Public Report

Financial Reporting Council

May 2014

PricewaterhouseCoopers LLP

Audit Quality Inspection

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

Contents

Page

1 Background information and key messages

1.1 Introduction

This report sets out the principal findings arising from the inspection of PricewaterhouseCoopers LLP ("PwC" or "the firm") carried out by the Audit Quality Review team of the Financial Reporting Council ("the FRC"), in respect of the year to 31 March 2014 ("the 2013/14 inspection"). We inspect PwC annually. Our inspection was conducted in the period from April 2013 to January 2014 (referred to as "the time of our inspection"). The objectives of our work are set out in Appendix A.

Our inspection comprised reviews of individual audit engagements and a review of the firm's policies and procedures supporting audit quality.

We reviewed 19 audit engagements undertaken by the firm, of which two were further reviews of audits reviewed in our 2012/13 inspection. These related to FTSE 100, FTSE 250, other listed and other major public interest entities with financial year ends between April 2012 and April 2013. Our reviews were selected on a risk basis, utilising a risk model; each review covered only selected aspects of the relevant audit. The further reviews included an assessment of the extent to which our previous findings on those audits had been addressed.

Our responsibility is to monitor and assess the quality of the audit work performed by the UK firm. Accordingly, our reviews of group audits covered the planning and control of the audit by the group engagement team, including their evaluation of the adequacy of the work performed by component auditors, and selected aspects of other work performed by the UK firm at group and/or component level. Our reviews did not cover audit work relating to components undertaken by other firms within or outside PwC's global network.

Our review of the firm's policies and procedures supporting audit quality covered the following areas:

- Tone at the top and internal communications
- Transparency report
- Independence and ethics
- Performance evaluation and other human resource matters
- Audit methodology, training and guidance
- Client risk assessment and acceptance/continuance
- Consultation and review
- Audit quality monitoring
- Other firm-wide matters

We exercise judgment in determining those findings which it is appropriate to include in our public report on each inspection, taking into account their relative significance in relation to audit quality, both in the context of the individual inspection and in relation to any areas of particular focus in our overall inspection programme for the relevant year. Where appropriate, we have commented on themes arising or issues of a similar nature identified across a number of audits.

Further information on the scope of our work and the basis on which we report is set out in Appendix A.

All findings requiring action set out in this report, together with the firm's proposed action plan to address them, have been discussed with the firm. Appropriate action may have already been taken by the date of this report. The adequacy of the actions taken and planned will be reviewed during our next inspection.

The firm was invited to provide a response to this report for publication. The firm's response is set out in Appendix B.

We acknowledge the co-operation and assistance received from the partners and staff of PwC in the conduct of our 2013/14 inspection.

1.2 Background information on the firm

PwC is a UK limited liability partnership and the UK member firm of the PwC global network. The firm operates from 34 offices in the UK and through four principal "lines of service", being Assurance, Consulting, Deals and Tax. All statutory audit work is performed within the Assurance line of service, which is divided into business units for operational purposes based on geography and industry sectors.

For the year ended 30 June 2013, the firm's turnover was £2,689 million, of which £969 million related to audit work and other assurance services. At that date, the firm had 874 partners, of whom 207 were authorised to sign audit reports, and 155 employees (audit directors) who were authorised to sign audit reports[1].

We estimate that the firm audited 576 UK entities within the scope of independent inspection as at 31 December 2012. Of these entities, our records show that 213 had securities listed on the main market of the London Stock Exchange, including 37 FTSE 100 companies and 52 FTSE 250 companies.

The UK firm audits entities incorporated in Jersey, Guernsey or the Isle of Man whose securities are traded on a regulated market in the European Economic Area. Our records show that, at the time of our inspection, the firm had eight such audits, including two FTSE 100 companies. These are inspected by us under separate arrangements agreed with the relevant regulatory bodies in those jurisdictions. The results of these reviews are included in this report.

Separate PricewaterhouseCoopers network firms operate in the Channel Islands and the Isle of Man. The results of any reviews undertaken of the audits of these firms are, therefore, not included in this report.

1.3 Overview

We focus in this report on matters where we believe improvements are required to safeguard and enhance audit quality. We set out our key messages to the firm in this regard in section 1.4. While this report is not intended to provide a balanced scorecard, we highlight certain matters which we believe contribute to audit quality, including the actions taken by the firm to address findings arising from our prior year inspection.

The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures. These are set out in this report.

---

[1] As disclosed in the Annual Return to the ICAEW as at 31 December 2013

Our file review findings, as set out in section 2, largely relate to the application of the firm's procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. These included additional training, webcasts and technical alerts for engagement leaders and staff, including the need to demonstrate professional scepticism in the audit process. We have seen further improvement in our areas of particular focus and hence identified fewer recurring findings than in the prior year.

Our findings were diverse in nature and did not fall into common themes.

1.4 Key messages

The firm should pay particular attention to the following areas in order to enhance audit quality and to safeguard auditor independence:

- Ensure that the simplification and standardisation of audit procedures under the Assurance Transformation programme is accompanied by appropriate focus on the exercise of professional judgment in key audit areas.

- Provide additional guidance on the approach to the audit of IT general controls, particularly in relation to user and/or developer access controls and system generated reports.

- Take further action to ensure sufficient challenge of the appropriateness of assumptions supporting the carrying value and the useful economic lives of tangible and intangible assets.

- Prior to accepting a new audit appointment, ensure that the significance of any threats arising to the firm's independence from having previously provided non-audit services is properly assessed and that any continued provision of such services does not compromise the firm's independence.

- Ensure that audit engagement leaders apply the firm's guidance, as revised in the light of our concerns, on the audit of letterbox companies[2] appropriately.

2 Principal findings

The comments below are based on our reviews of individual audits and the firm's policies and procedures supporting audit quality.

2.1 Reviews of individual audits

We reviewed and assessed the quality of selected aspects of 19 audits (2012/13: 14 audits), of which two were further reviews of audits reviewed in our 2012/13 inspection which included an

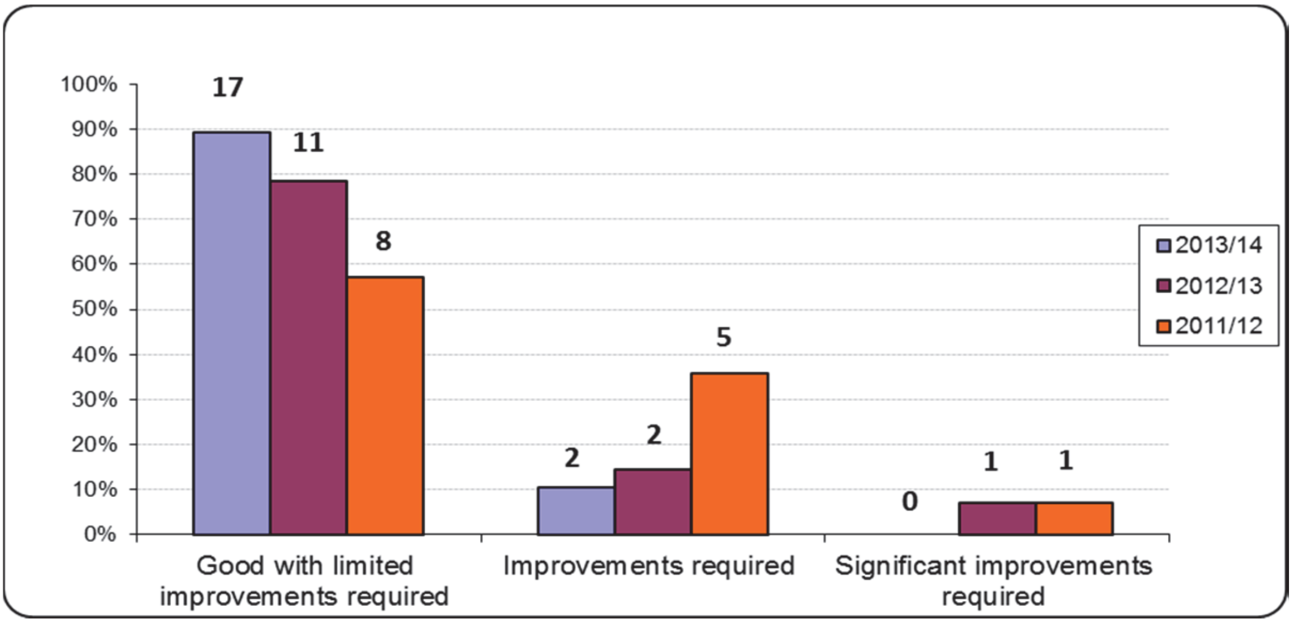
[2] Letterbox companies are those groups or companies that have little more than a registered office in their country of registration, with management and activities being based elsewhere. In such situations, the auditor is usually based in the country of legal registration, rather than where management is based.

assessment of how findings previously raised had been addressed (2012/13: two follow-up reviews were also undertaken).

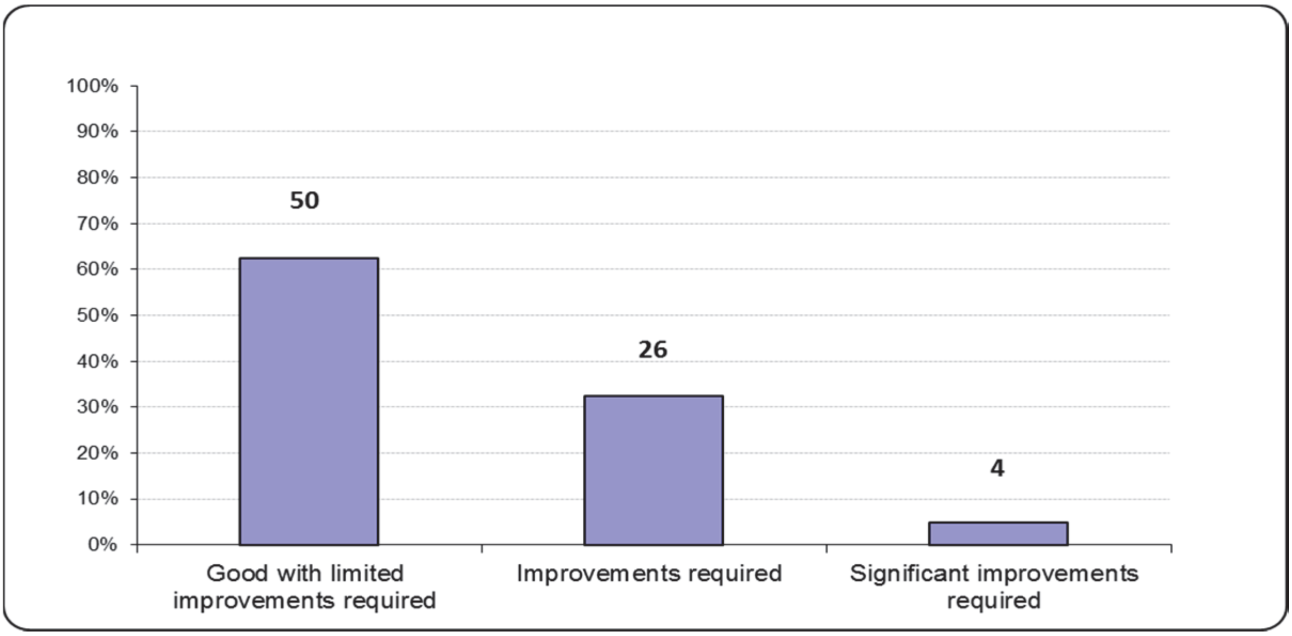
17 of the audits we reviewed (2012/13: 11 audits) were performed to a good standard with limited improvements required and two audits (2012/13: two audits) required improvements. None of the audits we reviewed in 2013/14 (2012/13: one audit) required significant improvements.

An audit is assessed as requiring significant improvements if we had significant concerns in relation to the sufficiency or quality of audit evidence or the appropriateness of significant audit judgments in the areas reviewed or the implications of concerns relating to other areas are considered to be individually or collectively significant. This assessment does not necessarily imply that an inappropriate audit opinion was issued.

The bar chart below shows the percentage of the audits we reviewed in 2013/14 falling within each grade, with comparatives for 2012/13 and 2011/12. The number of audits within each grade is shown at the top of each bar.



Changes to the proportion of audits reviewed falling within each grade from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For this reason, and given the sample sizes involved, changes in gradings from one year to the next are not necessarily indicative of any overall change in audit quality at the firm. In the bar chart below, we have therefore provided summary information over a longer period and, consequently, based on a larger number of audits. This shows the proportion of audits reviewed falling within each grade in the five years up to and including 2013/14. The number of audits within each grade is shown at the top of each bar.



Findings in relation to audit evidence and judgments

Our reviews focused on the audit evidence and related judgments for material areas of the financial statements and areas of significant risk. We draw attention to the following findings which the firm should ensure are addressed appropriately in future audits.

The significance of these findings in the context of an individual audit reviewed, and therefore the implications for our grading of that audit, will vary. However, where our overall assessment of an audit was that the improvements required were limited in nature, we nevertheless include the relevant findings in this report if we consider them important in the broader context of improving audit quality at the firm.

The audit of revenue

We reviewed the firm's audit of revenue in 18 audits. In two of them, we identified weaknesses in relation to the sufficiency of the testing of revenue controls. In one, the audit team's testing of certain key areas, including the judgments made by the entity's management, was not performed sufficiently robustly. In the second, there was insufficient explanation of the reasons why it was considered appropriate for reliance to be placed on revenue transactional controls in an overall control environment that was identified as being weak.

In the case of a charity, there was insufficient evidence to support the entity's accounting policy for revenue recognition.

The audit of IT general controls

We reviewed the firm's testing of the operational effectiveness of IT general controls in five audits. In three of them, we identified that audit teams performed insufficient testing of user and/or developer access controls. In one of the three, the audit team also performed insufficient testing of system generated reports and, in another, there was insufficient evidence of their approach to the testing of system generated reports.

In a fourth audit, relating to a financial services entity in which the testing of IT general controls was particularly well integrated with other aspects of the audit, we identified that insufficient testing was performed of certain IT application controls to address the risk of unauthorised payments being made or erroneous journals being posted in the general ledger. We also identified that insufficient procedures were performed to assess the continued operating effectiveness of IT general controls at a service organisation that were tested at an interim date.

Impairment testing of tangible and intangible assets including goodwill

We assessed the firm's impairment testing of tangible and intangible assets including goodwill in 12 audits. In three of them, we identified weaknesses in the sufficiency of evidence or of challenge of the appropriateness of management's growth rate assumptions or of the following year's budget which supported the carrying value of goodwill and/or other intangible assets. In two of the three, the audit teams did not sufficiently challenge the reasons why the useful economic lives of tangible and intangible fixed assets were considered to be appropriate.

Capitalisation of internally generated costs

Accounting Standards permit the capitalisation of internally generated costs if they meet specified recognition criteria.

We reviewed this area in four audits. In one of them, the audit team did not request the entity's management to justify how internally generated project costs met the recognition criteria set out in Accounting Standards. The audit team's own review was not sufficiently comprehensive to establish whether the recognition criteria were fully met. In addition, there was insufficient evidence that, for internally developed software, the chosen useful economic life, which was not separately disclosed in the financial statements, reflected the expected pattern of future economic benefits.

The audit of investment funds

We reviewed the quality of the firm's audit work on investment funds in seven audits, comprising a pension fund, five entities which had defined benefit pension schemes and an open ended investment company.

In one audit, we recommended that the audit team should ensure that there is clarity as to the reliance placed on investment managers' and custodians' controls reports, particularly in relation to private equity investments and pooled investment vehicles. In another, we recommended that where an audited entity's administrator and depository are part of the same overall group, the audit team should ensure the reasons why it was appropriate to regard them as independent of each other and of the audited entity are fully explained.

Journal testing

We reviewed the firm's journal entry testing in six audits. In one audit, the testing did not adequately address the risk of management override of controls and did not cover the whole sample that was selected for testing. In another audit, there were weaknesses in the approach taken to the selection of journals for the audit of the financial statement consolidation process.

Group audit considerations

In one audit, we identified a number of weaknesses in relation to group audit considerations as follows:

- *Risk categorisation at group level:* There was insufficient justification for not treating going concern as an area of significant risk at group level given the financial position of the entity;

and insufficient evidence that the audit team had applied appropriate sensitivities to management's base cash flow forecast and considered the feasibility of potential mitigating actions.

- *Matters concerning components:*

– *Audit materiality:* The audit team inappropriately determined overall materiality for the audit of a component at the same level as for the group audit. Auditing Standards require overall materiality for the audit of a component to be less than that for the group audit.

– *Completeness of liabilities:* There was insufficient evidence of the audit team's review and challenge of the appropriateness, in a component, of an onerous lease provision set at 50% of the maximum exposure.

– *Impairment testing:* There was insufficient evidence to demonstrate that the carrying value of property, plant and equipment held by a component was not impaired.

Other matters

We also identified the following matters:

Confirmation of bank balances

In the audit of a charity, the audit team failed to challenge management sufficiently to ensure that bank statements were obtained by management at the year-end for all of the charity's local fundraising accounts. As a consequence, the audit team was unable to obtain appropriate audit evidence for certain year-end bank balances. Although, in aggregate, these were below overall materiality set by the firm, further steps should have been taken to confirm the balances held in the local fundraising accounts for which bank statements were not obtained by the entity's management.

Internal consultation

In another audit, the audit team consulted internally on certain matters and was asked to provide updated material for review prior to the signing of the audit opinion. The engagement partner reviewed the updated material but did not provide it for further review as requested.

Inventory provisions

In another audit, there was insufficient evidence that the audit team reviewed the entity's provisioning policy in relation to stock over 18 months old to ensure that it was appropriate and properly applied.

Other findings

Reporting to Audit Committees

We considered the sufficiency, quality and timeliness of the firm's communications with Audit Committees on all the audits we reviewed.

In one audit, the descriptions of certain partners' roles lacked clarity or could have been misleading; and the materiality level used in the audit and an unadjusted error were not communicated to the Audit Committee. In another audit, notwithstanding the existence of certain mitigating controls, not all of the recurring IT control deficiencies identified were reported to the Audit Committee. In a third audit, there was insufficient evidence of appropriate discussion with the Audit Committee regarding the disclosure of key risks and uncertainties facing the entity.

2.2 Review of the firm's policies and procedures

The firm's policies and procedures are largely developed globally and the UK firm invests significant resources in implementing them and monitoring compliance with them.

The Executive Board and Head of Assurance continue to emphasise the importance of quality in all aspects of the firm's work. The firm's central functions that support audit quality include the management of the firm's audit software tool, audit quality monitoring, technical training, risk management, independence, regulatory compliance and human resources.

During the year, the firm made further progress with its major change programme, known as "Assurance Transformation", to which we referred last year, which is being undertaken in conjunction with a number of PwC network firms. The stated objective is to improve the quality and efficiency of its audits through the simplification and standardisation of various aspects of the audit process, thereby enabling audit teams to focus on key judgment areas and provide valuable insights to Audit Committees. Over the past two years, improvements have included changes to the audit planning process, standardising the firm's approach to determining audit materiality, issuing audit guides, enhancing the documentation of audit evidence and establishing a specialist resource to provide guidance on the planning and scoping of complex group audits.

In 2013, the focus of the programme moved to making better use of technology. Audit teams used Computer Assisted Auditing Techniques (CAATs) in the audit of revenue in a number of the audits we reviewed, enabling them to match the whole population of revenue transactions, rather than a sample, to receivables and cash and to follow up exceptions. The firm is also looking to apply data-auditing techniques to other areas of the audit.

As the Assurance Transformation programme progresses, the firm needs to monitor whether the time saved through the simplification and standardisation of audit procedures is resulting, as intended, in a greater focus on the exercise of professional judgment in key audit areas.

The firm implemented a new policy requiring all audits of large pension schemes and charities, designated as public interest, to be led by a partner rather than an audit director. In one audit we reviewed, however, the policy was not implemented effectively in that the new engagement leader was not sufficiently involved.

Improvements made during the year

During the year, the firm made further progress with its initiatives to achieve improvement in audit quality. In addition to its continuing investment in the Assurance Transformation programme, the firm undertook enhanced quality control reviews for a sample of its higher profile audits that were within our scope. We were informed that these involved a review, as the audits progressed, of various aspects of the audit including the engagement team's audit planning; the appropriateness of key audit judgments in all areas of significant risk; the sufficiency of audit evidence supporting them and reports to the Audit Committee. Eight of the audits we reviewed in our 2013/14 inspection were subject to these quality control procedures. We found that on all the audits we reviewed in our 2013/14 inspection, audit teams had generally recorded the rationale for their judgments and how they had applied professional scepticism to each area of significant risk identified, as required by the firm's audit methodology. These procedures contributed to the quality of the audits we reviewed.

The firm extended its policies to require internal consultation on all non-standard audit opinions and all new-style audit reports issued under ISA (UK and Ireland) 700 (Revised) in order to achieve greater consistency across the practice. It also enhanced the consultation process for certain other technical matters.

The firm also introduced further improvements to the partner performance evaluation process, enhancing the linkage between audit quality measures and partner remuneration.

Current year findings

We identified certain areas for improvement in the application of the firm's policies and procedures as set out below, which need to be addressed.

Audit methodology – IT general controls

We reviewed the firm's audit methodology concerning the testing of IT general controls (ITGCs) in five audits and identified the following weaknesses:

- *Assessing the reliability of system generated information:* The firm's audit methodology contains several approaches and testing techniques to assess the reliability of system generated information. However, it does not explain sufficiently the circumstances in which it would be appropriate to apply them. As indicated in section 2.1, in three of the audits we reviewed, audit teams had insufficient understanding of the approach to be adopted when testing the completeness and accuracy of system generated information and when reliance may be placed on such information.

- *Reliance on work previously performed at an interim date:* The firm's guidance does not set out the nature and extent of the further testing of ITGCs required if testing has been undertaken at an interim date. In one of the audits we reviewed, we identified that insufficient procedures were being undertaken in these circumstances.

- *Use of non-IT specialists:* The firm's audit methodology permits non-IT specialists to test ITGCs in certain circumstances. Such individuals receive training on the testing of ITGCs but less than IT specialists who test more complex systems. The firm should ensure that the training provided is appropriate to the complexity of the systems to be tested.

Independence and ethics – Financial interests

Each year, the firm carries out an independence confirmation for all partners and staff and other procedures to monitor compliance with Ethical Standards and other independence requirements. The firm also maintains a record of partners' financial interests and tests these records on a sample basis across the firm's lines of service.

We reviewed the firm's 2013 report on its testing of its record of partners' financial interests. The report recorded a number of breaches, the more serious of which were reported to the firm's Executive Board to agree the action required.

Independence and ethics - Non-audit services

We reviewed the firm's acceptance procedures for a sample of significant non-audit services provided to some of the firm's largest audited entities. In one case, we identified that the firm's approval procedures were not fully completed until three months after the engagement letter was signed and work had commenced. In another case, the nature of the threats to the firm's independence was not properly assessed and reported appropriately to the Audit Committee.

The firm's own monitoring procedures identified seven breaches in the year of Ethical Standards concerning non-audit services. The first concerned an engagement partner responsible for the audit of a listed entity who failed to consult the Ethics Partner, as required, when it was expected that non-audit fees would exceed audit fees in the year. The second concerned a secondment to an audited entity for an extended period of time. The remaining breaches concerned the commencement of non-audit services to audited entities before obtaining the approval of the group engagement partner.

We also considered the firm's provision of non-audit services to audited entities in 11 of the audits we reviewed and identified weaknesses in two of them. In one case, the firm had developed a forecasting model for an entity when not an audit client. The firm accepted appointment as auditor in the following year. In the year we reviewed, the firm made minor enhancements to the functionality of the forecasting model which was used by the entity for developing forecasts supporting a number of audit judgments. The firm did not adequately assess the significance of the self-review threat to its independence when it undertook the further work on the forecasting model.

In the other case, we noted that the firm provided accounting advice in the year in connection with a proposed hedging arrangement which should have been treated as a separate non-audit engagement. The firm did not give sufficient consideration, before this engagement was accepted, to the significance of the self-review threat to its independence which may arise in future financial years.

Audit of letterbox companies – the firm's guidance

In May 2013, we wrote to the major audit firms regarding concerns arising from our reviews of the audit of letterbox companies and the need for firms to take action to improve their approach to such audits. We subsequently met PwC, and other firms, to discuss our concerns, following which the firm updated its guidance. We wrote again to the firm in March 2014 and it made further amendments to its guidance to address our residual concerns. We will review in future inspections how the guidance is being applied.

Appraisals and promotions

We reviewed the appraisal forms and following year objectives for a sample of partners and staff and identified the following matters:

- Objectives were not signed off on a timely basis for over half of the staff in our sample and, in some cases, adverse audit quality findings were not taken into account.

- A number of partners had not completed the firm's performance evaluation forms properly. In addition, a reviewing partner had used almost identical wording for all the partners whose performance he moderated.

We also reviewed portfolios of evidence in support of a sample of candidates for promotion to partner. We noted that the standard form in use for direct entry candidates did not require evidence of any assessment of technical competencies or consideration of other matters affecting audit quality.

Other matters

Transparency report

We reviewed the firm's transparency report, which was published in September 2013, to assess whether the information in the report was consistent with our understanding of the firm's quality control and independence procedures. We did not identify any such inconsistencies.

Offshore service centres

We reported last year that the firm expected significantly less audit work to be undertaken by its offshore service centres in future. However, the firm identified certain audit procedures, not involving significant judgment, which it considered appropriate for its offshore service centres to perform. This resulted in a small increase in the year in the level of audit work carried out by the offshore service centres.

Andrew Jones

Director

Audit Quality Review

FRC Conduct Division

May 2014

Appendix A – Objectives, scope and basis of reporting

Scope and objectives

The overall objective of our work is to monitor and promote improvements in the quality of auditing. As part of our work, we monitor compliance with the regulatory framework for auditing, including the Auditing Standards, Ethical Standards and Quality Control Standards for auditors issued by the FRC and other requirements under the Audit Regulations issued by the relevant professional bodies. The standards referred to in this report are those effective at the time of our inspection or, in relation to our reviews of individual audits, those effective at the time the relevant audit was undertaken.

Our reviews of individual audit engagements and the firm's policies and procedures supporting audit quality cover, but are not restricted to, the firm's compliance with the requirements of relevant standards and other aspects of the regulatory framework. Our reviews place emphasis on the appropriateness of key audit judgments made in reaching the audit opinion together with the sufficiency and appropriateness of the audit evidence obtained. We also assess the extent to which the firm has addressed the findings arising from our previous inspection.

We seek to identify areas where improvements are, in our view, needed in order to safeguard audit quality and/or comply with regulatory requirements and to agree an action plan with the firm designed to achieve these improvements. Accordingly, our reports place greater emphasis on weaknesses identified which require action by the firm than areas of strength and are not intended to be a balanced scorecard or rating tool.

Our inspection was not designed to identify all weaknesses which may exist in the design and/or implementation of the firm's policies and procedures supporting audit quality or in relation to the performance of the individual audit engagements selected for review and cannot be relied upon for this purpose.

The professional accountancy bodies in the UK register firms to conduct audit work. Their monitoring units are responsible for monitoring the quality of audit engagements falling outside the scope of independent inspection but within the scope of audit regulation in the UK. Their work, which is overseen by the FRC, covers audits of UK incorporated companies and certain other entities which do not have any securities listed on the main market of the London Stock Exchange and whose financial condition is not otherwise considered to be of major public interest. All matters raised in this report are based solely on the work which we carried out for the purposes of our inspection.

Basis of reporting

We exercise judgment in determining those findings which it is appropriate to include in our public report on each inspection, taking into account their relative significance in relation to audit quality, in the context of both the individual inspection and any areas of particular focus in our overall inspection programme for the year. Where appropriate, we have commented on themes arising or issues of a similar nature identified across more than one audit.

While our public reports seek to provide useful information for interested parties, they do not provide a comprehensive basis for assessing the comparative merits of individual firms. The findings reported for each firm in any one year reflect a wide range of factors, including the number, size and complexity of the individual audits selected for review which, in turn, reflects the firm's client base. An issue reported in relation to a particular firm may therefore apply equally to other firms without having arisen in the course of our inspection fieldwork at those other firms in the relevant year. Also, only a small sample of audits are selected for review at each firm and the findings may therefore not be representative of the overall quality of each firm's audit work.

The fieldwork at each firm is completed at different times during the year and rigorous quality control procedures are applied. These procedures include a peer review process at staff level and a final review by independent non-executives who approve the issue of all reports. These processes are designed to ensure both a high quality of reporting and that a consistent approach is adopted across all inspections.

We also issue confidential reports on individual audits reviewed during an inspection. While these reports are addressed to the relevant audit engagement partner or director, they are copied to the chair of the relevant entity's audit committee (or equivalent body).

Purpose of this report

This report has been prepared for general information only. The information in this report does not constitute professional advice and should not be acted upon without obtaining specific professional advice.

To the full extent permitted by law, the FRC and its employees and agents accept no liability and disclaim all responsibility for the consequences of anyone acting or refraining from acting in reliance on the information contained in this report or for any decision based on it.

Appendix B – Firm’s response

The firm’s response is on the following page

Andrew Jones
Director
Audit Quality Review
Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2B 4HN

16 May 2014

Dear Mr Jones

2013/14 Audit Quality Inspection report on PricewaterhouseCoopers LLP

We appreciate the opportunity that you have given us to respond to the 2013/14 Audit Quality Inspection report on PricewaterhouseCoopers LLP ('PwC').

Our ability to deliver high quality audits is, quite simply, fundamental to our reputation – not just the reputation of our audit practice, but of our entire firm. We therefore welcome your report and the findings noted during your inspection process. Such insights, observations and recommendations are an important contribution to helping us focus on continually improving the quality of our audit work.

We continue to invest significant time and resources in delivering high quality audits. We have put in place a comprehensive action plan to respond to the matters you have raised which, together with our ongoing Assurance Transformation programme, we are confident will maintain our focus on audit quality.

Yours sincerely

James Chalmers

James Chalmers

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652, www.pwc.co.uk

Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

+44 (0)20 7492 2300

www.frc.org.uk