



Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

17 November 2021

By email to: afgcreview@frc.org.uk

Dear Sir/Madam,

FRC consultation on proposed revisions to the Audit Firm Governance Code

In our capacity as independent non-executives of PwC and members of PwC's Public Interest Body (PIB) and Audit Oversight Body (AOB), we welcome the opportunity to provide our views in response to the FRC's consultation on proposed revisions to the Audit Firm Governance Code (Code).

The PIB was established in 2010 and its purpose is to enhance stakeholder confidence in the public interest aspects of the UK firm's activities through the involvement of a majority of independent non-executive members. The AOB was established in 2020 to oversee the governance of the firm's Audit practice and is a committee of the PIB. Each of the PIB and the AOB is respectively chaired by an independent non-executive and sets its own agenda and in our view the PIB/AOB construct is working very effectively.

We have been involved in recent years in the debate on proposed reforms to the audit, corporate governance and reporting framework including the BEIS consultation "restoring trust in audit and corporate governance" and the regulatory reviews which preceded it. We have also engaged in discussions on the FRC's principles for operational separation and have had regular dialogue with the FRC. Given our extensive collective experience as independent non-executives across a range of organisations, we are keen to set out our views on the proposed revisions to the Code.

Code as a constituent of the UK regulatory framework for audit

In our view, flexibility in the application of the proposed Code will be important given the differences between firms and their business models together with a regulatory approach which is proportionate and focused on clear outcomes in relation to audit quality. The Code is one part of the wider audit and corporate reporting framework and whilst it represents an important part of the UK regulatory framework for audit, it should not be viewed in isolation as a means of improving audit quality or driving consideration of the public interest. We are interested to understand how the proposed Code would operate within the wider framework which comprises a number of different stakeholders (including directors, companies, audit committees, investors, audit firms and the regulator), each of which has an important role to play.

Building on mature governance processes

We have challenged PwC as to how it will demonstrate compliance with the key elements of the proposed Code and are confident that its mature governance framework will enable it to do so. The governance framework includes the PIB which was established in 2010 and has provided stability and consistency of governance since then. Both the PIB and the AOB will continue to provide constructive challenge by focusing on the objectives that the Code sets out to achieve.

Against this backdrop, we support revisions to the Code which provide clarity, for example, over expectations for the appointment and role of independent non-executives. We also support changes which clarify the distinction between the roles of independent non-executives and audit non-executives. As the consultation acknowledges, some audit non-executives may also be independent non-executives and members of both the AOB and the PIB and we agree that these individuals will provide "a helpful bridge" between the two and "help to ensure things are joined up where they need to be". It is less clear to us how the concept of 'mutual reliance' is intended to operate but in our view whilst the PIB and AOB will discharge their separate functions a good level of understanding will need to be maintained between the two of how those roles are being performed.

Public interest

The public interest is described in the proposed Code as “an abstract concept for which there is no single definition”. We agree with this assessment and that the meaning of the public interest “depends on the context”. The proposed Code provides limited guidance for independent non-executives other than that they “must reflect and form their own view of the public interest in the different contexts that they encounter in the Firm”. Yet, at the same time, the proposed Code states that independent non-executives (including audit non-executives) should alert the regulator where they believe the firm is acting contrary to the public interest and should regard themselves as “being accountable” to the public interest.

As independent non-executives, we take into account the public interest in exercising our governance responsibilities. We have oversight across a range of matters including the firm’s policies and procedures for promoting audit quality and we help the firm to secure its reputation more broadly across the business, as well as reducing the risk of firm failure. We set our own agenda and focus on the matters that we regard as being in the public interest.

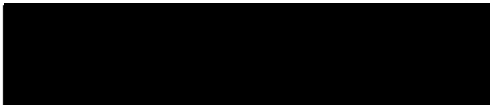
The public interest is an imprecise concept and there is a need to exercise judgment when assessing what is in the public interest. It is inappropriate for independent non-executives to have a duty to alert the regulator and to be accountable to a concept which is not defined. In our view the public interest should be taken into consideration by firms (as the current Code sets out) and INEs should be accountable for the way in which they assess a firm’s consideration of the public interest but accountability to the public interest should not be introduced into the proposed Code.

Nevertheless, there are some common elements in making an assessment of the public interest and a principles-based framework would support the development of a common understanding of how it is considered. Following our discussions with PwC’s executive leadership, a principles-based framework has been developed to support consideration of the public interest in decision making (where appropriate). We would be happy to discuss it with you, recognising it is in the process of being implemented.

Conclusion

An outcomes focus together with a proportionate approach to firms’ application of the proposed Code will drive confidence and trust in audit and help to embed the Code. Whilst we already take the public interest into account in our oversight activities, a framework which can be applied (where appropriate), is important, particularly where firms are to be assessed against the Code’s principles. Given the conceptual nature of the public interest we would support an opportunity for wider discussion.

Yours faithfully,



Fiona Kendrick
Chair of PwC Public Interest Body

For and on behalf of PwC’s independent non-executives:

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Justin King CBE, Public Interest Body member
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