understanding of the performance and position being presented. The nature of accounting and the need to make judgements and estimates means that there is often not a precise answer, and this is reflected in our reporting.

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

(ii) External reporting

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

We are conscious that our reports should be clear and unambiguous. Enhanced audit reports under ISA (UK) 700 'Forming an opinion and reporting on financial statements' include descriptions of: how our audit had been scoped; how we addressed the risks of material misstatement that we had identified; and our application of materiality in determining the nature, timing and extent of our audit procedures and evaluating the effect of misstatements. We now provide these enhanced audit reports on a broader range of organisations, including all listed entities.

These extended audit reports provide us with the ability within our audit report to 'tell the story of our audit' in a meaningful and informative way to enhance users' understanding of the financial statements.

We value the continued feedback that we receive from our clients and from shareholders and other commentators on our audit reports. The form and content of audit reports has continued to evolve, due both to changes in the legal and regulatory framework (including the European Union audit directive and regulation) and due to developing market practice.

As a result of the European Union Statutory Audit Directive and Audit Regulation, the enhanced reports issued for EU public interest entities as defined by the FRC Ethical Standard now include increased transparency on our independence including:

- a declaration that the non-audit services prohibited by the FRC's Ethical Standard were not provided and that the firm remained independent of the entity in conducting the audit;
- an indication of any services, in addition to the audit, which were provided by the firm to the entity and its controlled undertaking(s) and which have not been disclosed in the annual report or financial statements; and
- the disclosure of our period of tenure.

We welcome, fully support and embrace the moves towards greater transparency over the audit process.

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

9

Monitoring

Monitoring of our internal quality control systems comprises internal and external monitoring. External monitoring is undertaken by the firm's regulators and is reported in section 15.

Quality monitoring is an integral part of the firm's continuous improvement programme. We constantly seek 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 as well as where they deliver exceptional quality.

Each Line of Service runs a quality review programme, in which independent teams of partners and staff review completed engagements to assess compliance with our quality standards and regulatory requirements.

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

Our monitoring program in Assurance is based on the PwC Network's Global Assurance Quality Review (GAQR) Program. This program which is based on professional standards relating to quality control including ISQC1 (in the case of the UK firm, ISQC (UK) 1), contains policies, procedures, tools and guidance which are used by PwC Network firms. The GAQR program is coordinated by a central team which consists of a GAQR Leader with a group of International Team Leaders (ITLs) who are senior partners seconded to the GAQR central team by PwC member firms. Provision of oversight by the ITLs and their continuous involvement and support enable a consistent and effective performance of reviews across the PwC network.

PwC UKs monitoring program is also designed to meet the requirements of ISQC (UK) 1, the ICAEW Audit Regulations and requirements of our other registrations including the Crown Dependencies' Audit Rules and PCAOB regulations and include the requirement to undertake an annual Audit Compliance Review (ACR).

This monitoring program is comprised of 2 parts:

1. Engagement compliance reviews (ECR) program is used to assess whether engagements are performed in accordance with relevant standards; and
2. Whole firm review of the policies and procedures adopted by the PwC UK in respect of Audit quality and ISQC (UK) 1 compliance. The firm conducts its own review of its compliance with policies and procedures each year.

This process is reviewed annually by the firm's regulators, and also by the PwC Network as part of the Quality Management Review programme.

Partners and employees of our firm are informed on a timely basis about the review results and the actions taken to enable them to draw the necessary conclusions for the performance of engagements. In addition, the GAQR Leader informs engagement partners of our firm who are responsible for group audits involving cross-border work about relevant quality review findings in other PwC firms which enables our partners to consider these findings in planning and performing their audit work.

(i) Quality Management Review (QMR)

A full QMR is performed every three years with a targeted update being performed in both of the intervening years. The updates monitor progress on remediation of any control issues raised in the last full review and assess the impact of any new developments on the internal quality control systems. The QMR is led and resourced from other PwC Network firms. PwC UK was subject to a full QMR in 2017, and during the first half of 2018 was subject to a targeted QMR.

Whilst the targeted QMR identified a few improvements that we could make to systems, none of these were assessed as likely to lead to engagements not being compliant with relevant standards.

(ii) Engagement Compliance Reviews

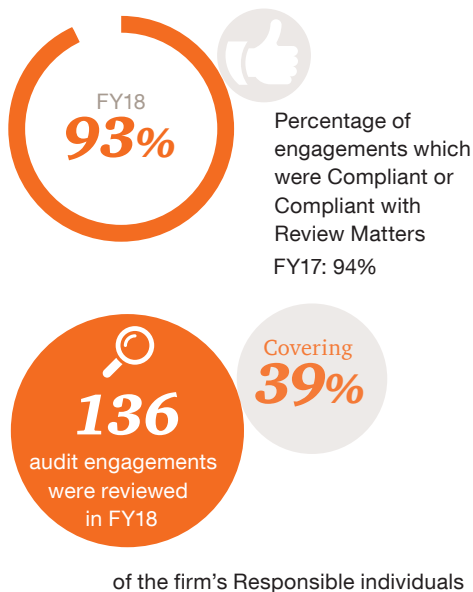
The key features of the annual ECR programme are:

- a cold review of completed audit engagements of individuals in the firm who are authorised to sign audit reports (known as Responsible Individuals);
- an audit engagement of each Responsible Individual is reviewed at least once every three years as required by Audit Regulations;
- completed audit engagements of market – traded companies incorporated in the Crown Dependencies (i.e. Jersey, Guernsey and the Isle of Man) are reviewed once every three years as required by the Crown Dependencies' Audit Rules and Guidance;
- completed major local audits, if any;
- in addition, the firm maintains a list of clients with a high public profile and the audits of these clients are reviewed twice in any six year period;
- a review of a sample of completed non-audit assurance engagements under the international and UK assurance standards and regulatory frameworks. The sample aims to reflect the range of different non-audit assurance work and its significance to the firm;

- engagement compliance reviews are led by experienced partners, supported by teams of partners, directors and senior managers who are all independent of the office, business unit and engagement leader being reviewed;
- follow-up reviews take place if deficiencies are identified;
- adverse findings are taken into consideration in determining the reward and promotion of engagement leaders; and
- the results are reported to the Assurance Executive, the Public Interest Body, and to PwCIL. The Financial Reporting Council also obtain these results as part of their annual inspection. They are also included below.

136 audit engagements (FY17: 144) were reviewed in FY18, covering 39% (FY17: 41%) of the firm's Responsible Individuals. 50 non-audit assurance engagements (FY17: 66) were also reviewed.

FY18 Engagement Compliance Review – coverage and results



Each engagement reviewed is assessed using the following categories:

- 'Compliant' – relevant auditing, assurance, accounting and professional standards have been complied with in all material respects;
- 'Compliant with review matters' – the following circumstances would generally lead to this conclusion:
 - required assurance procedures relating to a significant account or area not performed or not documented substantially in accordance with standards, but it is determined that due to the audit evidence in other sections of the archived workpapers no additional procedures are required to be performed;
 - assurance procedures that failed to detect a material departure from applicable accounting standards that was considered both quantitatively and qualitatively insignificant; and
 - evaluation of control weaknesses was not performed substantially in accordance with professional standards, but the impact was not considered to be sufficiently significant to require modification to the audit report on internal control over financial reporting if applicable and/or adequate consideration was not given to any necessary modifications to the substantive approach applied due to the control weaknesses;

but in all cases, sufficient audit work has been performed in all other respects.

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

In the case of a non-compliant engagement, follow up reviews are undertaken immediately, the engagement leader will be reviewed again in the subsequent year's ECR and there are financial implications for the individual Engagement Leader.

The circumstances giving rise to non-compliant findings are also considered in order to assess whether additional work is needed to support the report, or if the auditor's report needs to be withdrawn.

For engagements which were found Compliant with Review Matters, the engagement leader is included in the following year's ECR, and may also lead to financial implications depending on that engagement leader's previous track record.

In FY18, 126 audit engagements (FY17: 135), representing 93% (FY17: 94%) of the audit engagements reviewed were classified as either 'compliant', or 'compliant with review matters'.

44 non-audit assurance engagements (FY17: 64) representing 88% (FY17: 97%), of the 50 reviewed non-audit assurance engagements were either classified as 'compliant' or 'compliant with review matters'.

Following root cause analysis, an action plan is developed to respond to significant matters arising from the ECR. Specific individuals are made responsible for implementing the action plan within agreed time frames. The action plan is monitored by the Assurance Risk and Quality leadership, the Assurance Executive and the Public Interest Body, to make sure actions are implemented.

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

(iii) The Member Firm Report

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

Based on our analysis of the results of the activities described above, as well as our consideration of regulator reviews and the results of other internal monitoring activities, we are satisfied that our internal quality control system provides us with reasonable assurance of performing and reporting in conformity with applicable standards and PwC Audit in all material respects. The report also summarised the main points arising from the QMR and ECRs that merited our attention.

PwC UK responded to the points raised within the FY17 Member Firm Report as well as external regulator reports and developed an action plan to address the exceptions noted. These actions were assigned to specific individuals and significant progress has been made in addressing these matters. The June 2018 Member Firm Report will be issued in October 2018 to the head of Assurance, the Assurance Risk and Quality leader, the governance bodies of the firm, and PwCIL. The Financial Reporting Council also read the Member Firm Report as part of their annual inspection.

(c) Quality key performance indicators and Audit Quality Indicators (AQIs)

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

In the year to 30 June 2018, 11 audit quality KPIs were assessed, covering various aspects of the audit from planning to execution and completion; eight non-audit quality KPIs were also assessed, covering various aspects of non-audit engagements.

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

The overall audit quality KPI score for the year ended 30 June 2018 was 97% (FY17: 97%) against a target score for both years of 95%.

Although the score remains above the target level, we are not complacent about the quality of our work and recognise that continued focus is needed. Therefore, as in previous years, we have made changes to the audit quality KPIs for the year ending 30 June 2019 to help deliver further improvements in key areas of the audit process.

Within Assurance, the overall non-audit quality KPI score for the year ended 30 June 2018 was 97% (FY17: 96%) against a target score for both years of 95%.

Issues identified by the quality KPI reviews are communicated to the practice through the External Auditor Training programme webcasts, briefings and additional guidance. The overall quality KPI scores feed into the firm's balanced scorecard.

We have identified 21 separate Audit Quality Indicators ('AQIs') ranging from engagement management to people metrics, which we monitor quarterly to identify trends in audit quality which require action to respond to, and evaluate whether they are the correct AQIs to monitor.

(d) Root cause analysis

We hold our reputation for quality in the highest regard. Inevitably, given the size of our business, we do on occasion fall short of the high standards we set ourselves.

We perform analyses to identify potential factors contributing to our firm's audit quality so that we can take actions to continuously improve. One of our primary objectives when conducting such analyses is to identify how our firm can provide the best possible environment for our engagement teams to deliver a quality audit. We look at audits both with and without deficiencies—whether identified through our own internal inspections process or through external inspections—to help identify possible distinctions and learning opportunities. Our analyses cover matters arising from both individual engagement file reviews as well as those relating to the firm's systems of quality control.

Our analyses are conducted in two ways; first by monitoring themes as they arise during the inspection process and, second, by then applying more formal root cause procedures. A team of reviewers that is independent from the engagement team or function identifies potential factors contributing to the quality of the audit. We consider factors relevant to technical knowledge, supervision and review, professional scepticism, engagement team behaviours and resources, and technical training, among others. Potential causal factors are identified by evaluating engagement information, performing interviews with engagement team members and specialists, holding focus groups on specific audit areas which were supported by behavioural specialists, reviewing training and guidance, and reviewing audit working papers, as appropriate to understand the factors that may have contributed to audit quality utilising the '5 whys' approach (an iterative technique used to explore the issue until its underlying root cause has been found).

In addition, the data compiled for audits both with and without deficiencies is compared and contrasted to identify whether certain factors appear to correlate to audit quality. Examples of this data include the hours incurred on the audit, whether key engagement team members are in the same geography as the client, the number of years that key engagement team members have been on the engagement, the number of other audits that engagement partners are involved in, and the timing of when the audit work was performed.

Our goal is to understand how quality audits may differ from those with deficiencies, and to use these learnings to continuously improve all of our audits. We evaluate the results of these analyses to identify enhancements that may be useful to implement across the practise. We believe these analyses contribute significantly to the continuing effectiveness of our quality controls.

(e) FRC investigations

The FRC is the 'competent authority' for audit in the UK under the EU Audit Regulation and Directive. The FRC deals with cases that raise or appear to raise important issues affecting the public interest in the UK, and investigates whether there is evidence of misconduct or breach of a relevant standard by an accountant or accountancy firm which should be considered by a tribunal.

We have three FRC investigations (FY17: five) in respect of certain audits of the financial statements of BT Group plc, Redcentric plc and one which remains confidential.

In terms of concluded FRC investigations, as reported in the year to June 2017 Transparency Report a settlement was reached in August 2017 in

relation to our 2011 audit of RSM Tenon Group plc under which the firm and the engagement partner were fined and severely reprimanded.

In addition, a settlement was reached in 2018 following the FRC's investigation of our 2014 audits of Taveta Group and BHS Limited, under which the firm received a severe reprimand, was fined, agreed to monitor and support its Leeds Audit Practice and to provide detailed annual reports about that practice to the FRC for the next three years. The firm also provided an undertaking to review and amend the firm's policies and procedures to ensure that audits of all non-listed high risk or high-profile companies (including private companies which employ at least 10,000 individuals in the UK) are subject to an engagement quality control review. The engagement partner was fined, severely reprimanded, and is not permitted to perform audit work, or apply to have his name re-entered on the register of statutory auditors, for a period of 15 years.

(f) Lessons learned

We recognise and accept shortcomings in our audit work where these arise, and are sorry whenever our work falls below the professional standards expected of us and that we demand of ourselves. We acknowledge mistakes when they are made and ensure that lessons are learned. When investigations are announced, we undertake reviews of our internal processes and procedures and take action, where necessary, to improve them. We also focus our training for the audit practice on the findings from the cases. Everyone in the firm has a personal responsibility to make sure that our audit methodology is followed correctly and that we all live up to our values. Acting with integrity, which in the context of an audit means with objectivity, independence and professional scepticism, is fundamental to what we do. All partners and staff are regularly reminded of the need to speak up if they see something not quite right, or think we might have made an error.

(g) Complaints and allegations

If clients are not satisfied with the services we have delivered, or have suggestions for how we can improve, they may contact either the engagement leader or Margaret Cole, the Executive Board member responsible for Risk and Quality, Compliance and Corporate Affairs, who is located at our registered office.

We look carefully and promptly at any complaint we receive. The Institute of Chartered Accountants in England and Wales (ICAEW) or the institute of which the individual PwC UK partner or member of staff is a member, may also be contacted directly.

10 *Factors outside the control of auditors affecting audit quality*

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

The EU Audit Regulation introduced mandatory firm rotation for auditors of EU public interest entities (PIEs), prohibited non-audit services and a 70% cap on fees for non-audit services.

In the UK the rules on mandatory firm rotation require all EU PIEs to rotate their statutory auditor after a maximum period of tenure of 20 years with a mandatory competitive tender at the ten year midpoint. This aligns with the mandatory tendering regime with a ten year frequency introduced in 2015 by the Competition & Market Authority (CMA)'s Order for FTSE 350 companies incorporated in the UK.

Whilst the outcome of the UK's vote on the EU Referendum is significant, it is unlikely to give rise to change in the UK legal and regulatory position in the short to medium term.

Nevertheless the new rules represent significant change and there is uncertainty as regards their interpretation and implementation in other EU member states. We expect this uncertainty to be clarified but it is clear that it will take time.

We fully support the changes and their underlying objectives to ensure confidence in audit, preserve audit independence and improve audit quality. Whilst some of the rules are causing complexity for business and could jeopardise audit quality in the short term, we believe we are well equipped and in a strong position to rise to the challenges which they present.

The FRC's key drivers of audit quality

11



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, and elsewhere in this report.

In addition to the five key drivers of audit quality identified by the FRC, we believe that the financial success of the audit practice is also critical.

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.

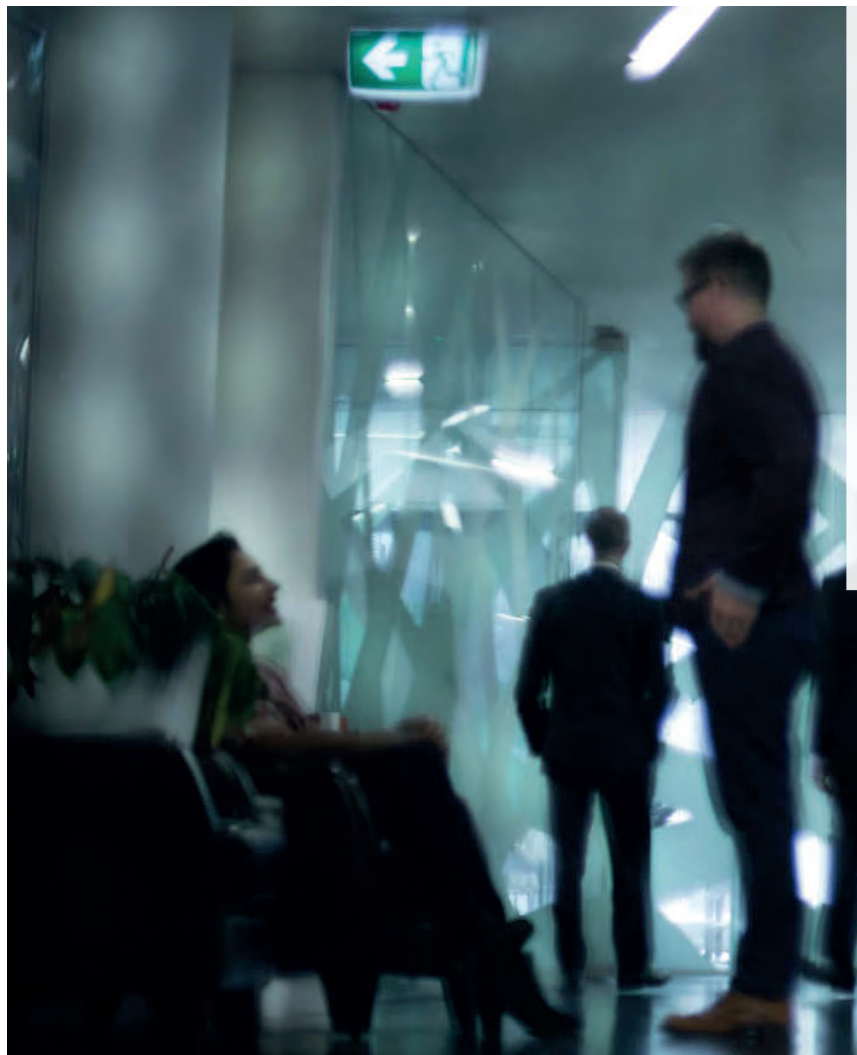
The quality of our audit work is largely dependent on the quality and skills of our people in what remains a highly competitive market. Our ability to recruit and retain the best graduates, staff and partners depends on our ability to offer market-competitive salaries and world-class professional training. 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.

12 *Review of the firm's internal control system*

The Audit Firm Governance Code requires the firm to conduct, at least annually, a review of the effectiveness of the firm's A internal control systems, covering all material controls such as financial, operational and compliance controls, and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.

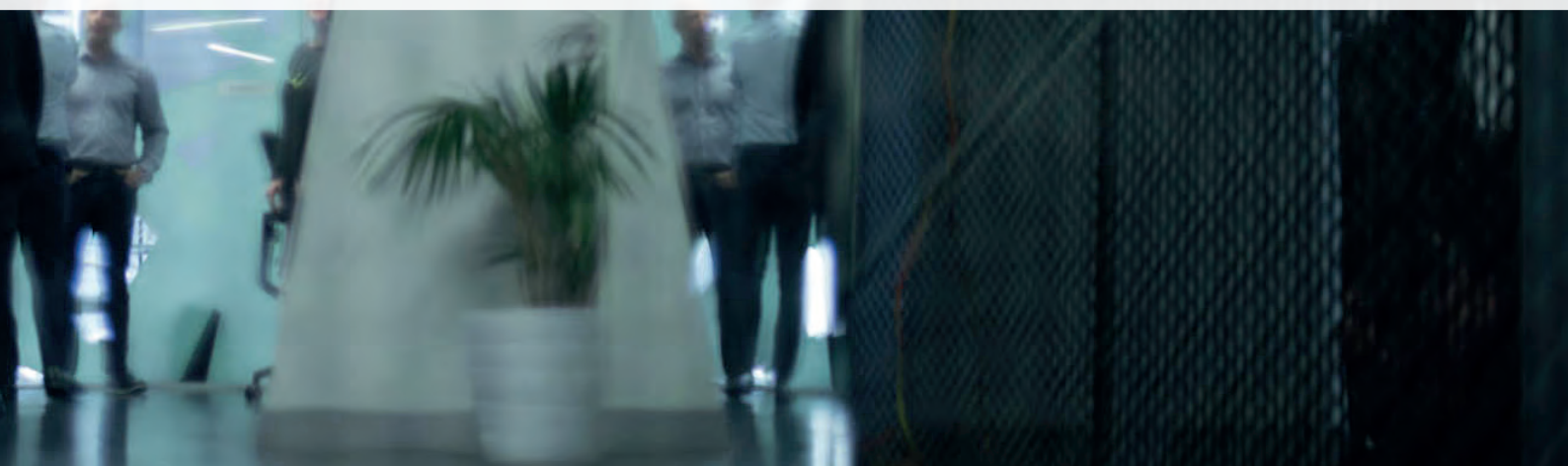
The Management Board takes overall responsibility for establishing systems of internal control, and internal quality control, and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these systems and for ongoing monitoring of risk and the effectiveness of controls rests with senior management. One of our independent non-executives has been involved in the review and the results of the review are reported to all the independent non-executives.

In respect of the year ended 30 June 2018, we have carried out a robust assessment of the principal risks facing the firm, including those that would threaten the firm's business model, future performance, solvency or liquidity, and included consideration of the sustainability of the audit practice within the UK. We have also carried out a robust assessment of the principal risks facing the audit practice, including those that would threaten its business model, future performance, solvency or liquidity. We describe the risks which apply to both our firm and specifically our audit practice in our FY18 Annual Report, and explain how they are being managed or mitigated.



The key risks faced by our business and the management response, are summarised below:

Risk	Risk Response
<p>Regulatory change including regulatory threats to business model: Failure to manage effectively the impact of changes in the multiple regulatory regimes, both UK and non-UK, under which the UK firm operates. Risks posed to the existing multidisciplinary business model may impact the sustainability of the audit practice within the UK.</p>	<ul style="list-style-type: none"> • Regular engagement and direct interaction, where possible, with governmental bodies and regulators to understand objectives and provisions of changes and the implications for our businesses. • Regular/continuous monitoring of the cumulative impact of changes in the regulatory environment on the firm's ability to provide services to audit clients. • Regulatory affairs specialists who lead the firm's efforts to track all changes in applicable regulatory regimes, of whatever origin, under which the UK firm operates. • Regular updating of firm processes and procedures to ensure compliance by all our people, on all our clients, with all applicable regulations. • Contingency planning.
<p>Quality (audit and non-audit): Significant quality failure in the UK firm or the PwC network due to either engaging with an inappropriate client or inadequate delivery of services leading to a potential service failing, litigation and/or regulatory action.</p>	<p>Our internal quality management systems, which are designed to maintain and enhance quality, include:</p> <ul style="list-style-type: none"> • Recruitment standards and staff development procedures. • Client engagement and acceptance processes. • Client engagement standards supported by methodologies and tools. • Quality reviews of PwC network firms, including the UK firm. • Monitoring and review of key performance indicators by the Executive Board.
<p>People and talent: Failure to attract, develop and retain key talent.</p>	<ul style="list-style-type: none"> • Regular reviews of the market for student and experienced talent to understand the firm's relative competitive position ensuring agile management of resources. • Use of various communication and discussion channels to engage with our people. • Continued practical focus on building people engagement and supporting retention. • Monitoring and review of key performance indicators by the Executive Board, including staff surveys, external Brand Health Index and regular client feedback. • Appointment of external Wellbeing advisors and internal Mental Health champions as part of an overall wellbeing programme.
<p>Public perception and reputation: Failure to respond in an impactful and transparent manner to issues raised by the current environment, including adverse media coverage which impacts the firm's reputation.</p>	<ul style="list-style-type: none"> • Embedding a culture of 'doing the right thing' for our people, our clients and our communities, as a matter of strategic intent. • Engage more fully in open and serious debate with relevant stakeholder groups on trust-related and public interest issues to inspire change. • Sharing of knowledge and insights on trust to sustain, widen and enrich the discussion. • More actively promote the firm's positive contributions including those to our clients, to broader society and as a significant employer.





Risk

Regulatory compliance:

Failure to comply with relevant independence, legal, regulatory or professional requirements leading to regulatory action and/or a client conflict of interest.

Instability and uncertainty caused by Brexit negotiations:

Uncertainty faced by our clients and our people as the economic, legal and regulatory implications of exit from the European Union become clearer.

Information and Cyber Security:

Non-protection, loss, theft or misuse of client (or the firm's) confidential data. This risk encompasses electronic and hard copy documents, including off-shored or outsourced repositories, disclosure within social media and direct cyber-security threats.

Criticality of IT to service delivery:

Risk of being unable to perform or deliver assignments due to outages or failures in applications and/or the general IT environment.

Client assets:

Failure to appropriately manage client assets, including major client administrations.

Risk Response

Established compliance and independence management systems including:

- Clear policies, procedures and guidance.
- Mandatory annual training for all partners and staff.
- Client and engagement acceptance procedures.
- Annual independence and compliance submissions for all partners and staff enforced by penalties for non-compliance.
- Regular monitoring and reporting to the Executive Board.

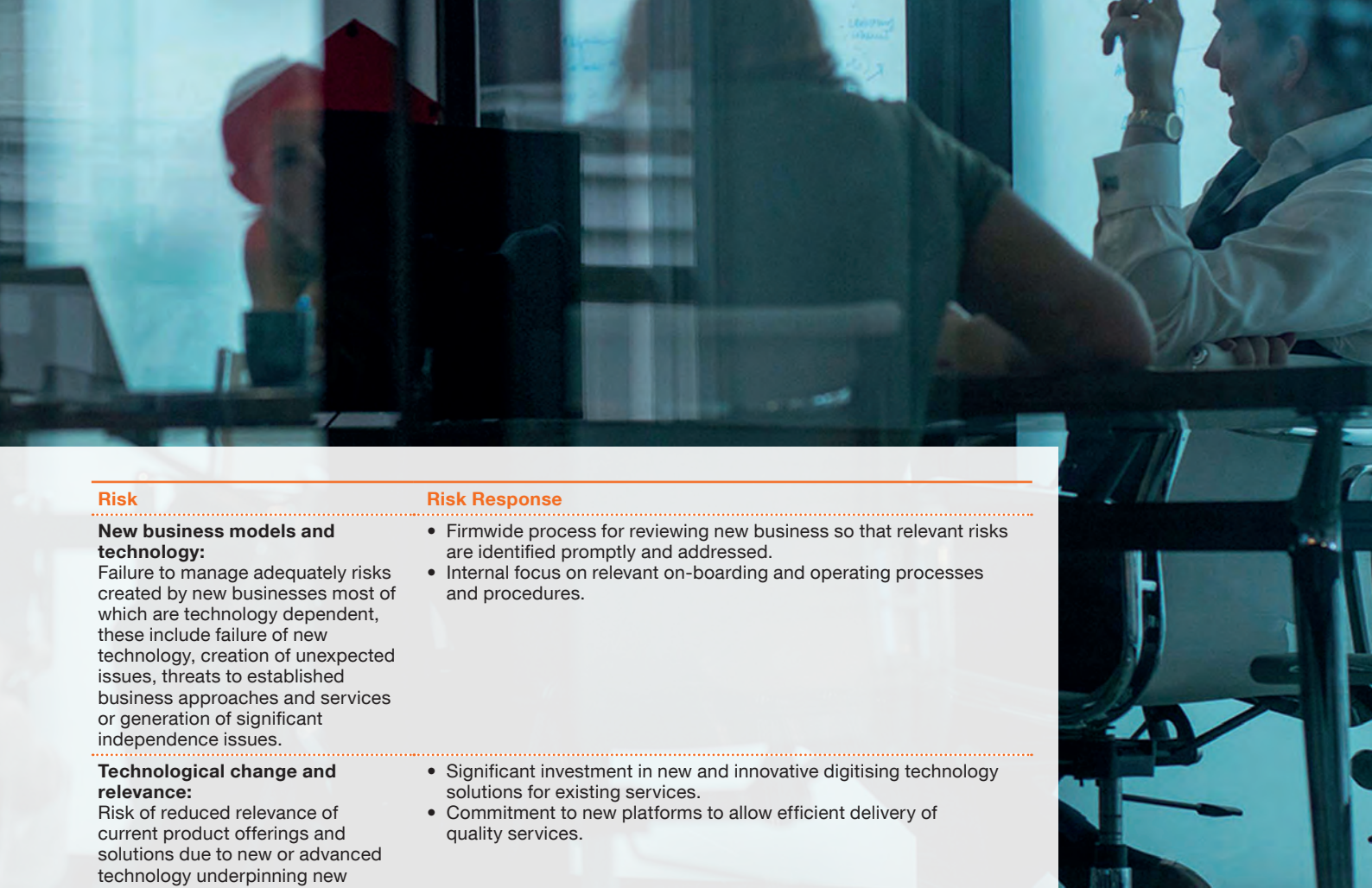
- The Executive Board, supported by the Brexit Steering Committee, will manage the impacts based on contingency planning undertaken pre-referendum.
- We work closely with our clients to help them adapt to, and thrive in, the new environment.
- We provide support and practical advice to European Economic Area (EEA) staff working in the UK and UK staff on overseas assignments in the EEA

- Information Protection Governance Group, chaired by a member of the Executive Board, which provides overall strategic direction, framework and policies for information security.
- The firm operates an ISO/IEC 27001:2013 certified information security management system which includes:
 - Governance – including policies, processes, leadership (Cyber Committee) and assessment for client data and other information.
 - Physical, technical and human resource controls.
 - Threat intelligence.
 - Incident response capability.
 - Regular monitoring and independent review systems.
 - Continual investment in established cybersecurity controls.

- Recovery of critical systems is assured by use of two geographically distant data centres. Failed systems are reinstated at the second data centre, in line with Business Impact Analysis priorities.
- Continuing programme of testing provides indicators of assurance of our ability to rebuild systems from backups.
- IT Incident management procedures identify key systems to determine the real time criticality of impacted systems to ensure appropriate prioritisation of actions.
- Review of business critical systems.

Well-established procedures for dealing with client assets and related matters including:

- Portfolio diversification policy.
- Daily monitoring of credit and related ratings and maturities.
- Internal controls and procedures.
- Monitoring and independent review.
- A Treasury Committee which receives regular updates on the above.



Risk**New business models and technology:**

Failure to manage adequately risks created by new businesses most of which are technology dependent, these include failure of new technology, creation of unexpected issues, threats to established business approaches and services or generation of significant independence issues.

Technological change and relevance:

Risk of reduced relevance of current product offerings and solutions due to new or advanced technology underpinning new business models and cost structures, under investment in new and advanced technology or inadequate response to non-traditional disruption.

Physical security:

Failure to secure the physical security of all our people wherever deployed on the firm's business including within our own premises in the UK.

Litigation and regulatory sanction:

Risks related to significant commercial litigation or regulatory sanction, regulatory investigation or other sensitive situation, including financial, commercial and reputational impact.

Risk Response

- Firmwide process for reviewing new business so that relevant risks are identified promptly and addressed.
- Internal focus on relevant on-boarding and operating processes and procedures.

- Significant investment in new and innovative digitising technology solutions for existing services.
- Commitment to new platforms to allow efficient delivery of quality services.

- Firmwide travel policy and processes for all our people, incorporating 24/7 tracking and, where appropriate, consultation with a dedicated security team.
- Comprehensive security infrastructure covering all our premises.
- Continuous monitoring of threat levels and issues in overseas travel destinations, and potential threats to our premises.

- In-house legal team with specialized resources in litigation, contract law, regulation, data privacy, compliance, sanctions and technology.
 - Development of efficient discovery processes using e-Discovery tools
 - Incident management protocols across all areas to allow rapid deployment of specialist resources.
-

In addition, the Executive Board reviewed the systems of internal control, which have been in place throughout the financial year and up to the date of approval of this Transparency Report, using a process that included the following bodies and activities:

- The Risk Council, a senior management level committee reporting to the Executive Board, is responsible for making sure that the controls are in place to identify, evaluate and manage risk;
- Our lines of service and our internal firm services, which document risks and the responses to them, carry out risk assessments annually and report to the Risk Council on how effectively they have managed risk during the year;
- Periodic reviews of performance and quality are carried out independently by the PwC network;

- Our internal audit team reviews the effectiveness of the financial and operational systems and controls throughout the Group and reports to the Executive Board and the Audit & Risk Committee;
- Our risk and quality functions oversee our professional services risk management systems and report to the Executive Board;
- Discussions with the firm's regulators; and
- Discussions between the Audit and Risk Committee and the external auditors.

We confirm that there were no significant failings or weaknesses identified from that review which required the firm to take necessary remedial actions.

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

Statement on the effectiveness of the firm's internal quality control system 13

PwC UK's internal quality control systems for Assurance are a subset of the firm's internal control systems and are outlined throughout this report, and in particular the section starting on page 33.

On the basis of the reviews performed, as outlined in part 12 above, the Executive Board, on behalf of the Management Board, is satisfied that PwC UK's internal quality control systems for Assurance are operating effectively. Any matters identified through the various monitoring and review processes are actioned and changes implemented as appropriate.



14 Independence policies and practices

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

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

The UK firm also supplements the PwC Network policy with the regulatory requirements of UK professional bodies, such as the Ethical Standard issued by the Financial Reporting Council (FRC).

The policy covers, among others, the following areas:

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

Systems

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

- **The Central Entity Service (CES)**, which contains information about corporate entities including audit clients and their related securities. CES assists partners and staff in determining the independence status of clients

of the firm when they are considering a new non-audit engagement or business relationship;

- **Checkpoint**, which all member firm partners and practice staff managers and above use to pre-clear securities before acquisition and to record their subsequent purchases and disposals. Where a member firm wins a new audit client, this system automatically informs those holding securities in this client if there is a requirement to sell the security; and
- **Authorisation for Services (AFS)**, which is a system that facilitates communication between a non-audit service's engagement leader and the audit engagement leader, documents the potential independence threats of the service and proposed safeguards, and acts as a record of the audit engagement leader's conclusion on the acceptability of the service.

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

- A rotation-tracking system that monitors compliance with the firm's audit rotation policies for engagement leaders, other key audit partners and senior staff involved in an audit. This ensures that we consider each of the rotation rules which are relevant to that client entity and to the seniority of the role that the individual plays, and apply the most restrictive period of engagement tenure and time off the engagement; and
- A database that records significant business relationships entered into by the firm (excluding the purchase of goods or services in the normal course of business). These relationships are reviewed periodically during the year to assess their ongoing permissibility.

Engagement leader, QRP and Key Audit Partner rotation policy

We adhere to the rotation requirements of the independence rules published by IESBA, the FRC and the SEC as applicable to a particular audited entity. For entities that are subject to SEC independence rules, or listed entities that are subject to FRC independence rules, engagement leader tenure is set at five years, with a five year cooling off period and key partners involved in the audit tenure is seven years with a two year cooling off period. The QRP on SEC engagements has a five year tenure with five year cooling off period. For listed entities that are subject to FRC independence rules the tenure of the QRP is set at seven years with a five year cooling off period.

For entities which meet the IESBA or our internal definition of Public Interest Entity, the tenure for engagement leader, QRP and key partners involved in the audit is set at seven years with a two year cooling off period.

For EU PIE audit engagements, those individuals who meet the definition of Key Audit Partner have a tenure of five years, with a cooling off period of five years.

Key Audit Partners are engagement leaders on any material component of an EU PIE group that are involved in the group audit.

For all other entities our policy sets tenure for engagement leader, QRP and key audit partner at a maximum of ten years with a two year cooling off period.

Training and confirmations

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

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

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

Promoting compliance

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

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

Potential breaches of the firm's independence policies that are identified from self disclosures, independence confirmations, personal independence audits, engagement reviews and other monitoring activities are investigated by the firm's Compliance team to determine if a reportable breach has occurred. In PwC UK, a violation of independence policies by a partner or staff member has consequences that may include a fine or other disciplinary action including dismissal.

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;
- procedures to review a selection of partners and staff and all partner candidates;
- annual independence confirmations by partners and staff;
- compliance testing of independence controls and processes;
- central monitoring of independence KPIs; and
- annual assessment of the firm's adherence to the PwC Network's risk management standard for independence.

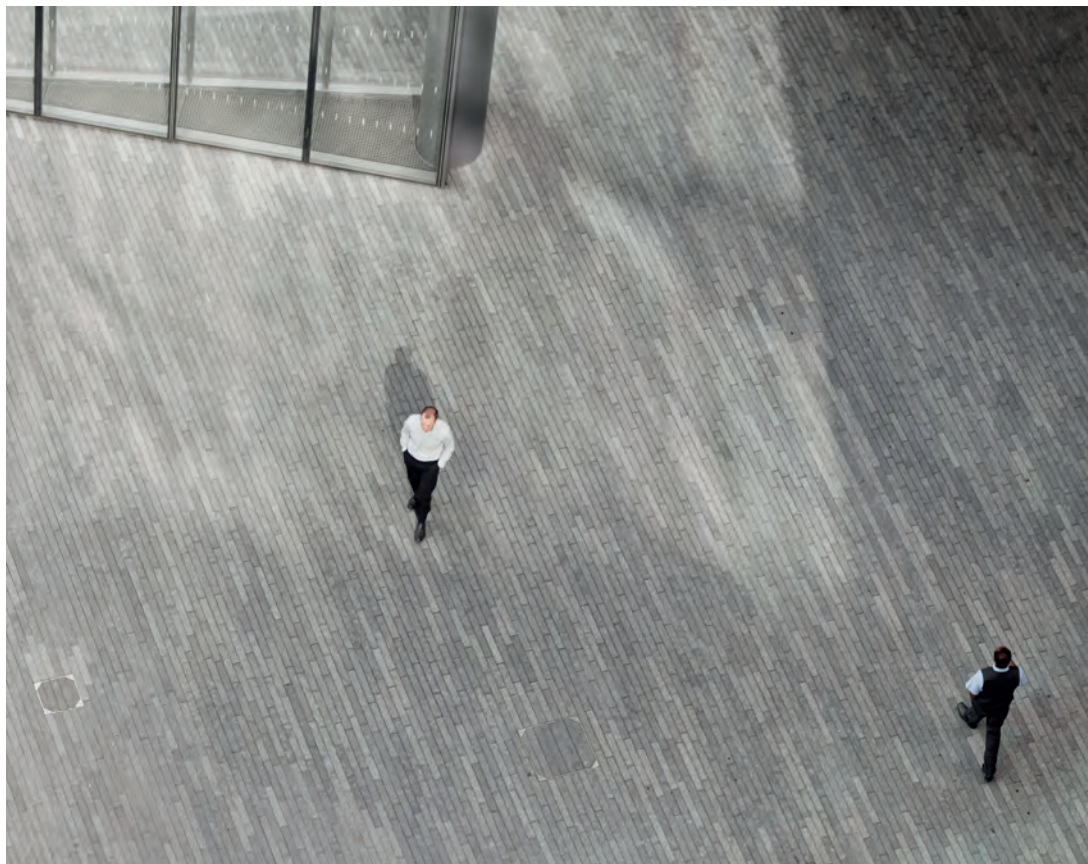
Our firmwide procedures are also subject to an annual review by the FRC and a triennial review by the PCAOB, and any potential issues or recommendations arising from these reviews are carefully considered and action taken in order to address them.

In addition, policies and guidance are reviewed and revised to reflect updates to laws and regulations, 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 at the end of each quarter.

Based on the reviews outlined above, we confirm that we have conducted an internal review of independence practices during the year ended 30 June 2018. Actions are developed to respond to issues identified by our internal review processes or external regulatory inspections.

15 External Monitoring



(a) UK regulators

Each year, the FRC's Audit Quality Review team (AQR) and the ICAEW's Quality Assurance Department (QAD) undertake inspections of the quality of the firm's work as statutory auditors. They also review aspects of the firm's policies and procedures supporting audit quality.

The full scope of independent inspection by the AQR can be found at www.frc.org.uk. The QAD inspects the audits of entities that do not fall within the AQR's scope.

The results of the inspections undertaken by the AQR and QAD are reported to the ICAEW's Audit Registration Committee (ARC). The ARC considered the findings arising from the AQR and QAD inspection reports and confirmed the continuance of the firm's audit registration in their meeting in July 2018.

(i) Audit Quality Inspection Report

The AQR issued its 2017/18 Audit Quality Inspection Report on PwC UK on 18 June 2018. A full copy of the report is available on the FRC website at www.frc.org.uk. The FRC report focuses on the key areas requiring action by the firm to safeguard and enhance audit quality, and is not intended to provide a balanced scorecard of the quality of the firm's audit work.

The AQR review selected aspects of audits, and took into consideration areas identified by the auditor or Audit Committee as an area of heightened risk, their knowledge and experience of audits of similar entities and the significance of an area in the context of the audited financial statements. Areas reviewed on a number of audits included communications with the audit committee, revenue, audit of valuations and impairments, tax and other provisions.

The inspection comprised reviews of 28 (2016/17: 27) individual audit engagements relating to FTSE 100, FTSE 250 and other listed and major public interest entities, and a review of aspects of the firm's policies and procedures supporting audit quality.

The report overview sets out the overall assessment of the firm's performance, including consideration of actions taken in response to prior year findings, and revisions to policies and procedures made in response to the Ethical Standard and Auditing Standards.

The AQR report highlighted the following key findings:

Individual audit reviews

The firm should:

- Further improve the assessment of, and level of challenge regarding, management's estimates and provisions.
- Enhance the involvement of the group audit partner and team members in the direction and supervision of component audits in more unusual circumstances.
- Provide guidance to group audit teams in relation to the approach taken and evidence of work performed on reserves in the extractive industries.
- Require more informative reporting from the firm's internal actuarial experts on the key assumptions underpinning the estimation of company pension scheme liabilities.

Review of firm-wide procedures

- The firm should strengthen its independence systems and procedures relating to personal independence testing, as well as certain other monitoring procedures and non-audit service approach processes.

The AQR have continued to draw out areas of good practice identified during the course of their work. These were:

- Effective use of data analytic techniques in the audit of revenue and journals;
- The quality of the firm's summaries of audit responses to significant risks and related findings;
- The use of, and interaction with, the firm's internal specialists and experts;
- The response to the revised Ethical Standard requirements and certain independence related procedures, including the central independence team's involvement in acceptance and continuance procedures and the guidance issued for gifts and hospitality; and
- The response to the revised Auditing Standard requirements, including the training provided in this area.

Of the 28 audits reviewed in the current cycle, (27 in 2016/17), the AQR concluded that:

- 23 audits (25 in 2016/17) were assessed as 'good or limited improvements required';

- Five audits (Two in 2016/17) were graded as 'improvements required'; and
- No audits (None in 2016/17) had 'significant improvements required'.

For the first time, the AQR analysed the results by entity type, distinguishing between those within the FTSE 350 and other entities. This enabled comparison with progress towards the 90% target they set firms for 2018/19. Of the 19 FTSE350 audits reviewed by the AQR, 16 (84%) were graded good or limited improvements required (90% in 2016/17). The AQR also publish the names of entities whose audits are subject to inspection on their website, with the final list for the 2017/18 inspection published in June 2018.

We have reflected at length on the results of this year's inspection findings. Whilst we are naturally disappointed that the AQR has assessed there to be a reduction in the proportion of audits requiring no more than limited improvements, their assessment over a longer timeframe (the last five years) shows a consistently high quality trend. That broader picture is also consistent with both our own internal review findings as well as with the findings from inspection of our work by other regulators. We set high standards for our audits, and are committed to continual improvement in audit quality.

The AQR have recognised that the firm has continued to develop its process (root cause analysis, or RCA) for identifying the causes of inspection findings. The RCA undertaken identified that team behaviours were a key causal factor. Accordingly, in response, we have continued our focus on engagement team behaviours, including the importance of coaching, supervision and review, documentation clarity and engagement leader led audit planning. In addition we have enhanced the scope of our compliance testing for partners and staff, provided additional training on the new Ethical Standard, and enhanced our compliance confirmation processes.

We have also implemented or planned a number of other changes to either our firmwide controls, or to our engagement specific methodology, as a result of the AQR's inspection results, which we detailed out within the response section of the AQR's public report. For example, we have focused a significant proportion of our 2018 training curriculum on judgements and estimates in response to the findings raised.

During the year, the AQR also completed its thematic reviews into 'Materiality' (December 2017), and 'Audit Firm Culture' (May 2018). These reviews focus on specific aspects of the audit process across all the major audit firms.

The materiality thematic review resulted in the issuance of some reminders to the audit practice, but did not raise any substantive issues with our methodology. However, the Culture thematic review, as well as wider pressures currently faced by the audit profession, has led us to engage with our people and wider stakeholders on the importance of audit, and to promote the value of the audit and the pride our people have in the work we do. Hemione Hudson, our Head of Assurance, has discussed this in more detail in her foreword to this report.

The AQR is currently in the process of conducting two further thematic reviews, into the 'Auditors' responsibilities relating to other information' and 'Transparency Reporting'. We expect a third review into 'Audit Quality Indicators' to commence during the latter part of 2018.

We will continue to use the output of these thematic reviews to enhance our policies and procedures supporting audit quality.

(ii) QAD inspection

The QAD provides us with a confidential report summarising their findings. This report is not publicly available. In summary, the QAD concluded that overall, the audit work was of a good standard, with seven files satisfactory and three generally acceptable. The QAD identified some isolated issues on two files which led them to conclude that one file needed significant improvement and the other file needed improvement. These quality gradings were not as strong as those received in 2016.

Of the 12 (FY17: 13) audit files reviewed:

- Seven (FY17: eleven) were assessed as satisfactory with a small number of documentation matters identified;
- Three files (FY17: two) were assessed as generally acceptable, with documentation improvements required in respect of: the linkage between deferred tax assets and going concern on one file; accounts receivable recovery on the second; and the revenue recognition accounting policy on the third;
- One file (FY17: None) required improvements in the recording of work performed by another audit firm and in respect of audit testing around the geographical split of income; and

- One file (FY17: None) required significant improvement in the disclosures in the statutory accounts relating to the potential impact of an ongoing VAT case.

Aside from the matter in respect of disclosures above, the financial statements reviewed were generally of a good standard, although minor disclosure points were identified on six audits. The QAD also noted some areas for more minor improvement on all twelve files, most of which were documentation issues.

The QAD were also satisfied that the firm's action in response to a thematic finding in knowledge of the client, systems and controls, and the risk of undisclosed related parties. Whilst some minor matters continued to be raised in respect of both these areas, the actions the firm had taken appear to be effective.

(iii) Other UK regulators

Public Sector Audit Appointments Limited (PSAA)

PSAA is currently responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims. PSAA monitors the performance of appointed auditors annually and publishes the results of its monitoring. PwC UK did not conduct any audits under the PSAA regime in the current period.

NHS Improvement

NHS Improvement (formerly Monitor) is the regulator of NHS Foundation Trusts. Annually, NHS Improvement requests that QAD review a sample of audits for NHS Foundation Trusts.

The QAD reports the results of its reviews privately to NHS Improvement. NHS Improvement writes to each engagement leader reviewed to inform him/her of the outcome. NHS Improvement also writes to the NHS Foundation Trust to inform it of the outcome and it requests that the Chair of the Board ensures the results are shared with the Council of Governors, as the body responsible for appointing the external auditor. The latest audits reviewed were for the year ended 31 March 2017.

One of our NHS Foundation Trust audits for that year was reviewed. NHS Improvement advised the engagement leader and the Trust that there were no significant issues arising from the QAD's review that it wished to raise.

(iv) Other UK regulatory bodies with which we have interactions

As statutory auditors we engage in ongoing dialogue with regulators of our clients. For example, many audit teams meet with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) on a regular basis. We also have a duty to report to the PRA and FCA in respect of matters set out in the Financial Services and Markets Act 2000 (communications by Auditors) Regulations 2001 and to report to the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for Northern Ireland matters required by applicable charities legislation.

All of our actuaries are required to comply with ethical standards set and maintained by the Institute and Faculty of Actuaries (IFoA). In addition, the FRC is responsible for setting technical actuarial standards (TASs), and requires actuaries to comply with the TASs for various types of actuarial work.

We also believe that it is normally appropriate to apply the requirements of the TASs to other work conducted by actuaries. We regularly respond to consultations issued by the IFoA, FRC, PRA and other regulators. We play a full role in the governance of the actuarial profession, with many of our actuaries sitting on boards, committees and working parties of the IFoA.

We also engage with the PRA and FCA through other roles including reporting as a skilled person under s166 of the Financial Services and Markets Act 2000 and Client Asset/Client Money reporting, as set out in the FCA's Supervision Manual.

Additionally, PwC LLP is authorised and regulated by the FCA for designated investment business and consumer credit-related activity; details of our status can be viewed on the FCA website under firm reference number 221411.

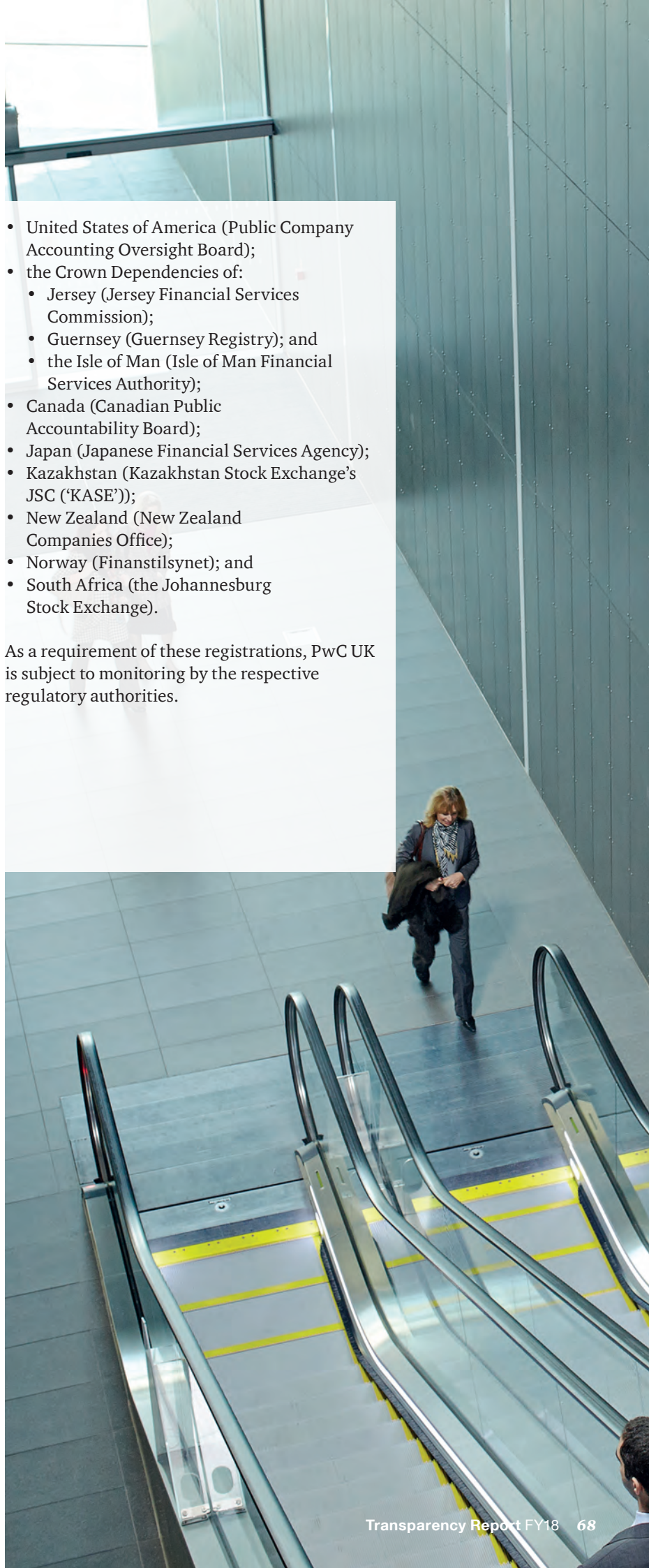
We also work with our clients to enable them to assist the Corporate Reporting Review team of the FRC in their work monitoring public company reporting.

b) Overseas regulators

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

- United States of America (Public Company Accounting Oversight Board);
- the Crown Dependencies of:
 - Jersey (Jersey Financial Services Commission);
 - Guernsey (Guernsey Registry); and
 - the Isle of Man (Isle of Man Financial Services Authority);
- Canada (Canadian Public Accountability Board);
- Japan (Japanese Financial Services Agency);
- Kazakhstan (Kazakhstan Stock Exchange's JSC ('KASE'));
- New Zealand (New Zealand Companies Office);
- Norway (Finanstilsynet); and
- South Africa (the Johannesburg Stock Exchange).

As a requirement of these registrations, PwC UK is subject to monitoring by the respective regulatory authorities.



(i) Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board ('PCAOB') is the regulator for the audits of public companies with securities listed in the US. Engagements covered by the scope of the PCAOB inspection include any US registrant including Foreign Private Issuers ('FPIs') as well as UK components of groups listed in the US.

As we disclosed in the 2017 Transparency Report, the PCAOB, in cooperation with the AQR, inspected PwC UK in 2017 and reviewed the audit files of two FPI engagements and one UK component of a US listed engagement together with the firm's related quality control procedures. The PCAOB has yet to publish its final report in respect of its 2017 inspection of PwC UK. The most recent PCAOB report, which was in respect of the 2014 inspection of PwC UK, was published in August 2015.

The 2014 inspection of PwC UK did not identify any audit performance issues that, in the inspection team's view, resulted in the firm failing to obtain sufficient appropriate audit evidence to support its opinion on the issuer's financial statements, or internal control over financial reporting, or to fulfil the objectives of its role in the other engagement.

In addition to evaluating the quality of the audit work performed on specific audit engagements, the inspection included review of certain of the firm's practices, policies, and procedures related to audit quality. The inspection team did not identify anything during its quality control review that it considered to be a quality control defect that warranted a discussion in a Board inspection report. A full copy of the report in respect of the 2014 inspection of PwC UK can be found in the "Firm inspection reports" section of the PCAOB's website, <https://pcaobus.org/>.

(ii) The Crown Dependencies

Under arrangements with the relevant regulatory authorities in the Crown Dependencies, the AQR undertakes the review of relevant audits performed by PwC UK of the financial statements of certain entities registered in the Crown Dependencies. In their 2017/18 inspection of PwC UK, no such audits were reviewed by the AQR.

(ii) Canadian Public Accountability Board

The Canadian Public Accountability Board (CPAB) is the regulator for the audits of reporting issuers in Canada. CPAB inspected PwC UK in 2017 and reviewed one audit. CPAB provided us with a confidential report summarising their findings. This report is not publically available.

c) 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 use PwC global methodology to undertake a root cause analysis (RCA) on each external inspection to establish the underlying reasons why findings have arisen which helps inform the development of our action plans to address those findings, together with a clear time frame for their resolution, and appoint specific named individuals to be responsible for making sure that those actions are achieved.

We consider the RCA findings from the external inspections alongside the internal review RCA to consider whether further correlations or information are present against which actions should be developed.

The agreed action plans typically involve the inclusion of specific technical training and behavioural expectations in mandatory training events and revisions to the firm's guidance. The Head of Assurance, the Assurance Risk and Quality Leader and other partners responsible for the regulatory process within the firm, monitor progress against agreed action plans on a regular basis. The firm's Public Interest Body is kept apprised of progress against the action plan periodically via the Assurance Leader's Quality Update.



The quality of our audits is of paramount importance, yet audit quality remains difficult to define and measure since it is driven by many different factors. However, understanding what audit quality means to us, the profession, our clients and the investment community enables us to focus on and continually work to improve it. It also enables regulators to focus their supervisory efforts on these important areas and audit firms to compete increasingly on the basis of audit quality.

Three years ago, the Policy and Reputation Group (PRG), a group with representatives from the 6 largest audit firms and professional bodies in the UK, agreed a number of factors that contribute to audit quality and determined a set of metrics that each firm would report against annually to enable observers to assess the results of each firm and make comparisons between them. Our results for the year ended 30 June 2018 are set out below. Feedback on the usefulness of these metrics and opportunities to further enhance them would be welcome as we continue to develop our assessment and measurement of audit quality.

Partner and staff survey

The PRG identified three people-related areas which could contribute to audit quality, the measurement of which is intended to be done through staff feedback surveys. The suggested survey questions are:

1. I am encouraged to perform a high quality audit;
2. I receive enough training and development to enable me to deliver quality audits; and
3. I have sufficient time and resource to deliver quality audits.

The questions are applicable across all lines of service and the results feed into our global reporting on people engagement. Items focus primarily around drivers of engagement, alignment to PwC's values & behaviours and measuring Vision 2020 progress. The People Engagement Index reported in our annual report is based on an index of four items.

Respondents are able to score on a scale of 1-5 where 1= strongly disagree; 2=disagree; 3=neither agree nor disagree; 4=agree; and 5= strongly agree.



Results are reported on a percent favourable basis which is the percent of responses that are a 4 or 5 (Agree and Strongly Agree) – the higher the value, the more favourable the result.

To meet PRG requirements on reporting audit quality, information is provided for these questions, the results of which are provided in respect of the UK Assurance line of service.

We take the workloads of our partners and staff very seriously and recognise the issues highlighted by the responses to the question in relation to sufficiency of time and resources below. While we are disappointed with the reduction in the score in relation to “I have sufficient time and resources to do my work” and are continuing to look closely at the factors impacting this score and are already taking steps to address those issues. For example, a programme has been running within Assurance designed to redistribute headcount capacity from areas with over-supply to areas with recruitment needs.

We also have a Flexible Associate programme which provides contingent capacity to Assurance should an unexpected need occur, and phase the start of our Flying Start graduate programme to provide capacity at our time of peak demand.

Future headcount is reviewed each month against budget with the objective to ensure that sufficient recruitment is in place to meet the forecasted headcount and demands from the volume of client work ahead. Regular reviews also take place of forecast chargeable hours with the objective being to balance workload levels across Assurance more evenly.

Assurance has been promoting guidance on how to run and project manage engagements, in a quality way, with greater efficiency. This guidance has been highlighted through the annual external audit training, through weekly communications and through specific in-depth client team reviews.

We are pleased to see that partners and staff continue to prioritise the delivery of quality work to our clients, as reflected in the high score for “the leaders I work with encourage me to deliver high quality services” below.

Constituent items of the People Engagement Index for the Assurance line of service



The leaders I work with encourage me to deliver high quality services



The learning and development I receive from PwC (including on the job development, self study and e-learns) has prepared me for the work I do



I have sufficient time and resources to do my work



The leaders I work with act with integrity



External investigations

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

In the year to 30 June 2018 there were two cases (2017: two) found against the firm by the Enforcement division of the FRC.

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

In the year to 30 June 2018 there were no cases (2017: nil) found against the firm by the Audit Registration Committee of the ICAEW. In the year to 30 June 2018 two individuals consented to severe reprimands, fines and costs orders made by the Investigation Committee of the ICAEW. In a separate matter the Investigation Committee made a formal, unpublicised caution in January 2018 against a former employee who had been dismissed by the firm for gross misconduct in March 2016.

We have a number of ongoing regulatory investigations as set out on page 54 and we are assisting our regulators with their enquiries. Whatever the results of these cases, we ensure that our partners and staff reflect on the lessons learned from each situation – refer to section 9(f) for further information on lessons learned.

Engagement performance – internal and external

Further information in relation to audit quality reviews conducted both by the firm and its regulators is available in section 9 of this report.



Investment

We take our responsibilities to provide Assurance services very seriously and are committed to continuing to invest in our Assurance practice. The investment we make in training our people, and in assurance research and development, is substantial, and is reflected in the profitability figures set out on page 78.

Training activity in Assurance

We present calendar year training information within this report to mirror the training approach we have in place in Assurance. Our training curriculum runs from January to December to fit with the typical audit cycle and the majority of our training is delivered over the summer months.

The figures in the table below are for the calendar year ended 31 December 2017.

2017	2016	Metric	Explanation for variance
23 hours per person	22 hours per person	The minimum structured training hours provided to qualified partners and staff within the annual mandatory audit, accounting and compliance update programme.	This increase is due to the release of updated independence training required for all qualified staff.
23–121 hours per person	22–112 hours per person	The range of possible structured mandatory training hours required by qualified partners and staff engaged in audits based on their grade, experience and role (defined by their learner profile responses).	The higher end of the range of hours increased in 2017 due to: <ul style="list-style-type: none"> the increase in the amount of independence training, the introduction of further mandatory training for practitioners working on specific industry audits and the extent of that industry annual update training required in 2017, and additional training for our Director population, alongside our Partners, on areas of regulatory interest and current topical matters.
79 hours per person	101 hours per person	The average time charged to training time codes by qualified partners and staff during the calendar year, including mandatory and elective training.	Given the variety of learning needs of our practitioners, movements year-on-year of total hours charged to training are expected. Contributors to this year's movement include: <ul style="list-style-type: none"> Recruitment of fewer external hires to external audit. External hires typically complete a significant amount of training on joining the firm. A reduction in time spent on US training. New US training was introduced in 2016 – many individuals were required to undertake foundation US training in 2016 as well as update training. In 2017 these same individuals attended update training only. The 2017 update training was also shorter than the 2016 training.
1.40 million hours	1.60 million hours	The total number of hours charged to training time codes by all partners and staff in Assurance during the year, including exam training for staff under training contracts.	As above, variances are expected year on year. The contributors to the overall decrease in total hours charged to training codes include: <ul style="list-style-type: none"> A 3% overall decrease in client facing Assurance practitioners in 2017 compared to 2016, Fewer graduates recruited in 2017 than in 2016, driving a 6% reduction in hours spent on Professional Qualifications.



Investment in Research and Development in Assurance

The PwC network invests heavily in the development of our Assurance products, which include Aura, Connect and Halo.

We continue to make significant progress on the creation, development and implementation of pioneering technology that is changing the way we deliver our audits, and is also helping us to further improve audit quality, insight and efficiency.

Aura is our global ERP system, which is mandated for every audit engagement team globally. We continue to improve and build on the Aura tool to enhance the digital experience for our users across the network.

Connect has been expanded to facilitate internal and external collaboration to address the needs of our most complex global clients and teams. The combined suite is used by over 450,000 PwC people and client staff members globally, driving efficient and effective sharing of information.

Halo is our award-winning, data auditing technology. It harnesses the power of data by testing and visualising huge volumes of business-critical data, analysing whole populations, improving risk assessment, analysis and testing and unlocking a wealth of insight. It drives audit quality in the following ways:

- With Halo, all transactions can be interrogated, tested and analysed throughout the year. This increases the quality of testing and helps us better assess risk and focus on the things that really matter;
- Halo is designed to work on any information from any system. This not only makes Halo accessible to all of our clients, it also drives our ability to benchmark and provide insight; and
- Halo's in-built algorithms and visualisations help our teams better understand our clients' businesses and provide meaningful insights.

Our technology investment is focused on digitising our business. Increased use of automation is a key component of our digital journey and its associated standardisation also enhances audit quality. Count and PwC's Confirmation System automate previous manual activity in relation to inventory counts and third party confirmations. We have also invested heavily in standardised data acquisition and automation of data handling, building a platform on which to grow and extend the use of Halo efficiently.

Investment community engagement

We have a dedicated investor engagement team who works with shareholders and other members of the investment community, ranging from asset managers, analysts, corporate governance and stewardship professionals and credit ratings agencies. Through this engagement we are able to get their views on a range of reporting, business and assurance matters, including the role of the audit profession, to ensure that we understand the needs and expectations of this important stakeholder group.

Our engagement with the investment community focuses primarily on the reporting, regulatory and governance issues facing UK companies and the audit profession. This year we've had an increasing level of engagement on the audit of the future using artificial intelligence and data analytics, macro trends such as cyber security and sustainability and accounting matters related to new standards and pensions. By understanding investors' and analysts' questions about these reporting and governance areas, and the resulting assurance aspects, we are able to help engagement teams, executives and non-executives respond better to shareholder needs.

Some highlights of our investor engagement team's work this year include the following:

2018 survey comparing investor and CEO views

In March 2018, we published "The anxious optimist in the City", our 3rd UK investor survey. The survey compares the views of 348 investment professionals from around the world who invest in or follow UK-based companies to those of UK CEOs. Both groups were asked about their views on global growth, threats to business, trust and the challenges of globalisation and disruption, particularly technology and automation. The survey results identified a number of areas in which the two groups could work to understand each other better through company communication and investors' engagement with companies. This survey was part of the global investor survey, companion to the 21st global CEO survey.

Investor survey on corporate reporting

In November 2017, we published the results of a survey of 275 UK investment professionals' views on the quality and their preferred frequency of corporate reporting. A global survey and other regional summaries, as well as sector specific analyses, were also published.

Resources on implementation of new accounting standards

We published a short document for our corporate clients summarising investors' and analysts' views on good communication practices as they prepare to transition from IAS 17 Leases to IFRS 16 Leases in 2019. We also published an article and podcast about investor expectations on what companies should be communicating as they implement new accounting standards over the next few years.

3rd annual PwC Investor Update event

We held our annual half day educational event for shareholders and analysts in September 2017 with sessions including IFRS 15 Revenue from contracts with customers, the audit of the future and the use of data analytics, auditor independence and managing conflicts of interest, audit quality and professional scepticism, and a keynote speech on disruption and big data.

Training partners on investor views

We recorded an interview with 3 members of the investment community who gave their views on annual reports, preliminary announcements, the auditor's report and alternative performance measures. The video has been part of the training for audit partners of higher profile clients.



Continued dialogue between shareholders, investors, analysts and senior partners in audit and other lines of service

We met with shareholders and analysts across a number of sector specialisms through one-on-one meetings, roundtables and workshops to discuss various topics, including:

- the reporting implications of new accounting standards;
- proposed changes to the UK Corporate Governance Code;
- the audit process, particularly with respect to the application of judgement;
- pensions accounting and the impact on distributable reserves;
- governance of cyber security matters within companies;
- the impact of artificial intelligence on monitoring company performance; and
- the impact of climate change on financial and other reporting.

This year we also increased our engagement with individual shareholders, where in the past it has been predominantly with institutional

investors. We have done this through engagement and meetings with representatives of the UK Shareholders' Association and the UK Individual Shareholders Society (ShareSoc) to discuss their views and expectations on company reporting and audit matters.

In February 2018, our Public Interest Body met with the Company Reporting and Auditing Group (CRAG), a group of investors in UK companies drawing on members of The Investment Association and the Pensions and Lifetime Savings Association. Topics discussed included audit quality, audit tendering and fees, independence and perceived conflicts of interest, audit partner incentive schemes and audit innovation.

We continue to participate in the Global Auditor Investor Dialogue, which is an informal forum comprising major global auditing networks and global institutional investors.

PwC continues to provide secretariat support to the Corporate Reporting Users' Forum (CRUF) in the UK and across their global network.

17 *EU Public interest entities*

EU Public interest entities

In Appendix 5 we include a list of EU public interest entities (as defined in EU Directive 2014/56/EU) for which we carried out statutory audits between 1 July 2017 and 30 June 2018.



Consolidated financial information

The following information is extracted from the consolidated financial statements of PwC UK for the year ended 30 June 2018:

- consolidated profit for the financial year before members' profit share was £935m (FY17: £822m); and
- consolidated profit available for division among members was £818m (FY17: £717m).

A commentary on the firm's performance, position and prospects can be found in our digital annual report at www.pwcannualreport.co.uk, and which forms part of this Transparency Report.

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 2018, which shows the relative importance of UK-related statutory audit work, is shown below:

	FY18 £m	FY17 £m
Statutory audits and directly related services for audit clients (EU PIE and subsidiaries of EU PIE) ¹	365	387
Statutory audits and directly related services for audit clients (other entities)	308	289
Statutory audits and directly related services for audit clients	673	676
Non-audit services to audit clients ²	273	351
Services to audit clients	946	1,027
Services to clients we do not audit	2,164	1,975
UK firm revenue	3,110	3,002
Revenue from non-UK subsidiary undertakings	654	596
Group revenue	3,764	3,598
Revenues from statutory audits and directly related services for audit clients as a percentage of UK firm revenue	22%	23%

1 If an entity met the definition of an EU PIE (or a subsidiary of) as at 30 June 2018 we have included related revenues in this category.

2 Typical non-audit services provided to audit clients include some of the services listed in the line of service descriptions in Appendix 1 and are only provided to audit clients where permitted by the FRC Ethical Standard and PwC Network and PwC UK policies.

Audit profitability

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

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

	FY18 £m	FY17 £m
Revenue	673	676
Operating profit*	119	106

* Operating profit excludes gain on disposal of property.

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; and
- operating profit for the reportable segment is calculated based on direct costs, including staff costs associated with engagements falling within the segment and training, together with an allocation of firmwide overheads, such as property and IT costs.

These costs are allocated on a pro rata basis, based primarily on the headcount or revenues of the relevant business segment. 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.

19 *Remuneration of partners and Independent Non-Executives*

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

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

The expectations of audit partners are set out in section 8, and audit quality forms a key part of the partner performance appraisal process.

In addition, the Assurance Risk & Quality partners input into the assessment of performance in respect of risk and quality matters for the audit partners in their teams and the Assurance Risk & Quality partners are involved in the remuneration discussions for audit partners 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 and, as applicable, the Senior Management Remuneration Group, once performance has been assessed and the annual financial statements have been approved. The Supervisory Board approves the process and oversees its application.

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

- Performance income – reflecting how a partner and their team(s) have performed (FY18: 38%, FY17: 38%); and
- Responsibility and equity unit income – reflecting the partner's role and contribution ('responsibility income') and the firm's overall profitability ('equity unit income') (FY18: 62%, FY17: 62%)

Each partner's performance income, which in the year ended 30 June 2018 represented on average approximately 38% of their profit share

(FY17:38%), is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the partner's role. These objectives take account of our public interest responsibilities by ensuring 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. The Assurance Accountability Framework also seeks to reward good quality audit work delivered by engagement leaders.

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

Drawings

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

Tax

Our distributable profit per partner is calculated on a pre-tax basis and the taxes borne individually by our partners include both income tax as well as corporation tax on subsidiary profits. The total tax charged in respect of partners' distributable profits represents approximately 48% (2017: 48%) of distributable income.

Independent Non-Executives

Our INEs are paid an annual fee of £100,000 for their services. The chair of the PIB receives an additional £20,000.

Appendices



1

Appendix 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:

	FY18	FY17
PwC UK partners	887	917
Partners on secondment overseas	28	36
	915	953

(b) UK office structure

During the year to 30 June 2018, we consolidated our presence into fewer, larger regional offices, so we can work together in

different and more effective ways, which saw us move teams from Swansea, Plymouth, Sheffield, Liverpool, Norwich and Dungannon into other existing PwC locations. PwC UK now operates out of 22 (FY17: 28) offices throughout the United Kingdom – a full list can be found at www.pwc.co.uk.

c) Related firms, entities and investments

Set out below are details of PwC UK's related firms, interests and investments. Further details can be found in the PwC Financial Statements 2018 which can be found at www.pwcannualreport.co.uk.

(i) Subsidiary undertakings

PwC UK's trading subsidiary undertakings located in the United Kingdom are shown in the table below. A full list of all subsidiary undertakings is shown in the PwC Financial Statements 2018. All entities listed in the table are 100% owned.

UK registered trading subsidiary undertakings	Country of Incorporation
Companies	
Beyond Food Community Interest Company	England
PricewaterhouseCoopers Assurance UK Limited	Scotland
PricewaterhouseCoopers Services Limited	England
PricewaterhouseCoopers Advisory Services Limited	England
PricewaterhouseCoopers Overseas Limited	England
PricewaterhouseCoopers Consulting Services UK Limited	England
PRPi Consulting Limited	England
PwC Change Management Limited	England
PwC Consulting Associates Limited	England
PwC Digital Services (UK) Limited	England
PwC Holdings (UK) Limited	England
PwC Strategy& (UK) Ltd	England
PwC Tax Information Reporting Limited	England
Limited Liability Partnerships	
PricewaterhouseCoopers CI LLP	England
PricewaterhouseCoopers Legal Middle East LLP	England

The non-controlling interest in profits and capital attributable to the members of PricewaterhouseCoopers Legal LLP (for the period until it became a multi-disciplinary practice and the business was transferred to PwC UK) and PricewaterhouseCoopers CI LLP are shown as non-controlling interests in the PwC Financial Statements 2018

Following the Solicitors Regulation Authority's approval of a multi-disciplinary practice license, PricewaterhouseCoopers Legal LLP transferred its business to PwC UK on 1 October 2016. From that date, the non-controlling interest members of PwC Legal became members of the LLP.

(ii) Jointly controlled entities and associates

The Group held interests in five significant jointly controlled entities and associates at 30 June 2018:

- Bolt Partners Limited, which offers mobile applications for healthcare organisations;
- Skyval Holdings LLP, which develops, maintains and licenses pension-related software;
- PricewaterhouseCoopers Mobility Technology Services LLC, which offers international mobility services;
- PricewaterhouseCoopers Service Delivery Centre Holdings (Katowice) B.V., which provides shared services for PwC Network firms; and
- PwC Poland Services Limited, which offers specialised cloud-based solutions and transformational services.

Subsequent to the year-end, the Group disposed of its interest in Skyval Holdings LLP.

(iii) Other investments

PwC UK also holds a number of investments, including repayable interest-bearing preference shares issued by PwC Poland Services Limited, preference shares issued by the PwC Central and Eastern European and PwC Central and Southern Africa firms as part of a strategic investment plan, and repayable interest-bearing subordinated loan notes from entities in the PwC global network. Further details are provided in the PwC UK Financial Statements 2018.

(d) Principal lines of business

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

Programmes to develop expertise and to share knowledge in all key industries are also in place.



Assurance

Audit, regulatory and other similar assurance: Statutory and non-statutory audit, financial accounting, corporate reporting, compliance with new and existing regulations and remediation, risk and regulatory monitoring and listings and assurance on non-financial information.

Risk assurance: Technology Risk, data and analytics assurance, cyber security, governance, risk and compliance (GRC), commercial assurance, performance assurance, treasury and commodity services and internal audit.

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

Capital Markets, Accounting Advisory and Structuring Services: Assurance on capital market transactions and listings, raising debt or equity capital, accounting advisory, GAAP conversions, structuring services, equity advisory and navigating deals and mitigating risk.

Tax

Tax: Corporate tax advisory, tax on transactions, transfer pricing, corporate and international tax, finance and treasury, indirect taxes, property taxes, tax management and accounting services, dispute resolution, corporate tax compliance and outsourcing, private business tax advisory, personal tax advisory and compliance, tax valuations, sustainability and climate change taxes, tax risk and strategy, tax disclosures, tax transparency, value chain transformation, investment advisory, incentives, grants and reliefs, operational tax services (financial services).

People and Organisation: Providing solutions to people related challenges across performance and employment, Global Mobility Services, pensions and workforce benefits, people services including HR transaction/deals advice, people analytics and benchmarking, HR technology and HR transformation.

Legal: Corporate law, International Business Reorganisations, M&A, banking and finance, employment and pensions law, real estate advice, immigration law, intellectual property law, sourcing, technology and intellectual property law, general commercial and contractual law, tax, commercial and regulatory dispute resolution, financial services regulatory law, cyber security and data protection law, government and public sector law, managed legal services, legal function consulting and legal entity management and governance advice.



Consulting

Consulting, including delivering deal value:

Combines industry and functional expertise to help our clients address complex business issues from strategy through to execution, with specialists in strategy (including Strategy&), operations, finance, people and change, risk, portfolio and programme management, and technology consulting. Delivering deal value has dedicated specialists with backgrounds of working in and alongside the deals channel with specific insight and delivery capabilities in i) carve out / separation activities (vendor assistance, sell-side vendor due diligence, buy-side diligence), ii) operational due diligence (buy-side and sell-side vendor due diligence), iii) M&A integration, and iv) rapid value creation pre or post deal.

Sustainability and climate change:

Specialists in sustainable development; total impact measurement and management; climate policy, risk modelling and disclosures; low carbon transition; green finance and investment; deforestation, natural resources and ethical supply chain; smart cities and urbanisation; technology for good; and responsible business.

PwC Research: Providers of Consumer, Business and Employee research, data and insight services that help our clients develop strategy, drive performance improvement and support change.

Deals

Transaction services: Buy and sell-side financial 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, infrastructure finance advisory, public to private transactions and public company advisory.

Business recovery services: Financial and operational restructuring, debt and capital advisory, working capital management, corporate insolvency, independent business reviews, chief restructuring officers, interim leadership (PwC UK's turnaround panel), optimised exits and corporate simplification, accelerated mergers and acquisitions, Insurance Liability Restructuring and Pension Liability Restructuring and distressed property advisory.

Forensic services: Disputes including commercial litigation and international arbitration, transaction and shareholder disputes, expert determination and early neutral evaluation, construction and insurance claims and eDisclosure; investigations including asset tracing, anti-money laundering, financial crime, fraud and corruption, ethics and integrity consulting, anti-trust, royalty examinations and warranty compliance; and forensic advisory including contract and project risk, capital projects reviews and delivery, financial crime risk, monitoring and regulatory compliance, fraud prevention, project delay analysis, litigation readiness, revenue leakage, forensic technology, data analytics, cyber response and contract governance and compliance.

2

Appendix 2



The Management Board

The following partners are all members of the Management Board. Those with an (E) next to their names are also members of the Executive Board. Those with (CME) next to their name are members of the Clients and Markets Executive.

1 Kevin Ellis (E)

Chairman and Senior Partner

Kevin joined the UK firm's Executive Board in 2008 as Head of Advisory, and was made Managing Partner in 2012. Kevin was elected as Chairman and Senior Partner of the UK and Middle East alliance in 2016. He joined the firm in 1984 on the graduate training programme and qualified as a chartered accountant (ICAEW). Kevin specialised in providing turnaround and crisis management support to businesses in the public and private sectors for over 25 years.

2 Marco Amitrano (CME)

Head of Consulting

Marco is PwC's UK Head of Consulting and was previously PwC's Global and UK Risk Assurance Services Leader. He has 26 years of international experience in Advisory and Assurance services, serving major clients in the UK and around the world across a range of industries, including technology, engineering and consumer products.

Marco is a Chartered Accountant with the Institute of Chartered Accountants in England and Wales and has also served on the board of British American Business. Prior to joining PwC, he qualified with a Masters degree in Electrical and Electronic Engineering at the University of Newcastle-upon-Tyne and is a graduate of Columbia Business School in New York.

3 Jon Andrews (E)

Head of Technology and Investment

Jon graduated from the University of Nottingham with a Psychology degree and he joined the firm as a partner in 2007 from Accenture. Prior to joining the Executive Board in 2016 he headed up our People and Organisation Network in the UK and globally. He has worked with clients across several industry sectors including high tech, FMCG, financial services, government and pharmaceuticals and has spent time working and living abroad in Kuala Lumpur and Zurich.

4 Kevin Burrowes (CME) (E)

Head of Clients and Markets

Kevin is responsible for Clients and Markets. He is also the Global Relationship Partner for a global bank. Previous roles include the Global Banking & Capital Markets Leader and Financial Services Leader in the UK. During his career he has primarily focused on advising, leading and delivering projects for Investment Banks across a broad agenda from strategy to process efficiency, Front Office to HR, globally and locally. His clients have included JP Morgan, RBS, UBS, Deutsche Bank, Barclays, HSBC and HM Government. He has previously worked at IBM, Credit Suisse and The Royal Bank of Scotland and has been based in London, New York and Frankfurt. He is a member of the Institute of Chartered Accountants in England and Wales.

5 Margaret Cole (E)

Chief Risk Officer and General Counsel

Margaret is the UK Firm's Chief Risk Officer and General Counsel. Prior to joining PwC, Margaret was Managing Director of Enforcement and Financial Crime and a Board member of the FSA. Margaret has over 20 years' experience in private practice, specialising in commercial litigation with an emphasis on financial services. She has formerly been a partner at Stephenson Harwood and White & Case. She is a Trustee of the Institute for Fiscal Studies and graduated from Cambridge with a degree in law.

6 Laura Hinton (E)

Head of People

Laura graduated from King's College, London with a Business Management degree. She trained in audit prior to moving into HR Consulting where she set up and led a mid-tier practice. She joined PwC in 2005 and made partner in 2006. Before joining the Executive Board, Laura was a member of the Tax Leadership Team as Head of People. She continues to work with global clients to support them with culture change, performance management and talent related challenges.

7 Hemione Hudson (CME)

Head of Assurance

Hemione graduated from Durham University with a Psychology degree. She joined PwC in 1995 and became a partner in 2007. Hemione has over 20 years of experience working in Assurance. She specialises in auditing and advising clients in the banking and capital markets sectors. She previously spent two years supporting the UK Chairman and Senior Partner with responsibilities including leading the UK strategy team.

8 Warwick Hunt (E)

Chief Operating Officer and Managing Partner International

Warwick graduated from the University of the Witwatersrand in Johannesburg with a Bachelor of Accountancy (with honours), in addition to holding FCA (Australia and New Zealand), ACA (ICAEW) and CA (SA) designations. He is responsible for the leadership of the UK firm's Finance and Operations functions and chairs the Management Board's International Committee and Partner Matters Committee. Before joining the Executive Board in October 2013, he completed a four year term as PwC Middle East Senior Partner. Prior to that he was a partner in PwC New Zealand where he led the firm as Territory Senior Partner and Chief Executive Officer from 2003 to 2009. Warwick, in addition to his management responsibilities, leads the provision of services to a range of clients.



9 Kevin Nicholson (CME)

Head of Tax

Kevin graduated from Newcastle Polytechnic with a degree in English and History. He joined the firm in 1991 and became a partner in 2000. He has spent time in the North East, New York and Hong Kong. He joined the Executive Board in 2008 as Head of Regions, and before that he headed our Entrepreneurs and Private Clients division.

10 Dan Schwarzmann (CME)

Head of Market Initiatives and Industries

Dan has a Masters degree in Business Administration from City University and became a Partner in 1998. In July 2016 he became Head of Market Initiatives & Industries on the Clients & Markets Executive. From 2014 to 2016 he was a member of the Executive Board and before then was responsible for the Business Recovery Services team for six years.

Dan has been involved in company restructurings and insolvency work since 1990. During this time he has particularly focused on the Financial Services sector and has acted on a significant number of high profile companies, including various Lehman entities in the UK and overseas.

Dan is a member of the Association of Business Recovery Professionals, the Institute of Chartered Accountants in England and Wales and also the International Association of Insurance Receivers.

11 Paul Terrington (CME)

Head of Regions

Paul holds an LLB (Hons) degree in Law from University of Reading and a Postgraduate Diploma in HR Management from University of Ulster.

Paul is a Partner in our Consulting business and has been Regional Chairman of PwC in Northern Ireland for the past 6 years. He has led the establishment and growth of our Belfast office as an innovation, technology and service delivery hub for the firm in the UK and globally and it is now our largest office outside London.

Paul has a client-facing background in large scale transformation programmes across government and organisational governance and change across private businesses.

He is a member of the Council of the Institute of Directors in the UK and immediate past the Chair of Institute of Directors in Northern Ireland.

He is current Chair of the Ulster Rugby Management Committee and of the NI Hospice capital appeal fund.

12 Marissa Thomas (CME)

Head of Deals

Marissa is the UK Firm's Deals Leader, and has over 21 years' experience of advising private equity, sovereign investors and large corporate clients on deal structures and various aspects of fund manager set-up and ongoing operation (including deal and fund structuring advice, viability assessment of establishing investment platforms and implementation of such platforms and operations).

Marissa previously led the PwC UK private equity and sovereign wealth / investment fund business, and was the Clients and Markets Leader for Tax. As UK Deals Leader, Marissa leads and is responsible for our Transaction Services, Corporate Finance, Forensics and Restructuring businesses.

Management Board FY18 Meeting Attendance

	Length of service (years)	A	B
Kevin Ellis	1	9	9
Marco Amitrano	1	9	9
Jon Andrews	1	9	8
Kevin Burrowes	1	9	9
Margaret Cole	1	9	6
Laura Hinton	1	9	9
Hemione Hudson	1	9	6
Warwick Hunt	1	9	9
Kevin Nicholson	1	9	7
Dan Schwarzmann	1	9	8
Paul Terrington	1	9	8
Marissa Thomas	1	9	7

A = Maximum number of formal meetings which could have been attended.

B = Number of meetings actually attended.



The Supervisory Board

The following partners are all members of the Supervisory Board.

1 Anne Simpson – Chair

Anne became Chair of the UK Supervisory Board and the Alliance Supervisory Board from January 2017. She is an Assurance partner in London Banking & Capital Markets where she is a senior regulatory partner. She joined the firm in 1981 and became a partner in 1993. Anne joined the Supervisory Board on 1 January 2015 and is also a member of the firm's Public Interest Body.

2 Dave Allen

Dave is a Consulting global relationship partner with experience in the TMT, energy and government sectors in London. He joined the firm in 1989 and became a partner in 1997. He is a member of the PwC Middle East Board. Dave was re-elected onto the Supervisory Board on 1 January 2017.

3 Chris Burns – Deputy Chair

Chris is a partner in the London Region Assurance practice with lead responsibility for a portfolio of listed clients. He joined the firm in 1992 and became a partner in 2005. Chris joined the Supervisory Board and Audit & Risk Committee on 1 January 2017 and also became Chair of the Strategy & Governance Committee and Deputy Chair of the Supervisory Board on 1 January 2018.

4 Pauline Campbell*

Pauline is an Assurance Partner in Assurance Risk & Quality. She joined the firm in 1985 and became a partner in 1996. She was Chair of the Audit and Risk Committee until 31 December 2016 and was re-elected to the Supervisory Board from 1 January 2015. She became a member of the Global Board, the body responsible for the governance of the PwC Network, in April 2017.

5 Bill MacLeod*

Bill is an Assurance partner who deals with a wide range of listed, private and inbound clients. He joined the firm in 1983 and became a partner in 1995. He is based in Newcastle where he was the Office Senior Partner until 30 June 2018. Bill joined the Supervisory Board on 1 January 2015, and became Chair of the Audit & Risk Committee in January 2017. He was also appointed Ethics Partner and Partner Responsible for Independence on 1 July 2018.

6 John Minards

John is an Assurance partner in St Albans. He joined the firm in 1984 and became a partner in 1996 and has worked in our London, St Albans and Birmingham offices.

He is a practising audit partner, having served clients across the whole spectrum of our portfolio from FTSE 100 and Mid Cap, private companies, private equity, public sector and inbound. He has held a number of leadership roles across the firm including Assurance Business Unit Leader, Assurance Executive and Regional Leader for the South East. John currently leads Private Business as a growth priority for the firm, and was elected to the Supervisory Board in January 2017.

7 Mary Monfries

Mary is a Tax partner in London. She joined the firm in 1989 and became a partner in 2005. She was a member of the firm's tax leadership team for eight years, firstly as Market Leader for Private Business and then leading across the firm's tax practice on policy, reputation and regulation. She now leads the firm's UK Private Client practice on tax reputation for PwC's global tax network. She has always retained a client-facing relationship partner role alongside her leadership responsibilities, focussing primarily on private business owners, families and trustees. She joined the Supervisory Board on 1 January 2017 and chairs the Senior Management Remuneration Group.

8 Teresa Owusu-Adjei

Teresa is a Tax partner in London and is the Clients and Markets leader for Financial Services Tax. She joined the firm in 1995 and became a partner in 2008. Teresa joined the Supervisory Board on 1 January 2017.

9 Zafar Patel

Zafar is a Tax partner in London. He joined the firm in 1989 and became a partner in 2001. Zafar joined the Supervisory Board on 1 January 2017. Zafar is the Supervisory Board representative on the Partner Pensions Governance Committee.

10 Duncan Skales*

Duncan is a Deals partner in London. He joined the firm in 1987 and became a partner in 1999. Duncan joined the Supervisory Board in April 2017 when he became a member of the Global Board, the body responsible for the governance of the PwC Network, and is a member of the PwC Middle East Board.

11 Jim Stidham*

Jim is a Tax partner in London specialising in Global Mobility. He joined the firm in 1983 and became a partner in 1996. Jim joined the Supervisory Board on 1 January 2015, and became Protector of the PwC Channel Island partners from 1 January 2017.

12 Claire Stokes

Claire Stokes joined the firm as a direct entry Consulting partner in 2008.

Claire joined the Supervisory Board on 1 January 2015 and was the Supervisory Board representative on the Partner Pensions Governance Committee until the end of December 2016. Claire became Chair of the Strategy and Governance Committee and Deputy Chair of the Supervisory Board in January 2017. Claire stepped down from the Supervisory Board on 31 December 2017 in order to become the Risk Management Partner for the UK Firm.



13 Heather Swanston*

Heather is a Deals partner in Business Recovery Services in London where she leads the Refinancing and Restructuring team and is a member of the Business Recovery Services Executive. She joined the firm in 1988 and became a partner in 2002. Heather joined the Supervisory Board on 1 January 2015 and chairs the Partner Affairs Committee.

14 Kevin Ellis

The Senior Partner also sits on the Supervisory Board (as an ex officio member).

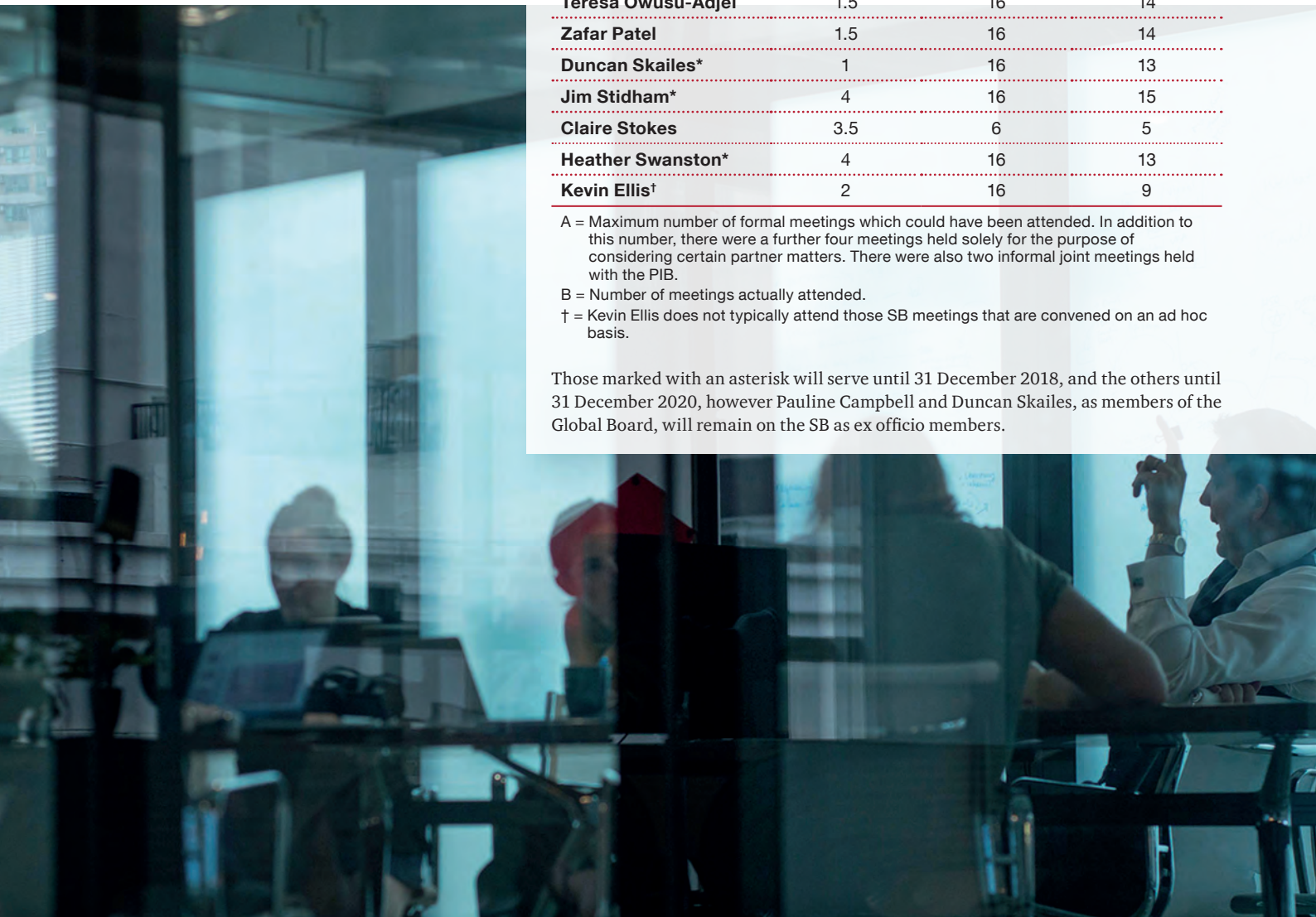
Supervisory Board FY18 Meeting Attendance			
	Length of service (years)	A	B
Anne Simpson	4	16	14
Dave Allen	6	16	11
Chris Burns	1.5	16	16
Pauline Campbell*	9	16	13
Bill MacLeod*	4	16	11
John Minards	1.5	16	15
Mary Monfries	1.5	16	13
Teresa Owusu-Adjei	1.5	16	14
Zafar Patel	1.5	16	14
Duncan Skailes*	1	16	13
Jim Stidham*	4	16	15
Claire Stokes	3.5	6	5
Heather Swanston*	4	16	13
Kevin Ellis†	2	16	9

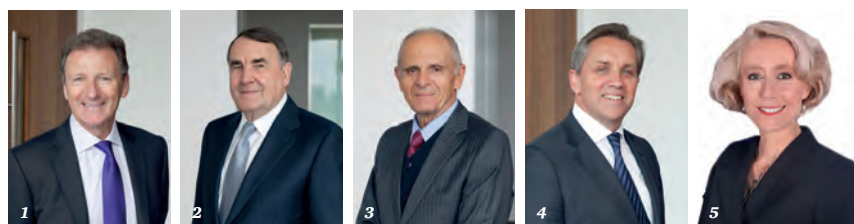
A = Maximum number of formal meetings which could have been attended. In addition to this number, there were a further four meetings held solely for the purpose of considering certain partner matters. There were also two informal joint meetings held with the PIB.

B = Number of meetings actually attended.

† = Kevin Ellis does not typically attend those SB meetings that are convened on an ad hoc basis.

Those marked with an asterisk will serve until 31 December 2018, and the others until 31 December 2020, however Pauline Campbell and Duncan Skailes, as members of the Global Board, will remain on the SB as ex officio members.





Public Interest Body (PIB)

The Public Interest Body (PIB) comprises Independent Non-Executives and, as at 30 June 2018, three representatives from the firm (two from the Management Board and one from the Supervisory Board).

1 Lord Gus O'Donnell PIB Chair

Lord Gus O'Donnell is Chairman of Frontier Economics, a Strategic Advisor to Toronto Dominion Bank, Executive Director and Strategic Advisor to Brookfield Asset Management, visiting Professor at LSE and UCL, member of the Economist Trust and Chair of the Behavioural Insights Team Advisory Board. Gus was Cabinet Secretary and Head of the British Civil Service from 2005-2011. Previously, he was Permanent Secretary of the Treasury from 2002-2005 and served on the IMF and World Bank Boards. Gus was appointed to the House of Lords in 2012, where he sits as a crossbencher. In 2014 he chaired a group which produced a report for the Legatum Institute on Wellbeing and Policy. He became President of the Institute of Fiscal Studies in 2016 and Chairman of the Trustees of Pro Bono Economics. He is honorary fellow of the British Academy and a fellow of the Academy of Social Sciences.

2 Paul Skinner CBE

Paul Skinner is Chairman of Defence Equipment and Support, a trading entity within the Ministry of Defence responsible for defence procurement and related support activities, and is a member of the Defence Board of MoD. Paul spent his 40 year executive career with Royal Dutch Shell with his final position being as a Group Managing Director and CEO of the Group's global oil products business. He was later Chairman of Rio Tinto plc and of Infrastructure UK, H.M. Treasury. He has held non-executive roles on the boards of Standard Chartered plc, Air Liquide S.A., and the Tetra Laval Group.

3 Sir Ian Gibson CBE

Sir Ian is Chairman of Norbrook Laboratories Ltd. Previously 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 Deputy Chairman at ASDA plc and a Non-Executive Director at several companies, including GKN plc, Northern Rock plc and Greggs plc and has been Chairman of Trinity Mirror plc and Wm Morrison Supermarkets plc and BPB plc. Sir Ian has also been a Member of the Court of Directors at the Bank of England and has had several Government advisory roles.

4 Justin King CBE

Justin King stepped down as CEO of Sainsbury's in July 2014. He has previously worked for M&S, Asda, Haagen Dazs, Pepsi, and Mars in a thirty year career spanning fast moving consumer goods and Grocery Retailing. He was a non-executive director of Staples between 2007-2015, was a board member of LOCOG from 2009-2013, a member of the Prime Minister's Business Advisory Group from 2010-2012 and Justin acted as interim Chairman of Manor Marussia F1 Team from 2014-2015, reflecting a lifelong interest in the sport. In October 2015 Justin joined Terra Firma Capital Partners, the leading private equity firm, as Vice Chairman and Head of Portfolio Businesses.

5 Samantha Barrass

Samantha Barrass was appointed on 1 July 2018. She is Chief Executive Officer of the Gibraltar Financial Services Commission and has been in that post since February 2014. From 2009 until her move to Gibraltar she was an Executive Director at the Solicitors Regulatory Authority (SRA). Prior to the SRA, Samantha's career included 10 years with the Financial Services Authority and five years as a Director at the London Investment Banking Association. Samantha began her working career at the Reserve Bank of New Zealand as an economist focusing on monetary policy strategy and economic reform.

PwC members (not pictured)

^†, Kevin Ellis (from 1 July 2016) ^†, Pauline Campbell‡ to 5 August 2017 and from 1 July 2018, Anne Simpson† (from January 2017).

Hemione Hudson ^ (Head of Assurance from 5 August 2017), Margaret Cole is invited to attend meetings from 5 August 2017

^ Member of the Management Board

‡ Member of the Supervisory Board

Following the passing of Dame Helen Alexander on 5 August 2017, Pauline Campbell stood down from the PIB to retain the majority of INEs on the PIB. Upon the appointment of Samantha Barrass as an INE, Pauline was re-instated as a PIB member.

Public Interest Body FY18 Meeting Attendance

	Length of service (years)	A	B
Lord Gus O'Donnell – INE	3	5	5
Paul Skinner CBE – INE	8	5	4
Sir Ian Gibson CBE – INE	7	5	5
Justin King CBE – INE	3	5	5
Kevin Ellis	2	5	5
Pauline Campbell*	7	1	1
Anne Simpson	1.5	5	5
Hemione Hudson*	1	4	4
Margaret Cole*	2	1	1
Dame Helen Alexander – INE	1	1	0

A = maximum number of formal meetings which could have been attended as a member.

B = number of meetings actually attended as a member.

‡ = Pauline also attended four meetings as a guest.

† = Hemione also attended one meeting as a guest.

* = Margaret also attended four meetings as a guest.

The Independent Non-Executives are nominated by the Senior Partner and approved by the Supervisory Board. Each INE has a letter of appointment that sets out their rights and duties. The Senior Partner and Supervisory Board respectively decide which members of the Management and Supervisory Boards will sit on the Public Interest Body. Terms of office for the INEs are not co-terminus, to facilitate rotation in future years. No INE may hold office for more than nine years in aggregate.

Each INE letter of appointment includes obligations and restrictions on the INEs in order to ensure they remain independent of the Firm. In developing these conditions, the firm

considered the Audit Firm Governance Code, issued by the Financial Reporting Council, and the FRC's Ethical Standard, as well as considering what a reasonable third party would expect of an Independent Non-Executive.

Each INE has to go through a thorough independence check and clearance process before they can be appointed. Under the letter of appointment, no INE can be a director, or hold a material financial interest, in a restricted client of the firm. Each INE must confirm compliance with this letter of appointment in respect of their financial, business and personal relationships before being appointed and, thereafter, annually.

Biographical details for each firm member of the PIB are set out on pages 85 to 88.



3

Appendix 3

Committees of the Management Board

The executive structure of the UK firm primarily comprises of the following:

- a Management Board consisting of members of the EB and CME, responsible for policies, strategy, direction and management of the UK firm.

The Management Board is assisted by:

- an Executive Board (a Committee of the MB) responsible for execution of the policies, strategy and management of the UK firm;
- a Clients and Markets Executive (a Committee of the MB) responsible for overseeing the UK firm's client facing and market activities;
- an International Committee (a Committee of the MB) responsible for decision making in relation to and oversight of the UK firm's strategic alliances (currently Africa, Central and Eastern Europe and Middle East), matters relating to regionalisation and/or EMEA and approval of any matters on behalf of the MB relating to network issues;
- An Investment Committee (a Committee of the MB) whose purpose is to conduct acquisitions, joint ventures, disposals and investments to support the growth of the firm i.e. the strategic technology portfolio and similar commercial deals;
- a Partner Matters Committee (a Committee of the MB) responsible for certain Partner HR matters on behalf of the MB;
- a Strategic Change Sub-Committee (a Committee of the MB) responsible for the strategic change programmes on behalf of the MB; and
- a Client Committee (a Committee of the CME), which considers engagement or client acceptance decisions that carry significant risks to the firm or that relate to particularly sensitive or confidential circumstances, including commercial and other conflicts.

Committees of the Supervisory Board

There are four committees of the Supervisory Board to assist the SB with its work: the Partner Affairs Committee, the Senior Management Remuneration Group, the Strategy and Governance Committee and the Audit & Risk Committee.

The Audit & Risk Committee

The Audit & Risk Committee comprises five members of the Supervisory Board, having both audit and non-audit backgrounds.

The Audit & Risk Committee monitors and reviews:

- The effectiveness of the Firm's internal control and risk management systems;
- The Firm's policies and practices concerning compliance, independence, business conduct, including whistleblowing and fraud;
- The scope, results and effectiveness of the Firm's internal audit function;
- The effectiveness and independence of the Firm's statutory auditor;
- The reappointment, remuneration and engagement terms of the Firm's statutory auditor including the policy in relation to, and provision of, non-audit services;
- The planning, conduct and conclusions of the external audit;
- The integrity of the Group's Financial Statements and digital annual report and the significant reporting judgements contained in them; and
- The Firm's Transparency and Corporate Sustainability reports.

Further information can be found in the Audit & Risk Committee report on page 25.

Partner Affairs Committee

The Partner Affairs Committee is responsible for making sure that partners, individually and collectively, are fairly treated as partners, and the operation of the partner income system. It has oversight of partner admissions and retirements.

Senior Management Remuneration Group

The Senior Management Remuneration Group has delegated decision-making powers from the Supervisory Board in respect of the reward of the UK Senior Partner (in consultation with the Global Board and Network Chair, as appropriate), the Management Board and any UK partners on the Global Leadership Team, and the determination of whether the Firm's remuneration policies have been appropriately applied to them.

Strategy and Governance Committee

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

4

Appendix 4

List of EU and EEA member state statutory auditors that are members of the PwC network as at 30 June 2018

Member State	Audit firm/statutory auditor
Austria	PwC Wirtschaftsprüfung GmbH, Wien
	PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH, Linz
	PwC Kärnten Wirtschaftsprüfung und Steuerberatung GmbH, Klagenfurt
	PricewaterhouseCoopers Vorarlberg Wirtschaftsprüfungs GmbH, Dornbirn
	PwC Steiermark Wirtschaftsprüfung und Steuerberatung GmbH, Graz
	PwC Salzburg Wirtschaftsprüfung und Steuerberatung GmbH, Salzburg
	PwC Österreich GmbH, Wien
Belgium	PwC Bedrijfsrevisoren bcva/Reviseurs d'entreprises sccl
	PwC Audit Services SPRL
Bulgaria	PricewaterhouseCoopers Audit OOD
Croatia	PricewaterhouseCoopers d.o.o
Cyprus	PricewaterhouseCoopers Limited
Czech Republic	PricewaterhouseCoopers Audit s.r.o
Denmark	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab
Estonia	AS PricewaterhouseCoopers
Finland	PricewaterhouseCoopers Oy
	PwC Julkistarkastus Oy
France	PricewaterhouseCoopers Audit
	PricewaterhouseCoopers Entreprises
	PricewaterhouseCoopers France
	PricewaterhouseCoopers Services France
	PwC Entrepreneurs Audit
	PwC Entrepreneurs Audit France
	PwC Entrepreneurs CAC
	PwC Entrepreneurs CAC France
	PwC Entrepreneurs Commissariat aux Comptes
	PwC Entrepreneurs Commissariat aux Comptes France
	PwC Entrepreneurs France
	PwC Entrepreneurs Services
	M. Philippe Aerts
	M. Jean-François Bourrin
	M. Jean-Laurent Bracieux
	M. Didier Brun
	M. Hubert de Rocquigny
	M. Didier Falconnet
	M. Bernard Kervarec
	M. François Miane
M. Yves Moutou	
M. Claude Palméro	
M. Pierre Pégaz-Fiornet	
M. Antoine Priollaud	
Germany	PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft
	Wibera WPG AG
Greece	PricewaterhouseCoopers Auditing Company SA
Hungary	PricewaterhouseCoopers Könyvvizsgáló Kft.
Iceland	PricewaterhouseCoopers ehf
Ireland	PricewaterhouseCoopers

Member State	Audit firm/statutory auditor
Italy	PricewaterhouseCoopers Spa
Latvia	PricewaterhouseCoopers SIA
Liechtenstein	PricewaterhouseCoopers GmbH, Vaduz
Lithuania	PricewaterhouseCoopers UAB
Luxembourg	PricewaterhouseCoopers, Société coopérative
Malta	PricewaterhouseCoopers
Netherlands	PricewaterhouseCoopers Accountants N.V. Coöperatie PricewaterhouseCoopers Nederland U.A
Norway	PricewaterhouseCoopers AS
Poland	PricewaterhouseCoopers Polska sp. z o.o. PricewaterhouseCoopers sp. z o.o.
Portugal	PricewaterhouseCoopers & Associados-Sociedade de Revisores Oficiais do Contas Lda
Romania	PricewaterhouseCoopers Audit S.R.L.
Slovakia (Slovak Republic)	PricewaterhouseCoopers Slovensko, s.r.o.
Slovenia	PricewaterhouseCoopers d.o.o.
Spain	PricewaterhouseCoopers Auditores, S.L.
Sweden	PricewaterhouseCoopers AB Öhrlings PricewaterhouseCoopers AB
UK	PricewaterhouseCoopers LLP James Chalmers Richard Sexton*

* Registration ceased subsequent to 30 June 2018



5

Appendix 5

Public Interest Entities

Below is a list EU public interest entities (as defined in EU Directive 2014/56/EU) for which we carried out statutory audits (i.e. issued an audit report) between 1 July 2017 and 30 June 2018.

4IMPRINT GROUP PLC

ABBEY NATIONAL TREASURY SERVICES PLC

ACACIA MINING PLC

ACAL PLC (NEW NAME DISCOVERIE GROUP PLC)

ACE EUROPE LIFE LIMITED

AGGREGATOR OF LOANS BACKED BY ASSETS 2015-1 PLC

AGRICULTURAL BANK OF CHINA (UK) LIMITED

AIG EUROPE LIMITED

AIG LIFE LIMITED

ANTOFAGASTA PLC

ARCH INSURANCE COMPANY (EUROPE) LIMITED

ARIX BIOSCIENCE PLC

ARQIVA FINANCING PLC

ASSURANT GENERAL INSURANCE LIMITED

ASSURANT LIFE LIMITED

ASSURED GUARANTY (EUROPE) PLC

ASSURED GUARANTY (LONDON) PLC

ASSURED GUARANTY (UK) PLC

ASTER TREASURY PLC

ASTRAZENECA PLC

ATOM BANK PLC

AUTO ABS UK LOANS 2017 PLC

AVIVA ANNUITY UK LIMITED

AVIVA INSURANCE LIMITED

AVIVA INTERNATIONAL INSURANCE LIMITED

AVIVA INVESTORS PENSIONS LIMITED

AVIVA LIFE & PENSIONS UK LIMITED

AVIVA PLC

AVON INSURANCE PLC

AVON RUBBER P.L.C.

B & C E INSURANCE LIMITED

BABCOCK INTERNATIONAL GROUP PLC

BAGLAN MOOR HEALTHCARE PLC

BAILLIE GIFFORD JAPAN TRUST PUBLIC LIMITED COMPANY (THE)

BAILLIE GIFFORD LIFE LIMITED

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED

BANK OF IRELAND (UK) PLC

BANK OF SCOTLAND PLC

BANK OF THE PHILIPPINE ISLANDS (EUROPE)

BAVARIAN SKY UK 1 PLC

BCA MARKETPLACE PLC
BIOPHARMA CREDIT PLC
BIRMINGHAM AIRPORT (FINANCE) PLC
BL SUPERSTORES FINANCE PLC
BLACKROCK EMERGING EUROPE PLC
BLACKROCK LATIN AMERICAN INVESTMENT TRUST PLC
BLACKROCK NORTH AMERICAN INCOME TRUST PLC
BLACKROCK SMALLER COMPANIES TRUST PLC
BLACKROCK WORLD MINING TRUST PLC
BONMARCHE HOLDINGS PLC
BOS (SHARED APPRECIATION MORTGAGES) NO. 1 PLC
BOS (SHARED APPRECIATION MORTGAGES) NO. 2 PLC
BOS (SHARED APPRECIATION MORTGAGES) NO.3 PLC
BOS (SHARED APPRECIATION MORTGAGES) NO.4 PLC
BOVIS HOMES GROUP PLC
BOWBELL NO.1 PLC
BRISTOL & WEST PLC
BRISTOL WATER PLC
BRIT LIMITED (CONSOLIDATED)
BRIT LIMITED (STAND ALONE)
BRITISH LAND COMPANY PUBLIC LIMITED COMPANY(THE)
BRITISH TELECOMMUNICATIONS PLC
BROADGATE FINANCING PLC
BRUNEL RESIDENTIAL MORTGAGE SECURITISATION NO.1 PLC
BT GROUP PLC
BUNZL FINANCE PUBLIC LIMITED COMPANY
BUNZL PLC
BURBERRY GROUP PLC
C. HOARE & CO.
CAIRN ENERGY PLC
CAPITAL & COUNTIES PROPERTIES PLC
CAPITAL GEARING TRUST PLC
CARDIFF UNIVERSITY
CARNIVAL PLC
CARPETRIGHT PLC
CARR'S GROUP PLC
CASTELL 2017-1 PLC
CASTINGS PUBLIC LIMITED COMPANY
CATALYST HEALTHCARE (MANCHESTER) FINANCING PLC
CATALYST HEALTHCARE (ROMFORD) FINANCING PLC
CATALYST HIGHER EDUCATION (SHEFFIELD) PLC
CATER ALLEN LIMITED
CELESTE MORTGAGE FUNDING 2015-1 PLC
CENTAUR MEDIA PLC
CENTREWRITE LIMITED
CHANCELLOR, MASTERS, AND SCHOLARS OF THE UNIVERSITY OF CAMBRIDGE
CHARLES TAYLOR PLC
CHARM FINANCE PLC
CHELTENHAM & GLOUCESTER PLC
CHEPSTOW BLUE PLC
CHINA CONSTRUCTION BANK (LONDON) LTD

CHINA TAIPING INSURANCE (UK) CO LTD
CHUBB EUROPEAN GROUP LIMITED
CIGNA INSURANCE SERVICES (EUROPE) LIMITED
CIRCASSIA PHARMACEUTICALS PLC
CITY GREENWICH LEWISHAM RAIL LINK PLC
CIVITAS SOCIAL HOUSING PLC
CLARKSON PLC
CLAVIS SECURITIES PLC
CLERICAL MEDICAL FINANCE PLC
CMC MARKETS PLC
COBHAM PLC
COMMERZBANK CCBI INVESTMENT FUNDS ICVC
CONTOURGLOBAL PLC
CORNISH MUTUAL ASSURANCE COMPANY LIMITED
COSTAIN GROUP PLC
COUNTRYSIDE PROPERTIES PLC
COUNTRYWIDE PLC
COVEA INSURANCE PLC
COVEA LIFE LIMITED
CRANSWICK PLC
CREST NICHOLSON HOLDINGS PLC
CRITERION HEALTHCARE PLC
CRODA INTERNATIONAL PLC
CROWN AGENTS BANK LIMITED
CURTIS BANKS LIMITED
DAILY MAIL AND GENERAL TRUST PLC
DEBENHAMS PLC
DECHRA PHARMACEUTICALS PLC
DEER FUNDING UK PLC
DELAMARE FINANCE PLC
DERWENT LONDON PLC
DEVA FINANCING PLC
DIAGEO CAPITAL PLC
DIAGEO FINANCE PLC
DIAGEO PLC
DRUM INCOME PLUS REIT PLC
DUNCAN FUNDING 2015-1 PLC
DUNCAN FUNDING 2016-1 PLC
DUNELM GROUP PLC
EAST WEST INSURANCE COMPANY LIMITED
EASYJET PLC
EDGBASTON RMBS 2010-1 PLC
EE FINANCE PLC
EFG PRIVATE BANK LIMITED
ELECTROCOMPONENTS PLC
ENDEAVOUR SCH PLC
EQUINITI GROUP PLC
EQUITAS HOLDING LIMITED
EQUITAS INSURANCE LIMITED
EQUITAS LIMITED
EQUITAS REINSURANCE LIMITED

EQUITY RELEASE FUNDING (NO.1) PLC
 EQUITY RELEASE FUNDING (NO.2) PLC
 EQUITY RELEASE FUNDING (NO.3) PLC
 EQUITY RELEASE FUNDING (NO.4) PLC
 EQUITY RELEASE FUNDING (NO.5) PLC
 ERB HELLAS PLC
 ERS DGB LIMITED
 ESSENTRA PLC
 EUROCELL PLC
 EUROMONEY INSTITUTIONAL INVESTOR PLC
 EVEREST REINSURANCE COMPANY (IRELAND), DESIGNATED ACTIVITY COMPANY
 EXCHEQUER PARTNERSHIP (NO.2) PLC
 EXCHEQUER PARTNERSHIP PLC
 EXETER FRIENDLY SOCIETY LIMITED
 F&C CAPITAL AND INCOME INVESTMENT TRUST PLC
 F&C GLOBAL SMALLER COMPANIES PLC
 FARRINGDON MORTGAGES NO. 2 PLC
 FCE BANK PLC
 FDM GROUP (HOLDINGS) PLC
 FIL LIFE INSURANCE LIMITED
 FINSBURY GROWTH & INCOME TRUST PLC
 FIRST TITLE INSURANCE PLC
 FOSSE MASTER ISSUER PLC
 FRIENDS LIFE AND PENSIONS LIMITED
 FRIENDS LIFE FPLMA LIMITED
 FRIENDS LIFE HOLDINGS PLC
 FRIENDS LIFE LIMITED
 FUTURE PLC
 G4S INTERNATIONAL FINANCE PLC
 G4S PLC
 GABELLI MERGER PLUS+ TRUST PLC
 GABELLI VALUE PLUS + TRUST PLC
 GALLIFORD TRY PLC
 GAMES WORKSHOP GROUP PLC
 GENERAL ACCIDENT PLC [WHOLLY OWNED SUB OF AVIVA PLC]
 GLAXOSMITHKLINE CAPITAL PLC
 GLAXOSMITHKLINE PLC
 GLOBALDRIVE AUTO RECEIVABLES UK 2016-A PLC
 GLOBALDRIVE AUTO RECEIVABLES UK 2017-A PLC
 GOLDMAN SACHS INTERNATIONAL
 GOLDMAN SACHS INTERNATIONAL BANK
 GOSFORTH FUNDING 2014-1 PLC
 GOSFORTH FUNDING 2015-1 PLC
 GOSFORTH FUNDING 2016-1 PLC
 GOSFORTH FUNDING 2016-2 PLC
 GREAT HALL MORTGAGES NO.1 PLC
 GREATER GABBARD OFTO PLC
 GRESHAM INSURANCE COMPANY LIMITED
 GRINGOLET COMPANY LIMITED
 GUARANTEE PROTECTION INSURANCE LIMITED
 GUARDIAN ASSURANCE LIMITED

GUARDIAN ASSURANCE LIMITED (FORMERLY REASSURE LIFE LIMITED)

HALMA PUBLIC LIMITED COMPANY

HAMMERSON PLC

HANLEY ECONOMIC BUILDING SOCIETY

HARGREAVES LANSDOWN PLC

HARWORTH GROUP PLC

HAYS PLC

HBOS PLC

HCC INTERNATIONAL INSURANCE COMPANY PLC

HEADLAM GROUP PLC

HEDDINGTON INSURANCE (U.K.) LIMITED

HENDERSON EUROTRUST PLC

HENDERSON HIGH INCOME TRUST PLC

HENDERSON OPPORTUNITIES TRUST PLC

HENRY BOOT PLC

HIGHWAY INSURANCE COMPANY LIMITED

HIGHWAY MANAGEMENT (CITY) FINANCE PLC

HIKMA PHARMACEUTICALS PLC

HILTON FOOD GROUP PLC

HISCOX INSURANCE COMPANY LIMITED

HOLMES MASTER ISSUER PLC

HONEYCOMB INVESTMENT TRUST PLC

HONOURS PLC

HPC KING'S COLLEGE HOSPITAL (ISSUER) PLC.

HSBC BANK PLC

HSBC HOLDINGS PUBLIC LIMITED COMPANY

HSBC LIFE (UK) LIMITED

HSBC PRIVATE BANK (UK) LIMITED

HSBC TRUST COMPANY (UK) LIMITED

HSBC UK BANK PLC

HUNTING PLC

HUNTSWORTH PLC

HYDE HOUSING ASSOCIATION LIMITED

ICG ENTERPRISE TRUST PLC

IG GROUP HOLDINGS PLC

IMPERIAL BRANDS FINANCE PLC

IMPERIAL BRANDS PLC

INCHCAPE PLC

INDIVIOR PLC

INTEGRATED ACCOMMODATION SERVICES PLC

INTERNATIONAL BIOTECHNOLOGY TRUST PLC

INTERTEK GROUP PLC

INTU (SGS) FINANCE PLC

INTU DEBENTURE PLC

INTU METROCENTRE FINANCE PLC

INTU PROPERTIES PLC

INVESCO PERPETUAL LIFE LIMITED

ITAU BBA INTERNATIONAL PLC

J D WETHERSPOON PLC

J.P. MORGAN EUROPE LIMITED

J.P. MORGAN INTERNATIONAL BANK LIMITED

J.P. MORGAN SECURITIES PLC

JARDINE LLOYD THOMPSON GROUP PLC

JKX OIL & GAS PLC

JOHN WOOD GROUP P.L.C.

JPMORGAN ASIAN INVESTMENT TRUST PLC

JPMORGAN CHINESE INVESTMENT TRUST PLC

JPMORGAN EMERGING MARKETS INVESTMENT TRUST PLC

JPMORGAN EUROPEAN SMALLER COMPANIES TRUST PLC

JPMORGAN GLOBAL GROWTH & INCOME PLC

JPMORGAN INDIAN INVESTMENT TRUST PLC

JPMORGAN JAPANESE INVESTMENT TRUST PLC

JPMORGAN LIFE LIMITED

JPMORGAN MID CAP INVESTMENT TRUST PLC

JUPITER FUND MANAGEMENT PLC

JUPITER US SMALLER COMPANIES PLC

KCOM GROUP PLC

KEYSTONE INVESTMENT TRUST PLC

KIER GROUP PLC

KINDRED GROUP PLC (FORMERLY UNIBET GROUP PLC)

KINGDOM BANK LIMITED

KINGSWOOD MORTGAGES 2015-1 PLC

KOOKMIN BANK INTERNATIONAL LIMITED

LADBROKES CORAL GROUP PLC

LADBROKES GROUP FINANCE PLC

LANGTON SECURITIES (2008-1) PLC

LANGTON SECURITIES (2010-1) PLC

LANGTON SECURITIES (2010-2) PLC

LEGAL & GENERAL ASSURANCE (PENSIONS MANAGEMENT) LIMITED

LEGAL & GENERAL FINANCE PLC

LEGAL & GENERAL GROUP PLC

LEGAL & GENERAL INSURANCE LIMITED

LEGAL AND GENERAL ASSURANCE SOCIETY LIMITED

LINGFIELD 2014 I PLC

LIONTRUST ASSET MANAGEMENT PLC

LIVERPOOL VICTORIA FRIENDLY SOCIETY LIMITED

LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED

LIVERPOOL VICTORIA LIFE COMPANY LIMITED

LLOYDS BANK CORPORATE MARKETS PLC

LLOYDS BANK GENERAL INSURANCE LIMITED

LLOYDS BANK HILL SAMUEL HOLDING COMPANY LIMITED

LLOYDS BANK PLC

LLOYDS BANKING GROUP PLC

LONGSTONE FINANCE PLC

LUDGATE FUNDING PLC

LV PROTECTION LIMITED

MACQUARIE BANK INTERNATIONAL LIMITED

MALT HILL NO.1 PLC

MANCHESTER BUILDING SOCIETY

MANSARD MORTGAGES 2006-1 PLC

MANSARD MORTGAGES 2007-1 PLC

MANSARD MORTGAGES 2007-2 PLC

MARKETPLACE ORIGINATED CONSUMER ASSETS 2016-1 PLC
MARKS & SPENCER FINANCIAL SERVICES PLC
MARSTON'S ISSUER PLC
MARSTON'S PLC
MARTLET HOMES LIMITED
MCBRIDE PLC
MEDICLINIC INTERNATIONAL PLC
MEGGITT PLC
MERCHANTS TRUST PLC (THE)
MERSEYLINK (ISSUER) PLC
METRO BANK PLC
MICRO FOCUS INTERNATIONAL PUBLIC LIMITED COMPANY
MICROGEN PLC
MIDAS FUNDING UK PLC
MITON GLOBAL OPPORTUNITIES PLC
MJ GLEESON PLC
MOLINEUX RMBS 2016-1 PLC
MONDI FINANCE PLC
MONDI PLC
MOTABILITY OPERATIONS GROUP PLC
MOTOR 2015-1 PLC
MOTOR 2016-1 PLC
MOTOR 2017-1 PLC
MOTORPOINT GROUP PLC
MUNICIPAL MUTUAL INSURANCE LIMITED
NATIONAL FARMERS UNION MUTUAL INSURANCE SOCIETY LTD (THE)
NATIONAL PHARMACY ASSOCIATION LIMITED
NATIONWIDE BUILDING SOCIETY
NEWCASTLE BUILDING SOCIETY
NEWGATE FUNDING PLC
NEWLINE INSURANCE COMPANY LIMITED
NEXT PLC
NGG FINANCE PLC
NORCROS PLC
NORTHGATE PLC
NOTTING HILL HOUSING TRUST
NOVAE HOLDINGS LIMITED
NPA INSURANCE LIMITED
ONCILLA MORTGAGE FUNDING 2016-1 PLC
OTE PLC
OXFORD BIOMEDICA PLC
P2P GLOBAL INVESTMENTS PLC
PCGH ZDP PLC
PCL FUNDING II PLC
PCL FUNDING III PLC
PEARSON FUNDING FIVE PLC
PEARSON PLC
PENARTH MASTER ISSUER PLC
PERMANENT MASTER ISSUER PLC
PIRELLI INTERNATIONAL PLC
POLAR CAPITAL GLOBAL FINANCIALS TRUST PLC

POLAR CAPITAL GLOBAL HEALTHCARE TRUST PLC (FORMERLY POLAR CAPITAL GLOBAL HEALTHCARE GROWTH AND INCOME TRUST PLC)

POLAR CAPITAL TECHNOLOGY TRUST PLC

POLICE MUTUAL ASSURANCE SOCIETY LTD

PREMIER VETERINARY GROUP PLC

PREMIUM CREDIT LIMITED

PV CRYSTALOX SOLAR PLC

PZ CUSSONS PLC

QBE EUROPEAN OPERATIONS PLC

QBE INSURANCE (EUROPE) LIMITED

QBE RE (EUROPE) LIMITED

QINETIQ GROUP PLC

RBC EUROPE LIMITED

REASSURE GROUP LIMITED

REASSURE LIMITED

RECKITT BENCKISER GROUP PLC

RECKITT BENCKISER TREASURY SERVICES PLC

RECORD PLC

REDROW PLC

RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED

RENEWI PLC

RICARDO PLC

RIO TINTO FINANCE PLC

RIO TINTO PLC

RIT CAPITAL PARTNERS PLC

RIVERSTONE INSURANCE (UK) LIMITED

RIVERSTONE INSURANCE LIMITED

RL FINANCE BONDS NO. 2 PLC

RL FINANCE BONDS NO. 3 PLC

RMPA SERVICES PLC

ROAD MANAGEMENT CONSOLIDATED PLC

ROAD MANAGEMENT SERVICES (FINANCE) PLC

ROCKROSE ENERGY PLC

ROTHESAY LIFE PLC

RPC GROUP PLC

SAFEWAY LIMITED

SANDOWN 2012-2 PLC

SANDOWN GOLD 2012-1 PLC

SANTANDER UK GROUP HOLDINGS PLC

SANTANDER UK PLC

SAVILLS PLC

SCHRODER & CO. LIMITED

SCHRODER ASIAN TOTAL RETURN INVESTMENT COMPANY PLC (FORMERLY ASIAN TOTAL RETURN INVESTMENT COMPANY PLC)

SCHRODER ASIAPACIFIC FUND PLC

SCHRODER EUROPEAN REAL ESTATE INVESTMENT TRUST PLC

SCHRODER JAPAN GROWTH FUND PLC

SCHRODER PENSION MANAGEMENT LIMITED

SCHRODER UK GROWTH FUND PLC

SCHRODERS PLC

SCOTTISH EQUITABLE PLC

SCOTTISH WIDOWS LIMITED
SCS GROUP PLC
SEGRO PUBLIC LIMITED COMPANY
SILVERSTONE MASTER ISSUER PLC
SIRIUS MINERALS PLC
SMITH & WILLIAMSON INVESTMENT SERVICES LIMITED
SMITHS GROUP PLC
SOCIETY OF LLOYD'S
SPORTECH PLC
ST ANDREW'S INSURANCE PLC
ST JAMES'S PLACE UK PLC
ST. JAMES'S ONCOLOGY FINANCING PLC
ST. JAMES'S PLACE PLC
STHREE PLC
STONEBRIDGE INTERNATIONAL INSURANCE LTD.
STV GROUP PLC
SUFFOLK LIFE ANNUITIES LIMITED
SUMMIT FINANCE (WISHAW) PLC (FORMERLY SUMMIT FINANCE (LAW) PLC)
SUPERDRY PLC (FORMERLY SUPERGROUP PLC)
SWANSEA BUILDING SOCIETY
SWISS RE SPECIALTY INSURANCE (UK) LIMITED
SYNTHOMER PLC
T CLARKE PUBLIC LIMITED COMPANY
TANDEM MONEY LIMITED
TATE & LYLE INTERNATIONAL FINANCE PLC
TATE & LYLE PLC
TBC BANK GROUP PLC
TEACHERS ASSURANCE COMPANY LIMITED
TECHNIPFMC PLC
TELEREAL SECURED FINANCE PLC
TELEREAL SECURITISATION PLC
TEN ENTERTAINMENT GROUP PLC
TESCO PROPERTY FINANCE 2 PLC
TESCO PROPERTY FINANCE 3 PLC
TESCO PROPERTY FINANCE 4 PLC
TESCO PROPERTY FINANCE 5 PLC
TESCO PROPERTY FINANCE 6 PLC
THE ACCESS BANK UK LIMITED
THE CITY OF LONDON INVESTMENT TRUST PLC
THE EQUITABLE LIFE ASSURANCE SOCIETY
THE EXETER CASH PLAN
THE HENDERSON SMALLER COMPANIES INVESTMENT TRUST PLC
THE HOSPITAL COMPANY (DARTFORD) ISSUER PLC
THE LINDSELL TRAIN INVESTMENT TRUST PLC
THE MERCANTILE INVESTMENT TRUST PLC
THE OCEAN MARINE INSURANCE COMPANY LIMITED
THE ORIGINAL HOLLOWAY FRIENDLY SOCIETY LIMITED
THE PALATINE INSURANCE COMPANY LIMITED
THE ROYAL LONDON MUTUAL INSURANCE SOCIETY LIMITED
THE STANDARD CLUB EUROPE LTD
THE VETERINARY DEFENCE SOCIETY LIMITED

THE WEIR GROUP PLC
THREADNEEDLE PENSIONS LIMITED
TI FLUID SYSTEMS PLC
TITAN GLOBAL FINANCE PLC
TOKIO MARINE KILN INSURANCE LIMITED
TOKIO MILLENNIUM RE (UK) LIMITED
TOROTRAK PLC
TR EUROPEAN GROWTH TRUST PLC
TRINITY FINANCING PLC
TROY INCOME & GROWTH TRUST PLC
TSB BANK PLC
TSB BANKING GROUP PLC
TT CLUB MUTUAL INSURANCE LIMITED
TURBO FINANCE 5 PLC
TURBO FINANCE 6 PLC
TURBO FINANCE 7 PLC
TYMAN PLC
U AND I GROUP PLC (FORMERLY DEVELOPMENT SECURITIES PLC)
UNITED BANK FOR AFRICA (UK) LIMITED
UZBEKINVEST INTERNATIONAL INSURANCE COMPANY LIMITED
VERNON BUILDING SOCIETY
VESUVIUS PLC
VIRGIN MONEY HOLDINGS (UK) PLC
VIRGIN MONEY PLC
VITALITY HEALTH INSURANCE LIMITED
VITALITY HEALTH LIMITED
VITALITY LIFE LIMITED
VODAFONE GROUP PUBLIC LIMITED COMPANY
VP PLC
VPC SPECIALTY LENDING INVESTMENTS PLC
WASPS FINANCE PLC
WATERMAN GROUP PLC
WELSH HOSPITALS & HEALTH SERVICES ASSOCIATION
WESTPAC EUROPE LTD
WH SMITH PLC
WILMINGTON PLC
WITAN PACIFIC INVESTMENT TRUST PLC
WM MORRISON SUPERMARKETS PLC
WODS TRANSMISSION PLC
WORCESTERSHIRE HOSPITAL SPC PLC (LSE UNDER NAME OF CATALYST HEALTHCARE (WORCESTER) PLC)
WORLDWIDE HEALTHCARE TRUST PLC
WYELANDS BANK PLC
XL CATLIN INSURANCE COMPANY UK LIMITED (FORMERLY CATLIN INSURANCE COMPANY (UK) LTD)
XL INSURANCE COMPANY SE
YORKSHIRE WATER SERVICES FINANCE LIMITED
ZOTEFOMS PLC
ZURICH ASSURANCE LTD
ZURICH FINANCE (UK) PLC

6

Appendix 6

Glossary

AFGC – Audit Firm Governance Code

A&RC – Audit & Risk Committee

AICPA – American Institute of Chartered Public Accountants

AQR – Audit Quality Review team of the FRC

Assurance – the line of service responsible for delivering assurance including audit, risk assurance, capital markets work and actuarial services.

Assurance Services – assurance services include statutory audits, non-statutory audits, local audits under the Local Audit and Accountability Act 2014, ISAE 3000 (Revised), ISAE 3402, and certain Capital Markets transaction work.

ATOL – Air Travel Organiser's Licence

BAME – Black, Asian and Minority Ethnic

CMA – Competition and Markets Authority

CME – Clients and Markets Executive

The Code – the PwC UK Code of Conduct

CRAG – Company Reporting and Auditing Group

EB – Executive Board

ECR – Engagement Compliance Review

ERP – Enterprise Resource Planning

Ethical Standard – the Ethical Standard issued by the FRC in June 2016

European Union Statutory Audit Directive – Directive 2014/56/EU, which amends Directive 2006/43/EC, of the European Parliament

European Union Statutory Audit Regulation – Regulation (EU) No 537/2014 of the European Parliament

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

FPI – Foreign Private Issuer

FRC – Financial Reporting Council

GB – the Global Board of PricewaterhouseCoopers International Limited

GDPR – EU General Data Protection Regulation

GLT – Global Leadership Team

Governance Code – the Audit Firm Governance Code

Group – PwC UK and its subsidiary undertakings in the UK, Channel Islands and Middle East

ICAEW – Institute of Chartered Accountants in England and Wales

IESBA – International Ethics Standards Board for Accountants

IFRS – International Financial Reporting Standards

INE – Independent Non-Executive

ISAs (UK) – International Standards on Auditing (UK)

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

KPI – Key Performance Indicator

MB – Management Board

NAMG – Network Assurance Methodology Group

NET – Network Executive Team

NLT – Network Leadership Team

NSEC – National Students Employability Challenge

PAC – Partner Affairs Committee

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

PIB – Public Interest Body

PMC – Partner Matters Committee

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

PricewaterhouseCoopers – the network of member firms of PwCIL

PricewaterhouseCoopers LLP (or PwC LLP) – a limited liability partnership incorporated in England and Wales

PwC – the network of member firms of PwCIL

PwCIL – PricewaterhouseCoopers International Limited

PwC Financial Statements 2018 – The PricewaterhouseCoopers LLP Members' report and financial statements for the year ended 30 June 2018, which can be found at www.pwcannualreport.co.uk

PwC Network – the network of member firms of PwCIL

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

QAD – Quality Assurance Department of the ICAEW

QMR – Quality Management Review

QRP – Quality Review Partner

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

SB – Supervisory Board

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

SMRG – Senior Management Remuneration Group

SOPS – Statements Of Permitted Services

Statutory Instrument – Statutory Auditors (Transparency) Instrument 2008

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

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



7 Appendix 7

Audit Firm Governance Code

Our compliance with the Audit Firm Governance Code has been set out below with details of where information can be located on PwC's application of the individual principles and provisions of the Code.

Principles and Provisions of the 2016 AFGC		Where information on how the principles and provisions have been addressed can be located
A.1	Ownership accountability principle The management of a firm should be accountable to the firm's owners and no individual should have unfettered powers of decision.	Governance structure and leadership – Pg 18 – 26
A1.1	The firm should establish a board or equivalent governance structure, with matters specifically reserved for its decision, to oversee the activities of our management team.	Governance structure and leadership – Pg 18 – 26
A1.2	The firm should state in its transparency report how its governance structures and management operate, their duties and the types of decisions they take. In doing so the firm should explain how its governance structure provides oversight of both the audit practice and the firm as a whole with a focus on ensuring the Code's purpose is achieved. If the management and/or governance of the firm rests at an international level it should specifically set out how management and oversight of the audit is undertaken and the Code's purpose achieved in the UK	Governance structure and leadership – Pg 18 – 26
A1.3	The firm should state in its transparency report the names and job titles of all members of the firms' governance structures and its management, how they are elected or appointed and their terms, length of service, meeting attendance in the year and relevant biographical details.	Governance structure and leadership – Pg 18 – 26; and Appendix 2: Biographies
A1.4	The members of a firm's governance structures and management should be subject to formal, rigorous and ongoing performance evaluation and, at regular intervals, members should be subject to re-election or re-selection.	2018 PIB External Effectiveness Review - Pg 8; and Governance structure and leadership – Pg 18
A.2	Management Principle A firm should have effective management which has responsibility and clear authority for running the firm.	Governance structure and leadership – P18 – 26
A2.1	Management should have terms of reference that include clear authority over the whole firm including its non-audit businesses and these should be disclosed on the firm's website.	Governance structure and leadership – Pg 18
B.1	Professionalism Principle A firm should perform quality work by exercising judgement and upholding values of integrity, objectivity, professional competence and due care, confidentiality and professional behavior in a way that properly takes the public interest into consideration and meets auditing and ethical standards.	The way we do business - Pg 30; Relevant ethical requirements - Pg 36 - 37
B1.1	The firm's governance structures and management should establish and promote throughout the firm an appropriate culture, supportive of the firm's public interest role and long term sustainability. This should be achieved in particular through the right tone from the top, through the firm's policies and practices and by management publicly committing themselves and the whole firm to quality work, the public interest and professional judgement and values.	Introduction from the Chairman and Senior Partner Pg 1 – 2; Update from the Chair of the Public Interest Body - Pg 5 - 9; and Governance - Pg 15 - 26
B1.2	Firms should introduce KPI's on the performance of their governance system and report on performance against these in their transparency reports.	Compliance with the AFGC – Pg 23 – 24
B1.3	The firm should have a code of conduct which it discloses on its website and requires everyone in the firm to apply. The board and independent non-executive should oversee compliance with it.	The way we do business – Pg 30; and Professional conduct - Pg 36
B2	Governance Principle A firm should publicly commit itself to this Audit Firm Governance Code	Governance – Pg 15
B2.1	The firm should incorporate the principles of this Audit Firm Governance Code into an internal code of conduct	Governance – Pg 15; and Professional conduct - Pg 36
B3	Openness Principle A firm should maintain a culture of openness which encourages people to consult and share problems, knowledge and experience in order to achieve quality work in a way that properly takes the public interest into consideration	Update from the UK Head of Assurance – Pg 11 – 14; and Consultation and support - Pg 47

Principles and Provisions of the 2016 AFGC	Where information on how the principles and provisions have been addressed can be located
<p>C1 Involvement of independent non-executive principle A firm should appoint independent non-executives to the governance structure who through their involvement collectively enhance the firm's performance in meeting the purpose of the Code.</p>	Update from the Chair of the Public Interest Body – Pg 5 - 9
<p>C1.1 Independent non-executives should number at least three and be in the majority on a body that oversees public interest matters; and/or be members of other relevant governance structures within the firm. They should also meet as a separate group to discuss matter relating to their remit. They should have full visibility of the entirety of the business but should pay particular attention to and report on risk to audit quality and how they are addressed. If a firm considers that having three INEs is inappropriate given its size or number of public company clients, it should explain this in its transparency report and ensure a minimum of two at all times. Where the firm adopts an international approach to its management it should have at least three INEs with specific responsibility and relevant experience to focus on the UK business and to take part in governance arrangements for this market or explain why it regards a smaller number to be more appropriate, in which event there should be a minimum of two.</p>	Update from the Chair of the Public Interest Body – Pg 5 - 9; and Appendix 2 - Pg 89 - 90
<p>C1.2 The firm should disclose on its website or in its transparency report information about the appointment, retirement and resignation of independent non-executives, their remuneration, their duties and the arrangements by which they discharge those duties and the obligations of the firm to support them. The firm should report on why it has chosen to position its independent non-executives in the way that it has (for example, as members of the main Board or on a public interest committee). The firm should also disclose on its website the terms of reference and composition of any governance structures whose membership includes independent non-executives.</p>	Update from the Chair of the Public Interest Body – Pg 5 - 9; and Remuneration of partners and Independent Non-Executives - Pg 79
<p>C1.3 The independent non-executives should report in the firm's transparency report on how they have worked to meet the purpose of the code as defined as: – Promoting audit quality; – Helping the firm secure its reputation more broadly, including in its non-audit businesses; – Reducing the risk of firm failure</p>	Update from the Chair of the Public Interest Body – Pg 5 - 9
<p>C1.4 Independent non-executives should have regular contact with the ethics partner, who should under the ethical standards have a reporting line to them.</p>	Update from the Chair of the Public Interest Body – Pg 9; and Governance structure and leadership - Pg 20
<p>C2 Characteristics of independent non-executive's principle The independent non-executives' duty of care is to the firm. They should command the respect of the firm's owners and collectively enhance shareholder confidence by virtue of their independence, number stature, experience and expertise. They should have a balance of relevant skills and experience including audit and a regulated sector. At least one independent non-executive should have competence in accounting and/or auditing, gained for example from a role on an audit committee, in a company's finance function, as an investor or at an audit firm.</p>	Update from the Chair of the Public Interest Body – Pg 5 - 9; and Appendix 2 - Pg 89 - 90
<p>C2.1 The firm should state in its transparency report its criteria for assessing the impact of independent non-executives on the firm's independence as auditors and their independence from the firm and its owners.</p>	Appendix 2 - Pg 90
<p>C3 Rights and responsibilities of independent non-executives principle Independent non-executives of a firm should have rights consistent with their role including a right of access to relevant information and people to the extent permitted by law or regulation, and a right to report a fundamental disagreement regarding the firm to its owners and, where ultimately this cannot be resolved and the independent non-executive resigns, to report this resignation publicly.</p>	Update from the Chair of the Public Interest Body – Pg 5 - 9; and Governance structure and leadership - Pg 20
<p>C3.1 Each independent non-executive should have a contract for services setting out their rights and duties</p>	Appendix 2 - Pg 90
<p>C3.2 Independent non-executives should be appointed for specific terms and any term beyond nine years should be subject to particularly rigorous review and explanation.</p>	Appendix 2 - Pg 90

Principles and Provisions of the 2016 AFGC

Where information on how the principles and provisions have been addressed can be located

C3.3	The responsibilities of an independent non-executive should include, but not be limited to, oversight of the firm's policies and processes for: – Promoting audit quality; – Helping the firm secure its reputation more broadly, including in its non-audit businesses: – Reducing the risk of firm failure.	Update from the Chair of the Public Interest Body – Pg 5; and Governance structure and leadership - Pg 20
C3.4	The firm should ensure that appropriate indemnity insurance is in place in respect of legal action against any independent non-executive in respect of their work in that role.	Update from the Chair of the Public Interest Body – Pg 9
C3.5	The firm should provide each independent non-executive with sufficient resources to undertake their duties including having access to independent professional advice at the firm's expense where an independent non-executive judges such advice necessary to discharge their duties.	Update from the Chair of the of the Public Interest Body – Pg 9
C3.6	The firm should establish, and disclose on its website, procedures for dealing with any fundamental disagreement that cannot otherwise be resolved between the independent non-executives and members of the firm's management team and/or governance structures.	Governance structure and leadership – Pg 18 Procedures are incorporated into the members terms of reference
D1	Compliance Principle A firm should comply with professional standards and applicable legal and regulatory requirements. Operations should be conducted in a way that promotes audit quality and the reputation of the firm. The independent non-executives should be involved in the oversight of operations.	Refer to individual sections of Transparency Report through pages 33 - 50
D1.1	The firm should establish policies and procedures for complying with the applicable legal and regulatory requirements and international and national standards of auditing, quality control and ethics, including auditor independence	Refer to individual sections of Transparency Report through pages 33 - 50
D1.2	The firm should establish 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.	Methodology and Tools Pg 45
D1.3	The firm should state in its transparency report how it applies policies and procedures for managing potential and actual conflicts of interest.	Relationship checks, independence and conflicts of interest – Pg 38; and Relevant ethical requirements - Pg 36 - 37
D1.4	The firm should take action to address areas of concern identified by audit regulators in relation to the firm's audit work.	External monitoring Pg 65 - 69
D2	Risk management principle A firm should maintain a sound system of internal control and risk management over the operations of the firm as a whole to safeguard the firm and reassure stakeholders.	Refer to individual sections of Transparency Report through pages 33 - 50
D2.1	The firm should, at least annually, conduct a review of the effectiveness of the firms system of internal control. Independent non-executives should be involved in the review which should cover all material controls, including financial, operational and compliance controls and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviors within the firm.	Review of the firm's internal control system – Pg 57
D2.2	The firm should state in its transparency report that it has performed a review of the effectiveness of the system of internal control, summarised the process it has applied and confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. It should also disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in its financial statements or management commentary.	Statement on the effectiveness of the firm's internal quality control systems – Pg 62
D2.3	The firm should carry out a robust assessment of the principal risks facing it, including those that would threaten its business model, future performance, solvency or liquidity. These should reference specifically the sustainability of the audit practice within the UK.	Review of the firm's internal control system – Pg 57 - 61
D3	People management principle A firm should apply policies and procedures for managing people across the whole firm that support its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code.	Human Resources – Pg 39 - 44
D3.1	The firm should disclose on its website how it supports its commitment to the professionalism, openness and risk management principles of this Audit Firm Governance Code through recruitment, development activities, objective setting, performance evaluation, remuneration, progression, other forms of recognition, representation and involvement.	Human Resources – Pg 39 - 44
D3.2	Independent non-executives should be involved in reviewing people management policies and procedures, including remuneration and incentive structures, to ensure that the public interest is protected.	Governance structure and leadership – Pg 18 – 21
D4	Whistleblowing principle A firm should establish and apply confidential whistleblowing policies and procedures across the firm which enable people to report, without fear, concerns about the firm's commitment to quality work and professional judgement and values in a way that properly takes the public interest into consideration. The independent non-executives should be satisfied that there is an effective whistleblowing process in place.	Compliance with the AFGC – Pg 24 Speak up helpline – Pg 36
D4.1	The firm should report to independent non-executives on issues raised under its whistleblowing policies and procedures and disclose those policies and procedures on its website.	Compliance with the AFGC Pg 24; and Speak up helpline – Pg 36

Principles and Provisions of the 2016 AFGC		Where information on how the principles and provisions have been addressed can be located
E1	Internal reporting principle The management of a firm should ensure that members of its governance structures, including owners and independent non-executives, are supplied with information in a timely manner and in a form and of a quality appropriate to enable them to discharge their duties.	Governance structure and leadership – Pg 18 - 26
E2	Governance reporting principle A firm should publicly report how it has applied in practice each of the principles of the Audit Firm Governance Code and make a statement on its compliance with the Code's provisions or give a considered explanation for any non-compliance.	Compliance with the AFGC – Pg 23
E2.1	The firm should publish on its website an annual transparency report containing the disclosures required by Code Provisions A.1.2, A1.3, B1.2, C2.1, D1.3, D2.2, E2.2 and E3.1	Refer to individual code provisions.
E2.2	In its transparency report the firm should give details of any additional provisions from the UK Corporate Governance Code which it has adopted within its own governance structure.	Compliance with the AFGC Pg 23
E3	Transparency principle A firm should publish on an annual basis in its transparency report a commentary on the firm's performance, position and prospects.	Financial information – Pg 78
E3.1	The firm should confirm that it has carried out a robust assessment of the principal risks facing the audit firm, including those that would threaten its business model, future performance, solvency or liquidity. The firm should describe those risks and explain how they are being managed or mitigated.	Review of the firm's internal control system – Pg 57 - 61
E3.2	The transparency report should be fair, balanced and understandable in its entirety	Achieved throughout the Transparency Report
E4	Reporting quality principle A firm should establish formal and transparent arrangements for monitoring the quality of external reporting and for maintaining an appropriate relationship with the firm's auditors	Governance Review Pg 16; and Governance structure and leadership – Pg 18
E4.1	The firm should establish an audit committee and disclose on its website information on the committee's membership and terms of reference which should deal clearly with its authority and duties in relation to the appointment and independence of the firm's auditors. On an annual basis, the audit committee should publish a description of its work and how it has discharged its duties.	Governance Review Pg 16; and Governance structure and leadership – Pg 18
E5	Financial statements principle A firm should publish audited financial statements prepared in accordance with a recognised financial reporting framework such as International Financial Reporting Standards or UK GAAP, and should be clear and concise.	Refer to PwC 2018 Annual Report (www.pwcannualreport.co.uk)
E5.1	The firm should explain who is responsible for preparing the financial statements and the firm's auditors should make a statement about their reporting responsibilities, preferably in accordance with the extended audit report standards.	Refer to PwC 2018 Annual Report (www.pwcannualreport.co.uk)
E5.2	The firm should state whether it considers it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to its ability to continue to do so, with supporting assumptions or qualifications as necessary.	Refer to PwC 2018 Annual Report www.pwcannualreport.co.uk)
F1	Firm dialogue principle A firm should have dialogue with listed company shareholders, as well as listed companies and their audit committees, about matters covered by this Audit Firm Governance Code to enhance mutual communications and understanding and ensure that it keeps in touch with shareholder opinion, issues and concerns.	Investment community engagement – Pg 75 - 76
F1.1	The firm should disclose on its website its policies and procedures, including contact details, for dialogue about matters covered by this Audit Firm Governance Code with listed company shareholders and listed companies. It should also report on the dialogue it has had during the year. These disclosures should cover the nature and extent of the involvement of independent non-executives in such dialogue.	Investment community engagement – Pg 75 - 76 Please also refer to our website: https://www.pwc.co.uk/who-we-are/corporate-sustainability/strategy/stakeholders
F2	Shareholder dialogue principle Shareholders should have dialogue with audit firms to enhance mutual communication and understanding.	Investment community engagement – Pg 75 - 76
F3	Informed voting principle Shareholders should have dialogue with listed companies on the process of recommending the appointment and re-appointment of auditors and should make considered use of votes in relation to such recommendations.	We encourage dialogue between shareholders and listed companies throughout our interaction with the investor community.

We have prepared this Transparency Report, in respect of the financial year ended 30 June 2018, in accordance with the requirements of Article 13 of the EU Regulation No. 537/2014.

In addition to the Regulation's requirements, we have included those matters specified to be included in the Transparency Report by the Audit Firm Governance Code, issued by the Financial Reporting Council ('FRC') in July 2016.

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

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

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