

Doing the right thing:  
**Delivering  
quality audits**

2009 audit quality and transparency report

# The PWC audit – Value without compromise

Value without compromise captures the essence of the value we bring to our clients. The ultimate measure of quality we strive for is a level recognised as being distinctive by them, a bar which we believe is a stretch target and which is constantly being raised. Our approach and the mind set it demands is underpinned by five strong beliefs which have been summarised for the purpose of this report;

**Attitude – how we think about ourselves** – we take pride not only in our integrity and audit quality but in our innovation and thinking. We have the courage and confidence to say what we think and stand up for what is right.

**The audit – its inherent value** – we believe fundamentally in the value that the audit creates and in terms of the confidence it delivers to investors and society. Our ambition to create the distinctive audit will not be achieved through regulatory compliance alone.

**Compliance – being its master not its slave** – we approach compliance with intelligence and innovation, actively seeking new techniques and adapting our approach in a flexible and agile way.

**Clients – we have no business without them** – distinctiveness is about making a positive difference to our clients through the application of knowledge, business skills and our unique insights. Anticipating the future is core to this belief .

**Business – value drives success** – serving our clients is in our DNA and value delivered drives success. The ultimate goal is for our audit to be commissioned even if not mandatory.

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# Chairman's statement



Ian Powell  
Chairman and Senior Partner

As the leading firm, I believe PwC has a responsibility to set the standard for public reporting, particularly in relation to the way we manage our firm to deliver quality auditing.

This Audit Quality and Transparency Report, for the year to the end of June 2009, builds on the feedback for the report we have produced on a voluntary basis for the past two years. That we have chosen to go further in this report than is required by law is consistent with our view that high quality, transparency and accountable reporting is the cornerstone of building public trust.

Audit quality begins with the tone from the top and for that reason I will continue to focus on the factors that contribute to develop consistently high-quality audits.

A handwritten signature of Ian Powell in a green ink, written in a cursive style.

Ian Powell, Chairman and Senior Partner

PricewaterhouseCoopers provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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# A message from the Head of Assurance

Audit quality is of paramount importance to PwC. It underpins our reputation and is central to PwC's strategy. We take adherence to auditing standards and regulations extremely seriously. We strive continuously to improve our performance and value the constructive dialogue that we have with regulators and our clients in pursuit of this common goal.



There are many attributes that must be present in a leading audit practice including independence, objectivity and clarity of thought. However, one of the most important is confidence and to underpin that we recognise the need to be comprehensive and transparent in how we build quality into our audits, given the public interest at stake. This is the third year that we have prepared a separate report of this nature and this year have built on our previous experience to give clear insight into the importance of quality to the practice and how we build it into our management processes.

This report has been designed to:

- Provide context to the market conditions that we and our clients have faced during the year;

- Describe what we see as the key drivers of audit quality and link to the framework published by the Financial Reporting Council (FRC);
- Consider some of the challenges facing the audit profession; and
- Provide the information necessary to meet the regulatory requirement to present a transparency report.

Our ability to deliver the highest audit quality will be influenced by the tone from the top of the firm, our ability to continue to recruit the best and brightest, and provide meaningful and challenging professional careers and our continued commercial success. We are proud of our current audit market position and the financial success of our business, and we see these as critical hallmarks of the quality agenda that we have committed the firm to for many years. Equally importantly, our position in terms of market share is driven by our clients assessment of what we can deliver in relation to quality and value.

Now is not the time to be complacent. If we have concerns about our audit business, it is about its long-term relevance and the sustainable value it delivers to the marketplace. While we may not be facing a financial reporting crisis today, the credit crunch has been a

reminder of the need to reassess where audits focus their time and to ensure stakeholder expectations are recognised.

We understand the direction in which both reporting and auditing are moving and question whether we are in danger of losing sight of the big picture as we are consumed by the increasing demands of technical compliance. We must work hard to avoid stifling professional judgement and removing the motivation to innovate the audit to meet the changing needs of society.

Despite these concerns, we look ahead with optimism, because of the quality of our clients and our people.

Our 2009 Annual Report ([pwc.co.uk/annualreport09](http://pwc.co.uk/annualreport09)) also includes information that complements the contents of this report with respect to our ethos, our people, governance and financial performance.

I trust you will find this report a helpful and informative guide to explain how our firm manages our audit practice to deliver consistently high-quality audits.

A handwritten signature in green ink that reads 'Richard Sexton'.

**Richard Sexton**  
Head of Assurance

# Market context

## Challenging market environment

During the last 12 months the challenge to our audit practice have been considerable, both in terms of hours worked and in relation to the professional and technical issues that have arisen.

These events have highlighted the critical role that auditors, non-executive directors and shareholders need to play in ensuring that governance practices are effective. The credit crunch has reinforced the need to ensure that company business models and the risks and relationships that might arise are better understood.

Business today is more complex than it ever has been and there is a need to demonstrate that reporting and assurance models remain fit for purpose.

## Impacts on the audit market

### Financial services

The demands on our banking and financial service teams have been exceptional, particularly around liquidity and ongoing funding, and the valuation of securities in illiquid and falling markets. While the debates around the pros and cons of fair value have been heated, we have

remained consistent in our support for a reporting model that is devoid of political interference. We do, however, feel that now is a time to stop and reflect on all aspects of accounting and beyond the confines of financial services.

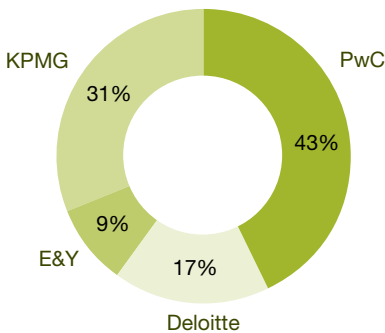
### Other corporates

The recession resulting from the credit crunch has provided major challenges in respect of the audits of all of our clients including those that are not part of the financial services market. Here, the focus has been on helping our clients deal with a number of accounting and audit issues,

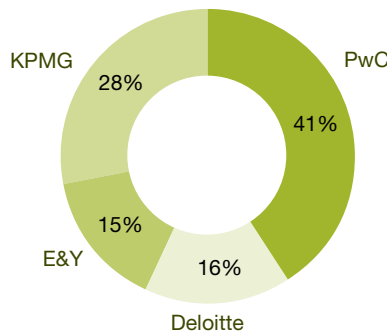
## Market share and client feedback

Independent survey of UK Big 4 audit services attributes (surveyed by TNS Global). Based on interviews with senior management at nearly 400 organisations (incorporating 100 specific audit buyers), respondents are asked which firm is most associated with the following criteria:

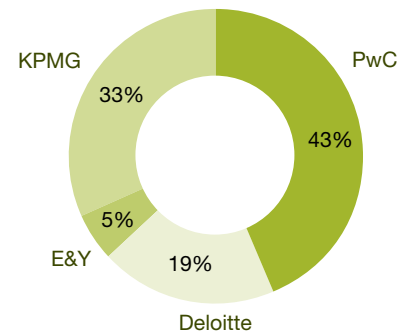
### Inspire confidence in their work



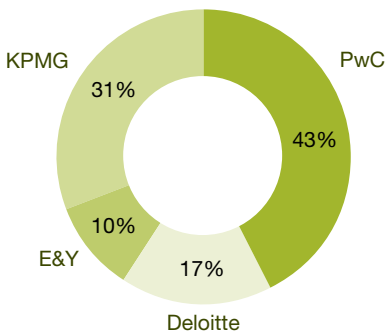
### Listens to your point of view



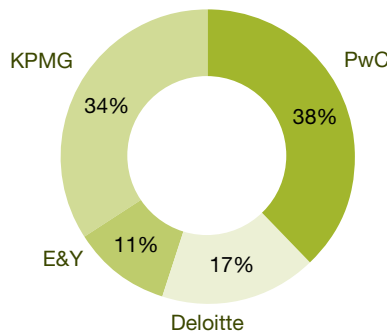
### Has consistent high quality



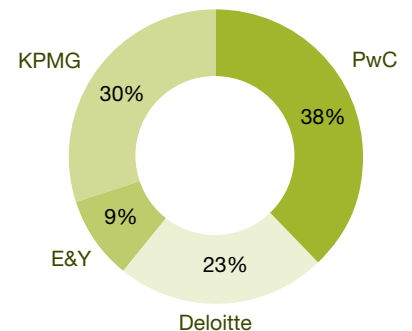
### Brings in the right experts



### Provides leading edge advice



### Helps you simplify business issues



particularly around going concern and impairments. Our strategy has been to have detailed discussions early in the financial reporting cycle. This allowed us and our clients to consider any issues arising, carefully, be that through our client corporate governance processes or our own internal quality review activities including technical panels. Ensuring that appropriate evidence was available and assumptions challenged has meant that appropriate opinions have been issued, whether they be clean, modified or qualified.

#### **Price pressures**

While the slowdown in business activity and the related decline in general profitability of the corporate sector is having an impact on audit fee discussions, we are committed to delivering value to clients through high-quality audits. We will of course take a commercial approach to fees in an audit market that remains highly competitive but we will not sacrifice our independence or our drive to continually improve audit quality.

#### **Regulatory change**

The regulatory response to the credit crunch has started to emerge over the past few months with the flow of many reports – G20, UK Government, Turner Review, Treasury Select Committee, Walker Report Review of the Combined Code, etc. The majority of these reports have focused their findings on the need to strengthen

banking supervision, governance and risk management processes, and to introduce new procedures around management remuneration.

While the audit has largely been immune from any specific focus, we believe there are a number of important issues that have arisen. These include factors largely recognised in the FRC's own view of the drivers of audit quality but outside the auditor's control – including corporate governance, audit committees, shareholder support and activism.

#### **Corporate reporting**

As a firm we continue to champion the cause for transparency in corporate reporting and in promoting best practice in a variety of ways. Our Building Public Trust Awards have now reached their seventh year and it is encouraging to see a number of companies pushing the boundaries of reporting forward each year. However, our survey of the FTSE 350's reporting suggests there is a growing gap between the best and the rest in the quality and transparency of reporting.

We also recognise that PwC has a clear responsibility to be seen to set best practice in the field of reporting and we continue to publish an Annual Report ([pwc.co.uk/annualreport09](http://pwc.co.uk/annualreport09)), which goes well beyond the minimum reporting requirements.

**Our Building Public Trust Awards have now reached their seventh year and it is encouraging to see a number of companies pushing the boundaries of reporting forward each year.**

# The future of auditing and corporate reporting

PwC is committed to playing an active role in the key policy debates that will shape the future of auditing and corporate reporting. One example of this commitment being put into practice is the following article jointly authored by John McFall, the Chairman of the House of Commons Treasury Select Committee revenue, and Richard Sexton, PwC's Head of Assurance.

The financial crisis demonstrated that company reports leave something to be desired if they are to alert investors to problems that may lie ahead. Justifying the status quo by arguing that there was a high level of compliance with the existing model just does not pass muster. The trouble is that the corporate reporting model is broken.

Recent market events have exposed reporting's shortcomings with painful clarity. It failed to help flag up systemic risk in the banking system. It appears to tolerate situations where companies fail days after issuing robust annual reports. It relies on technical disclosures running to hundreds of pages and leaves board directors feeling detached. Indeed, the Financial Reporting Council recently announced a review into the complexity and relevance of corporate reporting.

Companies should be telling a clear story and providing real insights into what is important. The existing reporting construct fails on both counts. There is no joined-up picture on critical areas of business activity. Financial information largely ignores the wider context and sits in isolation.



Accounting standards and regulatory requirements leave us with information that is hard to penetrate and is increasingly technical and academic. Some of this may be necessary, but the annual report risks being distanced from the day-to-day management information on which the business is run.

Reports must be reframed to explain all the critical aspects of performance reporting along with the dynamics of a company's business model and the risks and business relationships on which it depends. Whether assets and liabilities are on or off the balance sheet makes only a small contribution to the reader understanding the dynamics of the business, its competitive landscape and market environment.

In today's challenging operating environment, who can deny that we need a category given over entirely to how a company is funded and how the associated risks are managed?

An effective model would do much to highlight issues that should be on the minds of boards and management. It would look at the critical alignment of strategy and key performance indicators along with the tone, culture and behaviour of the business, remuneration and risk,

and their linkage to the overall dynamic of the business model. It should also consider climate change and broader aspects of sustainability.

Ensuring that the right information is reported in an accessible way is, of course, only part of the story. The audit model, part of a governance and regulatory model conceived decades ago, warrants as much of a rethink as the rest of the system.

Although audit failure did not contribute to the global market turmoil, events have reinforced the need to rethink how audit firms' skills and experience can be best used. Audit quality has improved significantly in recent years, but the audit remains focused on historical financial information and the complexity of the reporting system means a disproportionate amount of time must be committed to technical reporting issues.

This must not be seen as a green flag for more hours and bigger audit fees. Yet it is high time for a reassessment of how and where auditors are required to spend their time. Can auditors play a role in helping monitor systemic risks? Could they contribute to the operation of new regulatory mechanisms, given their

extensive knowledge of global business and markets? What more can auditors do to assist our understanding of corporate governance, remuneration and its impact on culture and risk-taking, and of the dynamic of the business and the scope of the risks and relationships to which it is exposed? None of these factors fall within their current remit.

It would be naïve to think that a response to all this can be found overnight. But we should waste no time in establishing a progressive programme of activity over the next two years to consider how the reporting and audit model can be strengthened to enhance regulatory and investor understanding. As a major public policy opportunity it should command the attention and sponsorship of global leaders and the active involvement of all market participants.

We have a rare opportunity to confront these issues and build trust and confidence back into the system. We must seize the moment – or risk sleepwalking into the next crisis.

**John McFall, Chairman, House of Commons Treasury Committee and Richard Sexton, UK Head of Assurance, PricewaterhouseCoopers**

# Drivers of audit quality

PwC's reputation is built around independence and integrity. We recognise the public interest vested in our audit practice and we take an uncompromising approach to audit quality based around our core values of excellence, teamwork and leadership. We believe that audit quality begins with the tone set by the leadership of the firm. We have developed a concise overview of the culture and behaviours we expect in our firm and shared this document, called 'Who we are', widely with our audit and non-audit staff.

## **Our culture and behaviours – who we are**

We have summarised below some of the key elements, which we believe are critical to our long-term success and performance levels. Critically, these ambitions and the quality aspirations we have for the audit cannot be achieved simply through process and a compliance mindset.

### **Personal responsibility: Who we are**

We all need to lead by example by living and breathing a common set of values and behaviours.

#### **Who we are**

PwC is founded on a culture of partnership with a strong commercial focus. This is reflected in our vision:

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

Our goal is to build the iconic professional services firm, always front of mind, because we aim to be the best. We set the standard and we drive the agenda for our profession.

We value our past but look to invest in our future to leave the firm even stronger than when we inherited it.

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

#### **One firm**

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

- Aim to deliver more value than our client expects
- Be agile and flexible
- Share knowledge and bring fresh insights
- Always act in the interest of the whole firm.

**Powerhouse**

Our clients and people feel and benefit from the energy and power of the firm. We have talented, enterprising and intellectually curious people who will strive with our clients to achieve success. It is this purpose that enables us to attract, develop and excite the best people and inspire confidence in our clients. We will:

- Be positive and energise others
- Invest in personal relationships
- Listen with interest and curiosity, encouraging diverse views
- Have a thirst for learning and developing others.

**Do the right thing**

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

- Put ourselves in our clients' shoes
- Never be satisfied with second best
- Treat people in a way we would like to be treated
- Always be brave enough to challenge the unacceptable
- Act with integrity and enhance our reputation.

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

**This is the PwC Experience.**

**The skills and personal qualities of our people**

Perhaps the most critical component of audit quality is the skill and personal qualities of our people. As a professional services firm, many of the skills and qualities are relevant to all our service lines, including our tax and advisory businesses. As a consequence, our high-level strategy for recruitment, engagement, development, diversity and reward is consistent across the business.

For the sixth year running, PwC has been the number one recruiter of graduates. We have always believed that the best quality audits are performed by bright and intelligent people. Accordingly, we maintain a strategy of only accepting graduates into our audit business and set a high academic threshold of accepting candidates with 2/1 or 1st class degrees. Despite the economic uncertainties we have maintained our 2009 audit practice recruitment target of 728 graduates.

On joining our audit teams, all staff will need to complete induction training, which focuses on skills training, professional development, compliance, independence and ethical rules as well as our culture and values.

For existing staff and partners, in the past year, there has been a number of mandatory and optional training courses relating to the current economic crisis, looking at auditing and ethical issues. In addition, all partners and staff benefit from on-the-job coaching and mentoring.

Delivered training is monitored both for adherence and effectiveness, and the firm's suite of training is modified accordingly.

We review the skills, competency and seniority of our audit staff and align them with the needs of audit clients. Industry expertise is a particular area of focus which enables our partners and staff to better understand our clients' business.

The firm runs Summer Schools for all professional audit staff from year 5 through to and including partners. Staff in years 1 to 4 have core training designed to equip them with the skills and knowledge to undertake the work assigned to them and develop their professional competencies.

We supplement this mandatory training with quarterly webcasts covering updates on quality, technical and regulatory issues.

While we commit significant internal effort to enhancing the quality of our people and the advancement they achieve through their careers with the firm, a critical test is what the market says about our performance as an employer. We therefore take significant pride in the fact that PwC was named Employer of the Year in the Times High Fliers Top Graduate Employers in Accountancy for the tenth consecutive year, as voted on by over 16,000 graduates. For the first time PwC was voted Finance Graduate Employer of the Year.

Further information regarding the skills and personal qualities of our people can be found in our 2009 Annual Report.

### Financial performance

The financial success of the audit practice may not always be held out as a critical driver of audit quality, but we believe it is. The quality of our audit work is largely dependent on the quality and skills of our people in what remains a highly competitive market. Our ability to recruit the best graduates, staff, and partners depends on our ability to offer market competitive salaries and world-class professional training.

In addition, we make significant investments in both our audit methodology and supporting technologies. Over the last year, this investment alone has run into many millions of pounds.

PwC has, like every other business, focused on costs and potential efficiency savings over the past year. We are clear that this programme is not at the expense of compromising audit quality.



### Auditor of the year

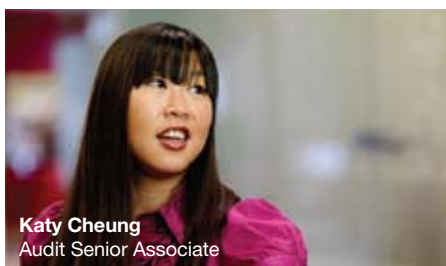
Voted 'Auditor of The Year' at the Real FD/CBI Financial Directors' Excellence Awards. Over 500 finance directors voted, the biggest independent poll of FDs in the UK.

### PwC named the top employer for finance and accounting jobs

PwC is named Employer of the Year in the Times High Fliers Top Graduate Employers in two sectors: Accountancy and Finance. Over 16,000 graduates voted.

## A graduate's story

Katy Cheung, an Audit senior associate, reflects on life through the eyes of a third-year graduate. Katy has a degree in Physics and Astronomy from Durham and currently works in our Newcastle office.



'I first came to PwC on an internship, having been through the same assessment and recruitment process as a graduate. Before you start meeting with clients, you take part in a week's training at PwC's own conference centre – and it's this initial experience that really set

the tone for me. PwC seems genuinely focused on developing its people – not only to be auditors but really equipping them for a life in business.

'I've been supported through my ACA qualification, and alongside compulsory training there are courses you can be enrolled on if there is a gap in your knowledge. You are also expected to learn on the job and are constantly being coached by those more senior than you.

'Now three years in, I audit clients of various sizes and industries. Although the underlying job is the same, it's

varied, as I'm always working with different people in different places and learning how different businesses work.

'The people here make it an enjoyable place to work. There's a lot of good banter and there are social events throughout the year.

'As for the future, once I'm fully qualified I think I might start to look internally for a secondment in order to gain a different set of experiences. In that respect PwC offers some incredible choices, so you don't necessarily have to look outside the firm to do something different.'

### Year end metrics

#### Winning new clients

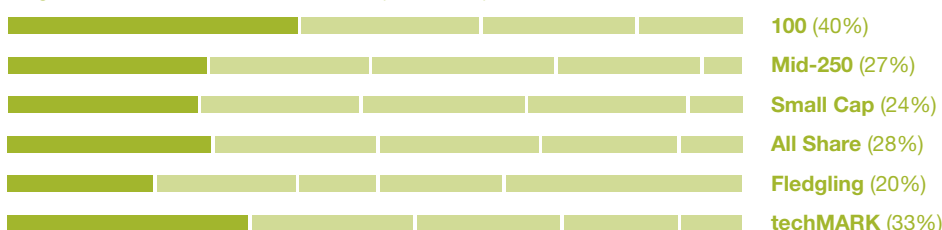
- 164 proposals over £50k (59% increase in activity)
- Won 3 of every 5 audit proposals (based on our internal tracking of proposals)

#### The financials

- Client revenues declined by 2.3% for our UK core audit business compared to prior year
- Government and Public Sector Assurance work increased significantly

### Leading audit market share

Largest audit market share in the FTSE (June 2009):



And in the private company Top Track:



#### Key

- PwC
- Other Audit Firms

Kate Richards has a degree in Commerce from the University of New South Wales. She moved from PwC's Sydney office to London in 2007 and currently works in our Insurance & Investment Management team.

'As a graduate starting work for the first time, I considered PwC to be the clear leader of the Big 4 firms in Australia. The people I met during my recruitment were friendly, open and had an extra buzz of energy that made me feel like PwC was the right place to be. Two and a half years on, I was really excited about being offered a chance to work in London.'

'As an auditor, I have quite a varied work life. I could be speaking to clients, coaching and organising audit teams during fieldwork, planning an audit in the office or even spending the day doing charity work with my social group.'

'I believe the edge that really makes PwC stand out from other firms is our pride in the quality of our work and our drive to deliver a really good service to our clients. One of the most important aspects of this means upholding solid relationships with our clients where they feel they can really trust us.'

'For me, this is embodied in our 'Value without Compromise' philosophy. It means not only delivering a high quality audit but really tailoring our audits to each client to make it mean more to them than a simple compliance task. If we really understand how our clients' businesses work and what their business strategy is, we can bring an objective perspective and experience from audits of other clients in the same industry.'

'Clients place such a high value on these insights and I believe we'll see a hugely positive impact to our relationships with them and our reputation on the whole.'

Joachim Skibenes, an Audit senior associate, reflects on life as a third-year auditor. Joachim has a degree in Accounting & Finance from the University of New South Wales and works in our London office.

'In my current role, I spend nine months a year working on the audit of a major banking group. On a day-to-day basis I manage a team of four engaged in auditing the client's business processes within corporate banking. Experience from the audit last year taught me that it really pays to spend time with the client to fully understand what they do.'

'Whilst we spend a lot time testing the client's internal controls, our work is largely driven by issues we come across through engaging with the client. I enjoy feeling that we are working in parallel with the client on issues they care about.'

'PwC management's desire to deliver an 'iconic' audit and offer the client 'value without compromise' is genuinely felt within the our audit team. Being able to spend a lot of time with the client puts me in a position to add value and not just 'tick boxes', which is personally very rewarding.'

'Our ability to do the job is of course related to the training we're given. Every year we have mandatory, three-day technical training and there are also voluntary modules that you can attend which help you in non-technical areas, such as team working. I recently attended a one-day workshop on how best to deliver the unique 'PwC client experience'. One great thing about this workshop was that the tables were made up of people ranging from new joiners to partners, which enabled us to better understand each others' perspectives.'

### Effectiveness of the audit process

The effectiveness and efficiency of our audit service is critical to our ability to maintain our public interest licence to operate. It therefore goes without saying that we invest heavily in ensuring our audits are effective, both in our underlying audit methodology and the skills of our people. We pay close attention to what our audit clients tell us about the quality of our work, to the internal indicators and processes that routinely monitor the effectiveness of our risk and quality processes and, most critically, the findings of our regulatory inspections.

### Audit innovation

The PwC approach to audit is characterised by a commitment to adhere to audit standards and regulations combined with a determination to seek to continuously improve our audit model.

### Internal management of audit effectiveness

The main internal focus on audit effectiveness comes through the work of our Assurance risk and quality group. The group's remit is to establish the technical risk and quality framework in which the audit practice operates and to provide advice and support to client teams when the need arises.

- Internal quality evaluation programme – this has been further improved in the year following an extensive strategic review. Key changes have been made in the selection of a pool of senior quality evaluators, increased seniority of reviewers, better matching of reviewers' skills with engagements and real-time moderation. Furthermore, the findings of quality reviews, both internal and external are shared with the practice through our Summer School programme and quarterly quality in practice webcasts.
- Audit technical support – the firm has embarked on a major programme to enhance its audit methodology to enhance risk analysis, audit tools and audit documentation. This has required significant input from the UK firm over the past two years and will continue to do so for the next year. The firm has dealt with a considerable number of technical auditing issues including over 50 technical panels on going concern.
- Technical accounting – the level of technical support given to the practice over the past year has been significant (364 formal consultations and 2,337 technical enquiries). In particular, the group has had to deal with over 150 client queries on impairment since 1 January. At the same time the group has been busy with the practice and clients on new financial reporting requirements through technical update seminars and through work to improve the electronic delivery of IFRS and UK GAAP knowledge and materials.
- Technical learning and education – the focus has been on supporting the roll-out of audit training, running hundreds of classroom events, training all members of staff and providing 44 e-learning solutions.
- Risk management – market conditions have resulted in a significant increase over the last year in the number of specific client related issues that have required risk management input. This environment has resulted in a large increase in the guidance given to the practice through notes, webcasts and briefings to raise the profile and awareness of the market conditions, particularly the lending environment and the pitfalls facing many companies in refinancing their businesses.

### Working with regulators

We are committed to working constructively with our main regulator – the Financial Reporting Council – and in particular the Audit Inspection Unit (AIU) and the Financial Reporting Review Panel (FRRP), and take seriously the findings identified by their work. While it is not appropriate to present the detailed findings of the 2008 AIU report in this public document, the AIU concluded that '*PwC has demonstrated the importance it attaches to audit quality through various actions...that... the firm has appropriate policies and procedures in place for its size and the nature of its client base... and audit work was generally performed to a good or acceptable standard*'.

Outside the scope of this report, but worthy of mention is the constructive working relationship we have with the Institute of Chartered Accountants in Scotland (ICAS), the Institute of Chartered Accountants in England and Wales (ICAEW) and the Quality Assurance Directorate, which has responsibility for monitoring audit quality for those organisations outside the remit of the AIU.

In addition, the audit practice is also subject to a separate inspection by the US regulator – the PCAOB. Here again the independent inspection team did not identify any audit performance issues that in their view, resulted in the firm failing to obtain sufficient evidential matter to support its opinions, based on the work they undertook.

We also work with our clients to enable them to assist the Financial Reporting Review Panel (FRRP) in their work monitoring public company reporting.



### Reliability and usefulness of audit reporting

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

When reporting to audit committees we place particular emphasis on ensuring that the scope and audit approach together with our assessment of audit risk are fully understood. We will also ensure that during the course of the audit, we identify the key judgements that impact the reported financial performance and position and the manner in which the information is presented in the annual report. In part, this presentation of key judgements includes highlighting to the audit committee the judgements that have been made by management in preparing the financial statement, which we believe are important to an understanding on the performance being presented. It is important as auditors that we recognise that the nature of accounting and the judgements that are applied means that there is 'no one right answer'.

In addition, it is our role to assure the board and we can conclude that what is reported externally is both true and fair within established norms of materiality.

We are also conscious of our responsibility beyond reporting to audit committees to ensure our audit reports are clear and unambiguous. We achieve this through 'hot reviews' of listed and public interest entities, training, use of templates and consultation procedures.

### Factors outside the control of auditors

When considering the factors that drive audit quality it is important to understand the factors that are to a large extent outside our control. The credit crunch has highlighted the importance that effective corporate governance plays in the running of a business and how it interacts with its external stakeholders. While we may not have any direct control over the corporate governance of our audit clients, it would be wrong to suggest we do not try to influence corporate governance in discharging our audit responsibility. In particular, we often commit significant effort in trying to influence non-executive directors (NED) and board thinking when we believe it is missing an issue. The auditor's ability to consider a qualified opinion does not work when the issue does not warrant such a stance. Furthermore, we also commit significant time to engagement with the NED community, both through formal technical seminars aimed at enhancing their own skills and knowledge and ad hoc events focused on topical business issues – of which there have been more than 40 over the past 12 months.

In a similar vein our interaction with audit committees is critical to the effectiveness of our audits. Here we place significant effort in ensuring that our engagement is clear and concise, and that this is best achieved through comprehensive audit committee reports, which focus on the material issues and professional judgements that are critical to our audit opinion.

The issue of shareholder oversight and activism in the running of companies has also received a good deal of attention as a result of the credit crunch. Clearly the role of shareholders in challenging poor management and ineffective governance is a critical element in the overall system of checks and balances that exist around public companies. While our interaction with shareholders is limited, due to regulation and client confidentiality in large part to the activities of the Annual General Meeting, we do commit significant time and effort to engage with investor groups, both around audit quality and the development of the reporting model where their views are particularly sought by the standard setters.

Limitation of liability has also been an issue linked to the long-term sustainability of the audit profession. Progress has been made in establishing the legal right for audit firms to limit their liability on a proportionality basis through contractual agreement with each company. The market response, both from shareholders and the corporate sector has been muted and so far as we are aware, no auditor has limited its liability in practice.

Finally, we are significantly influenced in the audit work we do by the regulatory environment that establishes the framework in which we operate and which is the basis for the regulatory assessment of our performance. In the next section, we set out three issues facing the audit profession which we believe are important to its future relevance. These issues are not just about the quality of what we do but its relevance in a changing world, where the long-term sustainability of the audit profession should not be taken for granted.

# Challenges facing the profession

The standing of the accounting profession in the UK is in large part a reflection of the critical role that accounting plays in modern life and the quality of the individuals who have been attracted to the UK profession over many decades. It is this positioning and the public interest role of auditing that has placed the professional audit firms in the spotlight for a number of years around audit quality, scope of services, independence and audit choice.

We have been active in these debates and it is of no surprise to know we have strong views on each, but critically recognise that others outside the profession often see situations differently. While we are mindful that some of these issues will continue to be aired, we do believe that we are reaching a critical inflection point with respect to our public interest responsibilities. Put simply, we believe that there is an urgent need to reassess the relevance of reporting and the value that is being delivered through the audit process.

## Relevance of reporting

It is recognised that reporting should be the lifeblood of our economy and society. The credit crunch is another reminder that financial reporting can only deliver restricted insights into a company's performance and will not explain a company's business model, its key risks and relationships, and the dynamics of its governance and remuneration structures. As the reporting model was conceived in the last century as part of the old

regulatory model, we believe there is a unique opportunity to start a process of reassessing its scope and value as part of the process to rebuild the whole system to meet the needs of the twenty-first century. While the financial model has evolved significantly over the past 20 years and convergence remains a priority, we should not assume it is in rude health. Its technical complexity and increasing focus on fair value thinking is making it remote from day-to-day business and those that rely upon it for meaningful information exchange. Furthermore, while there has been a short-term focus on the role of fair value in financial services reporting, an even bigger issue remains unanswered – how far should fair value thinking be taken into the mainstream of reporting?

As importantly, the reporting model needs to be capable of accommodating change and the future needs of society. The sustainability agenda has been with us for a number of years, but it is only now that it is starting to take a central position in regulatory and business thinking. Carbon

is the most prominent element of this agenda, although energy, water, resource usage and community impacts are also critical. We have already seen a proliferation of guidance being produced on carbon measurement in the UK and this is symptomatic of what is happening in many countries around the world. Creating an integrated reporting model that can accommodate these challenges in a structured and cohesive way is critical to our ability to deal with these issues effectively. However, for this to happen demands a global solution, global guidelines and in time, global standards; this can only be achieved with a recognition of the issues and an organisation with the legitimacy, skills and bandwidth to make things happen.

We cannot overemphasise the importance of the reporting challenge facing the world and the profession. We are committed to investing time and resources to this issue, both in raising the awareness of this issue and in working to find solutions and ways forward.



### Rethinking the audit

In thinking ahead on the audit, we have to recognise that its value is in large part determined by the relevance of the reporting model.

The credit crunch and its fallout have again highlighted the existence of an 'expectation gap' between perceived and actual responsibilities of the auditors.

### Business understanding

A critical issue that has emerged from the credit crunch is the importance of management and boards' understanding of their business models and the risks and relationships to which the business is exposed. This understanding is important to auditors if they are to have any ability to understand and address the key audit risks that exist in any company. While many positives can be taken from the change in audit regulation that has occurred since Enron, we believe that an unintended consequence has been to undermine the level of business knowledge across the audit profession. This situation has arisen in large part for two reasons, namely a reduction in the breadth of experience audit staff typically receive over their careers (less involvement in transactions, due diligence and special assignments) and a tendency towards a box-ticking mindset brought

on by the need to meet the demands of regulatory inspection. This shift, if it were to continue unchecked for a number of years, would, we believe, have a significant retrograde impact on the overall quality of auditing here in the UK. We suspect that this issue is not one that the audit profession faces alone and is recognised as being a challenge in banking regulation also.

### Audit innovation

The fallout of the credit crunch has highlighted the importance of a number of issues that do not currently receive a central position in the way audits are undertaken today. The issues include: the impact and implications of leadership styles and the tone from the top; different organisational cultures and behaviours; different governance, business and remuneration models. While these are issues that the best auditors are aware of and factor into their thinking, their critical importance has not been given relative prominence in the way auditing standards have been developed. In an industry increasingly driven by compliance with regulatory standards, we need to consider how to encourage audit innovation and experimentation aimed at enhancing audit quality and, in particular, we need to recognise, difficult though it is, that the biggest audit risk is the behavioural aspects of the organisation being audited.

### Systemic risk

The third issue that has been given significant airtime as a result of the credit crunch is the issue of systemic risk. The question that we believe needs to be asked is whether the large audit firms should have a role to play in the monitoring of systemic risk. With global networks, exposure to all major capital markets and industry sectors, is it appropriate for these firms to provide input to the formal processes being established to monitor this critical area? As a firm we believe systemic risk is a critical issue and extends beyond the banking and financial services sector into issues such as climate change, energy and food security, water, pensions and healthcare. While today our public interest responsibilities are focused at a company level, perhaps more thought should be given to alternative models in which auditors can use their knowledge in different ways to help input to the monitoring mechanism put in place around economic activity.

# Transparency report

## Introduction

This Transparency Report has been published in accordance with the Statutory Auditors (Transparency) Instrument 2008 and is in respect of the financial year ending 30 June 2009.

## Legal structure and ownership of the UK firm

PricewaterhouseCoopers LLP is a limited liability partnership. It is wholly owned by its members, who are commonly referred to as partners.

## Network arrangements

The UK firm of PricewaterhouseCoopers LLP ('the firm') is a member of the PricewaterhouseCoopers global network.

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

PricewaterhouseCoopers member firms operate locally in countries around the world. By joining PwC International, and becoming part of the PricewaterhouseCoopers global network, a member firm obtains the right to use the

PricewaterhouseCoopers name and gains access to the common resources, methodologies, knowledge and expertise shared among the member firms. Each member firm also agrees to abide by PwC International's common standards and policies, which are approved by the Board of PwC International. Each PricewaterhouseCoopers member firm engages in quality control and compliance monitoring activities, covering the provision of services, ethics and business conduct, and independence issues.

PwC International is an English private company limited by guarantee. PwC International provides an international network structure for PricewaterhouseCoopers' member firms. PwC International does not provide services to clients. PwC International's primary activities are to: identify broad market opportunities and develop associated strategies; strengthen PricewaterhouseCoopers' internal product, skill, and knowledge networks; promote the PricewaterhouseCoopers' brand; and develop and work for the consistent application of common risk and quality standards by member firms, including compliance with independence processes.

Member firms of PwC International do not act as agents of PwC International in providing services to clients or otherwise, and PwC International does not act as the agent of its member firms. PwC International has no right or ability to control any member firm's exercise of professional judgement. PwC International does not have any liability for the acts or omissions of any member firm.

## Governance structure of the UK firm

### The Executive Board

The Executive Board is responsible for developing and implementing the policies and strategy of the firm, and for its direction and management. It sets and communicates its strategic priorities, which cascade into the firm's business planning process. The contribution of each part of the firm is monitored through scorecard reporting.

The Executive Board also takes overall responsibility for the systems of internal control (which include controls relating to quality) and for reviewing and evaluating their effectiveness.

The Executive Board is chaired by Ian Powell, whose term of office runs for four years from 1 July 2008. The Chairman, who is elected by the firm's partners, appoints the other Executive Board members, all of whom are partners in the firm. Changes to the Executive Board are determined by the Chairman.

The Executive Board generally meets monthly, but also conducts formal business at additional meetings as necessary.

The members of the Executive Board, each of whom has responsibility and accountability for a specific aspect of our business, are:

**Ian Powell**, Chairman and Senior Partner, is responsible for the leadership and strategic direction of the UK firm and its role in PwC's global network. His background is in Assurance and Restructuring, where he has advised leading international financial institutions and corporates. Ian joined the firm in 1977, became a partner in 1991 and has worked in Birmingham, Manchester and London. He has a degree in Economics from Wolverhampton Polytechnic. He previously headed the Advisory practice.

**Richard Collier-Keywood**, Managing Partner, is responsible for the overall management and performance of the business as well as our community affairs programme. He read Law at Warwick University and was called to the Bar in 1983. He joined the firm in 1987 and became a partner in 1992. He was previously head of the firm's Tax practice.

The Head of the Assurance Practice, which incorporates PwC's Audit practice, is Richard Sexton.

**Richard Sexton**, joined the firm in 1980. He has a degree in Mathematics and Business Finance from Southampton University. He is a fellow of the ICAEW and a 'Responsible Individual'. He has been a partner for 17 years including secondments to New York and Hong Kong. Before becoming head of the London Assurance practice in 2002 he was responsible for the firm's technology, communications, entertainment and media assurance practice. He joined the Executive Board in 2006 and is Chairman of the Assurance Executive.

Other members of the Board:

**James Chalmers**, Head of Strategy and Talent, graduated from Oxford University with an Engineering degree and joined the firm in 1985, becoming a partner in 1997. He has extensive experience providing Assurance services to multinational clients

and has been on long-term secondments to clients in the banking and healthcare sectors. Before joining the Board, he was a member of the Assurance leadership team.

**Kevin Ellis**, Head of Advisory, graduated in Industrial Economics from Nottingham University, joined the firm in 1984 and became a partner in 1996. He was previously head of Business Recovery Services.

**Owen Jonathan**, General Counsel, is responsible for the Office of General Counsel and enterprise risk, including compliance and independence. He read Law at the University of Bristol. Before joining the firm as a partner in 2000, he was a partner at City law firm Norton Rose and, subsequently CEO of South China Morning Post (Holdings) Ltd.

**Barry Marshall**, Head of Tax, has an MBA from Warwick University. Barry joined the firm in 1980 and became a partner in 1988. Barry's international experience includes acting as the global leader of our international tax structuring network.

**Kevin Nicholson**, Head of Regions, works with the Regional Leaders on strategy, planning and execution. He 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 and previously headed our Entrepreneurs and Private Clients division.

**Paul Rawlinson**, Head of Markets and Industries, is responsible for driving revenues across our top tier client base and put in place the Industry and Segment programmes that will ensure effective cascade of learning and credentials from our brand-defining clients. He has a History degree from Cambridge University, joined the firm in 1982 and became a partner in 1994. Paul has extensive experience as a Transaction Services partner in the Private Equity and Corporate markets.

**Keith Tilson**, Chief Financial Officer, is in charge of Finance and Operations. He read Economics at Cambridge University. After joining the firm in 1976, he spent four years in Sydney and became a partner in 1988. Before taking up his current role, he was Managing Partner of Operations and Finance and before that, Head of Advisory.

#### **The Supervisory Board**

The Supervisory Board, which is independent of the Executive Board, is elected by the partners. Its meetings are held monthly and are attended by the Chairman of the Executive Board, as an ex officio member. The three-year term of office of the Supervisory Board ends on 31 December 2009.

The Supervisory Board provides the Chairman with guidance on matters of actual or potential concern to the partners. It is also responsible for approving the

Annual Report, for recommending the admission of new partners, for overseeing the process of electing the Chairman and for checking that our policies on partners' remuneration are being properly applied; it also has the power to initiate a ballot for the removal from office of the Chairman.

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

The Audit Committee is a committee of the Supervisory Board, which has responsibility for identifying, assessing and managing risks within the firm. It oversees the management of those risks, including financial control, compliance and independence. It also reviews the firm's financial statements and considers the scope, results and effectiveness of internal and external audit, including reviewing the external auditors' independence and any non-audit services and fees. The Chief Financial Officer and General Counsel, together with the internal and external auditors, attend the committee's meetings by invitation. It met six times in the year ended 30 June 2009 (2008: five times).

The members of the Supervisory Board, all of whom served throughout the period, are:

**Gerry Lagerberg\***, Chairman  
**Pam Jackson**, Deputy Chair  
**Mohammed Amin**<sup>†</sup>  
**Clare Bolton\***  
**Colin Brereton**  
**John Dowty**<sup>†</sup>  
**Roy Hodson**<sup>\*\*††</sup>  
**Gordon Ireland**<sup>\*\*</sup>  
**Mike Karp**  
**Ron McMillan** (to 30 June 2009)  
**Pat Newberry**<sup>†</sup>  
**Ian Rankin**<sup>\*\*†</sup>  
**Duncan Skales**  
**Julia Smithies\***  
**Graham Williams**<sup>†</sup>

Ex officio member:

**Ian Powell**

\* Senior Management Remuneration Committee member

\*\* Senior Management Remuneration Committee Chairman

† Audit Committee member

†† Audit Committee Chairman

### Managing risk

The Executive Board takes overall responsibility for establishing systems of internal control and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these systems and for ongoing monitoring of risk and the effectiveness of control rests with senior management. The systems, which have been in place throughout the financial year and up to the date of approval of the firm's 2009 financial statements, include:

- The Risk Council, an Executive Board committee, which is responsible for ensuring that the controls are in place to identify, evaluate and manage risk;
- Our Lines of Service and our internal firm services, which maintain risk registers that document risks and the responses to them. They each carry out a risk assessment annually and report to the Risk Council on how effectively they have managed risk during the year;
- Our internal audit team, which reviews the effectiveness of the financial and operational systems and controls throughout the firm and reports to the Executive Board and the Audit Committee;
- Our risk and quality functions, which oversee our professional services risk management systems and report to the Executive Board; and
- The Compliance Policy Council, a committee of the Executive Board, which ensures that our policies and procedures take account of key regulatory and compliance requirements.

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

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

The Executive Board, in reviewing the effectiveness of the system of internal control, confirms that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified in the review.

### Internal quality control system

The following is a summary of the system of quality control that the firm has adopted over its accounting and auditing practice.

#### Introduction

All member firms of the PricewaterhouseCoopers global network are obliged to abide by certain common risk and quality policies approved by PwC International and to conduct risk and quality reviews. The PricewaterhouseCoopers' global network audit and quality control standards are set out in various policies. The firm's policies are based on these common policies, which are supplemented to address local professional standards and regulatory requirements. In addition, our client, regulatory and public interest responsibilities demand that we consistently deliver reliable and high-quality work.

## Quality Control Standards

Compliance with International Standards on Auditing ('ISA') requires the firm to have a system of quality control over its auditing practice. These controls are embedded as part of the firm's day-to-day activities. The quality control system is in compliance with International Standard on Quality Control 1 (ISQC1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, issued by the International Federation of Accountants (IFAC). The IFAC standards and requirements and, therefore, the firm's quality control system, encompass the following six elements of quality control:

### 1. Leadership Responsibilities for Quality within the Firm

The firm's leadership is committed to audit quality and has established a firm culture embracing high standards in independence and professional ethics. This leadership is embedded throughout the detailed policies endorsed by leadership, including ethical, human resources and engagement performance discussed below. It is also demonstrated by the dedication of resources to quality. There is a partner on the Executive Board who is responsible for risk management and quality control who reports directly to the Chairman. In addition, each line of service has a partner responsible for risk management and quality control relative to the firm's client service operations.

### 2. Ethical Requirements

**Integrity and Objectivity:** The reputation and success of the firm depends on the professionalism and integrity of each and every partner and employee. All the firm's partners and staff are expected to uphold and comply with the standards developed by the PricewaterhouseCoopers' global network and the firm. The firm's management monitors compliance with these obligations by the firm's partners and staff. Upon hiring or admittance, all staff and partners of the firm are provided with a copy of the PwC Global Code of Conduct, which can be viewed on the PwC Global website ([www.pwc.com](http://www.pwc.com)). They are expected to live by the values expressed in the code in the course of their professional careers. A confidential whistle-blowing hotline is available to partners and staff to discuss concerns they may have about bad business conduct or unethical behaviour.

**Independence:** The firm has adopted the PwC Global policies and related rules regarding independence and compliance, complemented when necessary by more restrictive local professional and regulatory rules. The firm strictly monitors compliance with regulatory, professional and PwC independence requirements related to financial interests in, and business and service relationships with, clients.

### 3. Acceptance and Continuance of Client Relationships and Specific Engagements

The firm has implemented a process to identify acceptable clients based on the PwC global network's proprietary decision support systems for client acceptance and retention (called Acceptance and Continuance ('A&C')). A&C facilitates a determination by the engagement team, business management and risk management specialists of whether the risks related to an existing client or a potential client are manageable, and whether or not PwC should be associated with the particular client and its management.

Potential conflicts of interest and the need for separation of engagement teams to ensure confidentiality are identified by a dedicated relationship checking team within Compliance, which carry out searches of the firm's systems. This team works with risk management and the Independence and Ethics Partner to ensure conflicts are avoided and appropriate procedures are in place to protect confidential information between teams.

### 4. Human Resources

**Quality People:** The quality of our work is determined largely by the quality of our people. Consequently, we aim to recruit, train, develop and retain the best and brightest.

The firm's partners and staff are reminded regularly of the culture, values and core attributes of PwC – Teamwork, Excellence and Leadership. The firm aims to recruit high-quality staff, in particular those who can operate as experts in support of audits and who share in the firm's strong sense of responsibility for auditing. There is a robust assessment of the quality of those people we hire from universities.

**Professional Development:** Training and development is an ongoing process. Training starts when a person is hired and continues throughout his or her career. Our people participate in a variety of formal training courses and computer-based training, and they are also trained through on the job coaching and supervision.

**Supervision and Direction:** Each engagement partner is responsible, in consultation with others as appropriate, for staffing engagements with partners and staff who have the professional competence and experience required in the circumstances. Further, each engagement partner is ultimately responsible for determining the extent of direction, supervision and review of the work of more junior staff to whom work is delegated.

## 5. Engagement Performance

### **Consistent Global Methodology:**

The firm uses a consistent audit methodology and process for audit engagements. The methodology is enhanced as necessary to respond to the changing environment. All audit engagement partners and staff receive ongoing training in this methodology.

### **Comprehensive Policies and Procedures:**

To complement the Global policies and procedures, the firm has comprehensive policies and procedures governing our local accounting and auditing practice that are constantly updated to reflect new professional developments and our operating environment, and to address emerging issues, as well as the needs and concerns of the practice. These policies cover not only professional and regulatory standards, but also reflect the guidance that PwC provides to its professionals about how best to implement them. They are available in electronic files and databases, are regularly updated or supplemented for all current developments and are accessible to our people remotely at any time.

**Risk and Quality (R&Q):** Consultation is a key element to quality control.

The firm has formal protocols setting out the circumstances under which consultation is mandatory. The firm is supported by technical experts who track new developments in accounting, auditing and other relevant areas and provide updates to the appropriate professional staff. Our consultative culture means that our engagement teams will regularly consult with experts and others beyond those that are formally required.

## 6. Monitoring

Engagement reviews are conducted by experienced partners and staff that are not connected either with the office that performs the audit or the audit itself. Reviews are conducted annually with all engagement leaders subject to review at least once every three years.

In addition, quarterly manual- and systems-based monitoring procedures, sample in progress, audits to test compliance with a selection of key performance indicators of quality.



A review of whole firm procedures is also undertaken annually, which includes testing of the effectiveness of the firm's quality controls in functional areas such as hiring, training and independence.

Quality monitoring is an integral part of the firm's continuous improvement programme. The firm constantly evaluates inputs from formal programmes such as this and a variety of informal sources in an ongoing effort to improve policies, procedures and the consistency of the quality of work. Instances of failure to meet performance standards would be treated seriously and the partner responsible will be counselled to improve performance and appropriate steps will be taken to fully encourage improvement including where appropriate, the imposition of financial penalties.

### External inspections

The firm is eligible to undertake statutory audit work by virtue of its authorisation by the Institute of Chartered Accountants in England and Wales ('ICAEW'), which is a Recognised Supervisory Body for auditors under the Companies Act 2006.

Each year, as part of the monitoring responsibilities of the ICAEW, the Audit Inspection Unit ('AIU') of the Professional Oversight Board (part of the Financial Reporting Council) and the Quality Assurance Department ('QAD') of the ICAEW, undertake an inspection of the quality of the firm's work as statutory auditors.

In July 2009, the Audit Registration Committee of the ICAEW considered the outcome of the 2008/9 inspections undertaken by the AIU and QAD and confirmed the continuance of the firm's audit registration.

In December 2008, the AIU issued a report of its 2007/8 inspection; this report is available to the public on the Financial Reporting Council's website.

### Independence procedures and practices

#### Organisation

The Ethics Partner is a senior partner within the firm and is supported by a core team of independence specialists to help him/her ensure the firm applies robust and consistent independence policies, procedures and tools. The Ethics Partner is

a member of the PricewaterhouseCoopers network's Global Independence Leadership Team and reports directly to Owen Jonathan, the Head of Risk and Quality, a member of the firm's Executive Board.

#### Policies and guidance

The PricewaterhouseCoopers' Global Independence Policy, which is based on the IFAC Code of Ethics and encompasses, where appropriate, the SEC/PCAOB regulations, sets out the minimum standards that should be observed and processes that should be followed in order to maintain independence from PricewaterhouseCoopers' assurance clients. The UK firm supplements this policy as required by UK professional bodies and regulation.

The firm's independence policy is supported by practical guidance, including Statements of Permitted Services ('SOPS'), which provide guidance on the application of policy in respect of non-audit services to assurance clients.

#### Training and confirmations

Annually, all partners and staff receive computer-based training on the firm's independence policy and related topics.



Additionally, face-to-face training is delivered to members of the practice on an as-needs-basis by the firm's independence specialists and risk and quality teams. For example, at the 2008 Assurance Summer School senior members of the Independence Team delivered training on the changes arising from the revised APB Ethical Standards.

All partners and staff are required to confirm on joining the firm and at least annually, thereafter, their compliance with all aspects of the firm's independence policy including their own personal independence. In addition, all partners and directors confirm that all non-audit services and business relationships for which they are responsible are in compliance 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 any threats to independence that may have arisen; and as a periodic reminder of the firm's independence policies and procedures. These annual confirmations are supplemented by periodic and ad hoc engagement level confirmations for the firm's larger financial services clients.

### Independence Systems

PwC has a number of global systems to assist the practice in complying with the firm's independence policies and procedures. These systems include:

- The Central Entity Service ('CES'), which contains information about corporate entities including the firm's public interest audit clients and SEC restricted clients and their related securities. CES assists practice staff to determine the independence status of clients of the firm and securities before entering into a new non-audit engagement or business relationship. This system also feeds GPS;
- The Global Portfolio System ('GPS') facilitates the pre-clearance of publicly traded securities by all partners, directors and practice managers prior to acquisition and records their subsequent purchases and disposals. Where the firm wins a new audit client, this system automatically informs those holding securities in this client of the requirement to sell the security; and

- Authorisation for Services ('AFS') is a global system that facilitates the communication between a non-audit services engagement leader and the audit partner, documenting the potential independence threats of the service and proposed safeguards, and acting as a record of the audit partner's conclusion on the acceptability of the service.

The UK firm also has a number of local systems, which include:

- A rotation tracking system that monitors compliance with the firm's audit rotation policies for engagement leaders and key partners involved in an audit for all public interest audit clients of the firm; and
- A database that records all approved business relationships entered into by the firm. These relationships are reviewed on a six-monthly basis to ensure their ongoing permissibility.

### Monitoring

The firm has a comprehensive monitoring and testing programme, which includes:

- 'Hot' and 'cold' quality control reviews of engagements for compliance with risk management processes, including independence;

- Central monitoring of independence key performance indicators including quality of AFS, and compliance with required engagement level independence procedures;
- Personal independence audits of a random selection of partners, directors and other staff; and
- Annual self-assessment of the firm's adherence with the PricewaterhouseCoopers network's risk management standards. This self-assessment is reviewed by an independence leader from another PricewaterhouseCoopers' firm.

The results of the firm's monitoring are reported to the Executive Board and provide assurance that the firm's policies and processes are being followed. The investigations of any identified violations of policies also serve to identify the need for improvements in the firm's systems and processes, and for additional guidance and training.

#### **Disciplinary policy**

In appropriate cases a partner or staff member is subject to a fine or other disciplinary action for a violation of independence policy.

#### **Public interest audit clients**

A list of the public interest entities for which we carried out a statutory audit during the year ended 30 June 2009 can be found in the Appendix.

#### **Continuing professional education of partners and staff eligible for appointment as statutory auditors**

The firm has created and maintains up-to-date comprehensive online reference databases and materials. These cover all aspects of policy, procedure and methodology, as well as containing a complete library of UK and international accounting, auditing and ethical standards. To support and keep theoretical knowledge up to date, all partners and staff receive regular communications on technical and regulatory topics as they arise. Technical departments provide consultation support on all aspects of auditing, accounting and regulatory requirements including subject-matter experts in specialist industries.

The firm's internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. Specialist industries also operate training programmes.

Engagement leaders are required to participate in the internal objective setting and related performance appraisal processes. Through this they assess their ongoing personal development needs and identify any necessary development activities including in relation to quality. Unsatisfactory work results in reduced performance reward.

The PwC Code of Conduct sets expectations of required behaviour and values. Mandatory training covers this Code and also incorporates ethical, accounting, auditing and other regulatory matters.

The firm also monitors compliance with Continuing Professional Development requirements including the completion of mandatory training programmes and ensures that our services are delivered to clients by individuals who have the right experience and – where required – are qualified under relevant legislative and other applicable requirements.

#### **Financial information**

An analysis of the total turnover of PricewaterhouseCoopers LLP in the UK for the financial year ending 30 June 2009 is shown opposite:

	2009 £m	2008 £m
Audit services	558	571
Non-audit services to audit clients	406	457
Services to non-audit clients	1,239	1,188
<b>UK firm turnover</b>	<b>2,203</b>	<b>2,216</b>

Total turnover for the UK LLP and its subsidiaries was £2,248m (2008: £2,244m), profit for the financial year was £680m (2008: £675m), with profit available for division among members of £667m (2008: £664m).

### Going concern

The Executive Board has a reasonable expectation that the firm has adequate financial resources to meet its operational needs for the foreseeable future and therefore the going concern basis has been adopted in preparing the financial statements.

### The Group

The Group consists of PricewaterhouseCoopers UK LLP and the following principle subsidiaries:

### Companies

PricewaterhouseCoopers Services  
PricewaterhouseCoopers (Resources)  
PricewaterhouseCoopers (Middle East Group) Limited  
Sustainable Finance Limited

### Principle activity

Service company and employment of staff  
Employment of all staff  
Professional services  
Professional services

### Limited Liability Partnerships

PricewaterhouseCoopers CI LLP  
PricewaterhouseCoopers Legal LLP

Professional services  
Legal services

### Statement of members' responsibilities in respect of the financial statements

The Companies Act 1985, as applied to Limited Liability Partnerships, requires the members to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of both PricewaterhouseCoopers LLP and the Group, and of the profit or loss of the Group for that period. In preparing those financial statements, the members are required to:

- Select suitable accounting policies and then apply them consistently, subject to any changes disclosed and explained in the financial statements;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- Prepare the financial statements on the going concern basis, unless it is inappropriate to assume that the LLP or Group will continue in business.

The members are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and the Group, and enable them to ensure that the financial statements comply with the Companies Act 1985, as applied to Limited Liability Partnerships. They are also responsible for safeguarding the assets of the LLP and Group, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

These responsibilities are fulfilled by the Executive Board on behalf of the members. The Executive Board confirms that it has complied with the above requirements in preparing the financial statements.

**Statement of auditors' responsibilities**

The auditors' responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The auditors report to the members their opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985, as applied to limited liability partnerships. They also report to members if, in their opinion, the LLP has not kept proper accounting records or if they have not received all the information and explanations they require for their audit.

They read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information is set out in the sections of

the Annual Report, headed Chairman's statement, Clients, People, Sustainability and community, Governance, Financial and Network. They consider the implications for their report if they become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Members' profit shares**

Members are remunerated solely out of the profits of the firm and are personally responsible for funding pensions and other benefits. Audit partners are not permitted to be incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients.

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

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

- Responsibility income – reflecting the member's sustained contribution and responsibilities;
- Performance income – reflecting how a member and their teams has performed; and
- Equity unit income – reflecting the overall profitability of the firm.

Each member's performance income is determined by assessing achievements against an individually tailored balanced scorecard of objectives, based on the member's role. There is transparency among the members over the total income allocated to each individual.

# Appendix

## **List of public interest entities**

A full list of public interest entities can be viewed online at [www.pwc.co.uk/annualreport09/](http://www.pwc.co.uk/annualreport09/)

Please note – this list includes those 290 audit clients, for whom we issued an audit opinion between 1 July 2008 and 30 June 2009, who have issued transferable securities on a regulated market (as defined in the Statutory Auditors (Transparency) Instrument 2008 (POB 01/2008).

If you have any comments or questions, please contact [brian.bannister@uk.pwc.com](mailto:brian.bannister@uk.pwc.com)

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London E14 9SQ  
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**6 Hay's Lane**  
London SE1 2HB  
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**80 Strand**  
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**Aberdeen**  
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**Belfast**  
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Other Northern Ireland  
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Londonderry, Omagh and  
Portadown

**Birmingham**  
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## Gloucester

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**Manchester**  
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**Abacus Court**  
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Manchester M1 3ED  
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**Milton Keynes**  
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Central Business Exchange  
Midsummer Boulevard  
Central Milton Keynes  
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**Newcastle upon Tyne**  
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## Norwich

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Reading  
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**Sheffield**  
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**Southampton**  
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**St Albans**  
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