Financial Reporting Council
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18 November 2021

By email to: afgcreview@frc.org.uk

Dear Sir/Madam,

FRC consultation on proposed revisions to the Audit Firm Governance Code

Thank you for the opportunity to comment on the proposed revisions to the Audit Firm Governance Code (AFGC, or 'the Code'). As a firm, we are pleased to share our overarching reflections on the consultation paper below, together with our observations on areas which would benefit from further clarification or guidance. Further detailed responses to the consultation questions are set out in Appendix 1.

Overarching reflections on the Code and how PwC complies

We set out below a summary of our key governance arrangements. Taking all of these points together, we believe our governance arrangements provide an effective structure, with appropriate memberships, and clear remits to address the core aspects of the Code - be that leadership, people, values and behaviour, operations and firm resilience, or operational separation.

We have an established **Supervisory Board (SB)** the membership of which is voted for by our partners and which has its own established chair. The SB's role is to support, guide and challenge the firm's Chairman and Senior Partner and the Management Board (MB) through effective oversight and approve certain matters in line with their terms of reference. The SB and its committees consider a wide range of issues for the firm such as risk, strategy, reputation, people matters including health and wellbeing, technology, financial resilience, return on investments, and partner culture. Its members also include UK partners who are elected to the PwC network Global Board (PwCIL Global Board) to provide connectivity and information sharing between the network and UK firm.

We also have a **Public Interest Body (PIB)** in place which is chaired by, and has a majority of, Independent Non Executives (INEs). The purpose of our PIB is to enhance stakeholder confidence in the public interest aspects of the firm's activities, through the involvement of INEs. The PIB considers a wide range of issues, including oversight of the public interest aspects of the firm's strategy, matters to reduce the risk of firm

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failure, people and culture matters, and the firm's policies and procedures for quality and compliance with regulation.

Members of the PIB and SB sit together on two committees, one in respect of Risk and the other relating to Talent and Remuneration, which provides a further strengthening of oversight over the firm's operations.

More recently, the **Audit Oversight Body (AOB)** was established as a committee of the PIB and is comprised of a majority of INEs (including one Audit Non Executive (ANE)). The AOB has been in place for a year and has, in our view, operated efficiently and effectively within our existing governance structures. We believe our PIB/AOB structure enables robust oversight and provides connectivity between the AOB and the work of the PIB which focuses on public interest matters of a firm-wide nature. The AOB also includes a representative from the SB amongst its members to provide connectivity between the governance oversight work of the SB and AOB.

Collectively, the SB, PIB and AOB provide robust checks and balances over the firm's Chairman and Senior Partner and **Management Board (MB)**. The Chairman and Senior Partner is elected by the partners within the firm, and appoints the MB which is the body responsible for the policies, strategy, direction and management of the UK firm.

In conclusion, as a large audit firm with mature, robust and clearly defined governance arrangements (including independent oversight) in place, we believe we are well positioned to deliver on the outcomes sought by the AFGC.

Further details regarding how we implement the Code to work within our business model and partnership culture to meet the outcomes sought by the Code are provided in Appendix 1.

The Code as part of a broader 'toolkit'

Since the AFGC was last revised in 2016, the audit profession has remained under significant scrutiny and we have been actively supportive of the need for all participants in the corporate reporting and auditing framework to take the appropriate actions to improve trust in corporate reporting and audit.

The Code is one way to build trust by providing a framework for transparent reporting around how audit firms govern and control their affairs, specifically as they pertain to the audit business. However, we believe that the Code will not result in the audit quality and public interest outcomes sought by stakeholders if implemented in a vacuum. Rather, the AFGC should be considered as one part of a broader toolkit used within the wider corporate governance, reporting and audit ecosystem where company directors, audit committees, investors and the regulator all need to take responsibility for supporting audit quality and the public interest.

Consequently, we believe the Code would benefit from being considered in the context of the anticipated Government response to the BEIS consultation "*Restoring trust in audit and corporate governance*" to ensure the proposals set out in the AFGC are aligned with, and proportionate to, the wider reform agenda across the ecosystem. This has the potential to impact the proposed timetable for implementation of the Code, but given the importance to look holistically at the reform agenda, a sequential approach may be beneficial to the Code's overall objectives. Reviewing the timetable for finalising the consultation and implementing the Code would also allow for consideration of any impact to the AFGC as a result of the recent EU consultation on corporate reporting and audit reform, and the establishment of the Audit, Reporting and Governance Authority (ARGA) with a clear supervisory framework against which firms will be assessed.

A common understanding of the public interest

We are supportive of the Code's objectives in relation to audit quality and resilience of audit practices and of firms as a whole, which are bolstered by the effective consideration of the public interest. However, we have the following comments in relation to the revised prominence of public interest as an objective in its own right.

The purpose of the Code has been revised to place public interest front and centre of the AFGC, with a new objective *"to ensure firms take account of the public interest in their decision-making, particularly in audit[1]"*. We understand that public interest is a concept that needs to evolve, however as drafted there is ambiguity around the parameters and scope of application. For example, to what extent might it apply beyond the audit business and resilience of the whole firm? In our view we believe the public interest as it is currently interpreted relates to the quality of auditing and corporate reporting so the regulatory scope of public interest should only apply to the firm's audit practice. It should have a wider application only to the extent of considering the financial resilience of the whole firm insofar as it relates to the audit practice.

It is also our view that the approach to considering the public interest must remain flexible and at the discretion of those applying it, but with an appropriate mechanism to support firms or individuals charged with consideration of such an abstract concept.

Consequently, in discussion with our INEs/ANE, we have developed a principles based framework which is designed to aid us, where appropriate, as we consider: (i) the scope of the public interest; and (ii) the approach to considering the public interest. Further information is set out in Appendix 1, Question 1.

Regulatory approach to implementation of the Code

Given the variety of audit firms which would fall within scope of the AFGC, developing a Code with principles and provisions which can be applied to all is critical. We acknowledge that the Code is designed on a 'comply or explain' basis, but to account for different partnership models, business structures and organisational cultures, in assessing how firms comply, the regulator should adopt a proportionate approach which allows for flexibility and is outcomes focused.

[1] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Section 4, page 7

Conclusion

We acknowledge the constructive dialogue we have had with the FRC as part of the stakeholder outreach for this consultation. If you have any questions about our response please contact me at [redacted].

Yours faithfully,

[redacted]

Alison Statham
PwC, Chief Risk Officer and General Counsel

Appendix 1: Detailed responses to the questions in the consultation

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Q.1: How appropriate do you feel that the revised purpose of the proposed 2022 Code is?

Overall spirit of the Code

We are supportive of the FRC's continued commitment to a principles based Code and the 'comply or explain' approach to provision implementation. This regulatory approach allows flexibility such that firms may apply (or not) the provisions in a way that reflects their business model and organisational structures in order to achieve the outcomes the code is seeking to promote.

Purpose of the Code

The revised purpose sets out three objectives:

1. To promote audit quality.
2. To ensure firms take account of the public interest in their decision making, particularly in audit.
3. To safeguard the sustainability and resilience of audit practices and of firms as a whole.

As set out in our letter we are broadly supportive of the purpose of the Code - in particular the focus on audit quality and the resilience of audit practices. We appreciate how both the promotion of audit quality and the safeguarding and resilience of audit firms *is in the public interest*, and *achieved through consideration of the public interest*. However, given the revised prominence of public interest as an objective in its own right, we highlight two key points.

The public interest

The Code acknowledges that public interest is an abstract concept and we would agree. It is our view that the definition will continue to evolve in line with industry and societal standards and expectations. We also agree that public interest *"depends on the context[2]"* as articulated in the Code, and therefore consideration for scope and approach are critically important in determining 'when' public interest should be considered, and 'how' it should be considered, for example:

- *Scope of the public interest* - at present, in determining when the public interest should be taken into account, there is ambiguity around the parameters and scope of application. In our view, the regulatory reach should be limited to the primary focus areas of audit quality, trust in corporate reporting, and audit firm resilience. We consider extending the scope beyond this would be disproportionate.

- *Approach to considering the public interest* - flexibility and discretion is required when determining how the public interest is considered, but there also need to be guardrails to support firms and individuals who have responsibilities for the public interest. Through discussion between management and the

[2] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Appendix 1, page 26

firm's oversight governance bodies we have determined a principles based framework to support us in considering the public interest in our decision making (where appropriate). Our framework has been designed with sufficient flexibility to adapt over time as the concept evolves, but with a grounding in common themes to which public interest decisions may be anchored, and the lens through which the public interest is viewed. We would be happy to discuss our approach with you.

Q.2: What are your views on the proposed thresholds for application of the proposed 2022 Code?
Q.3: Should the proposed 2022 Code apply to any firm that audits a FTSE 350 company? Please suggest alternatives.

Given the FRC's regulatory framework for audit is based around Public Interest Entities (PIEs), we are supportive of the proposals to apply the Code to audit firms based on a threshold number of PIE audits rather than a threshold number of listed entity audits. We also support the proposal that any audit firm auditing at least one FTSE 350 company should apply the Code.

However, some consideration should be given to the possible impact of the proposals in the Government's consultation "*Restoring trust in audit and corporate governance*"[3] ('the BEIS consultation') to expand the definition of a PIE and for a managed shared audit regime (MSA) to enhance competition and choice in the FTSE 350 audit market.

Based on the FRC's own analysis[4], changing the threshold from 20 listed companies to 20 PIEs, under the existing definition of a PIE, would bring approximately three more audit firms within the scope of the Code, one of which already chooses to apply the Code. If the definition of a PIE is then extended, even more firms could be brought into scope. It is unclear how many additional audit firms this may impact - it could be very few as many of the "new PIE" audit firms will already be applying the Code, but it is worth considering whether it could be creating an unintended barrier to new entrants to the FTSE 350 or PIE audit market, thereby decreasing competition and choice in this market.

Depending on the outcome of the Government's response to the MSA proposal, if it were to go ahead as proposed, clarity would be needed as to whether firms who audit a "meaningful proportion" of a FTSE 350 company would be brought under the scope of the Code. This may not be a significant number of firms, as the audit firms taking part in an MSA regime are those most likely to be already applying the Code, but it is worth considering whether this could also be a deterrent to new entrants.

A dichotomy between objectives: competition and choice vs. audit quality

We recognise and support the need for proportionality and flexibility in assessing the application of the Code to reflect different business models once audit firms are in scope. However proportionality and flexibility are less relevant to determining scope (i.e. the proposed thresholds).

[3] Consultation document: Restoring trust in audit and corporate governance
[4] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Section 4, page 8

On the one hand the competition objective requires we seek pragmatic approaches to address any actual or perceived barriers to entry across the audit market. On the other hand, the quality objective implies that if an organisation has been identified as a PIE, audit quality considerations should be of paramount consideration. So a threshold which allows a firm to audit up to 19 PIEs before meeting the thresholds of the AFGC can appear contradictory.

As noted above, the proposed threshold could give rise to unintended consequences which are counter to the BEIS proposals to increase audit market competition, resilience and choice in the audit market. In our view, competition is not the primary driver of audit quality, but in this situation it creates the perception that competition is of greater importance than audit quality.

We acknowledge that designing a proportionate Code for firms of varying size and client base is difficult, but there should be a baseline principle that whenever proportionality is applied, it should not undermine the audit quality objective.

Q.4: What are your views on the proposed effective date of the proposed 2022 Code?

We note that subject to the outcome of this consultation process, the FRC aims to publish a final version of the Code in Spring 2022, to take effect from accounting periods beginning on or after 1 January 2023.

From an overarching perspective, and for the reasons set out in our cover letter and under Questions 2 and 3, we believe there is benefit in further consultation on the Code once the Government's response to the BEIS consultation has been published, and the recent EU consultation on corporate reporting and audit reform is better understood.

In addition, to support audit firms to understand how the regulator will assess them against the Code, it would be beneficial to have a clear supervisory framework against which firms will be assessed.

For smaller firms who will be implementing new governance arrangements we would observe that developing terms of reference and setting up a governance body in name is one thing, but identifying the right individuals, providing appropriate training and onboarding, and embedding governance arrangements effectively is a different challenge. Firms who will be subject to the proposed Code for the first time may have a significant amount of work to complete to be compliant with the Code by 1 January 2023.

For these reasons we believe the Code should become effective following consideration of the Government's BEIS consultation response when a more holistic view of audit reform will be available. Nevertheless we feel that our mature governance means we are well placed (and already complying) with the key tenets of the Code.

Q.5: What are your views on the priorities for engagement with investors, audit committee members and other external stakeholders and how could we encourage interaction with INEs?

We are committed to engaging in a transparent manner with all our stakeholders, and actively encourage stakeholder dialogue between the firm and representatives within the investor and audit committee communities. We report on this engagement annually as part of our Transparency Report. We also engage with a variety of different external stakeholders including regulators and policy makers where we aim to make a constructive contribution to public policy debates by sharing our insights and experience.

However engagement is only effective and sustainable if all parties involved obtain value from the discussion. In our view, to support the engagement process, expectations about the purpose of each engagement channel must be clear, and a willingness to engage and share views is critical. This includes an increased willingness on behalf of stakeholders such as investors to read the available information so they are in a better position to articulate what they want to know about when they meet with audit firms or their INEs.

There also needs to be alignment with expectations for greater engagement coming out of the BEIS consultation proposals. Two of the proposals in the BEIS consultation encourage greater engagement between audit committees, auditors and shareholders. This includes an Audit and Assurance Policy that is voted on by shareholders; and the proposal that the annual audit plan is shared with shareholders for comment. While there is support for both of these proposals, feedback we've received from non-executive directors during the BEIS consultation process expressed doubt that shareholders would actually engage in either area.

Transparency Report

As part of our ongoing engagement and dialogue we have heard from users of transparency reports that the documents can often be too long and overly complex, so for FY21 we produced our first digital Transparency Report - designed to support easy and accessible navigation of topics of interest to our stakeholders. This is balanced alongside content designed to address our regulatory disclosure requirements.

We welcome and encourage feedback from users of our latest Transparency Report to further develop and enhance this annual publication to meet the needs of multiple stakeholders whilst being conscious of the volume of content.

Stakeholder engagement

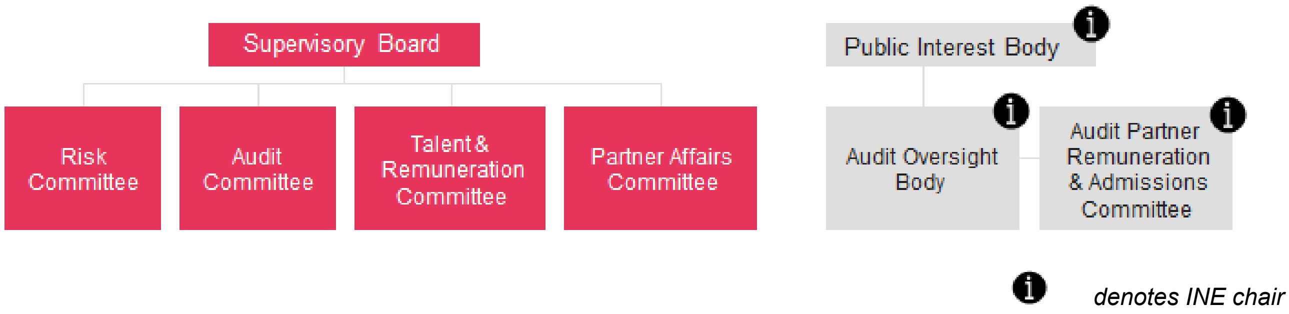
We support the FRC's proposal to adopt a coordinated effort to bring stakeholders together. This would provide the benefits of a broad, ecosystem-wide discussion and reduce the burden on investors, audit committee chairs and other stakeholders from having to engage with multiple audit firms 1:1. Anything that can be done to encourage and facilitate effective but efficient engagement is a positive in our view. However, the conveners of any coordinated effort would need to ensure they are bringing the right individuals together, at the right time, to discuss the right topics in order to achieve the most value from the discussions.

We welcome the proposed changes to the next revision of the UK Stewardship Code, although the focus should not be on the volume / frequency of engagement as much as the nature and quality of engagement.

Q.6: To what extent do you support the changes proposed in the areas of partner oversight and accountability to owners?

Organisational leadership differs considerably between corporate businesses and partnerships. On the premise that these differences are clearly understood by the regulator, and inappropriate alignments are not drawn between the AFGC and UK Corporate Governance Code 2018, we support the outcomes sought by the proposals relating to partner oversight and accountability to owners. Specifically the outcomes which clarify the role, responsibilities and composition of the Board within a partnership model.

At PwC, we will meet the requirements through our existing structures which are summarised below and detailed in the relevant terms of reference.



Supervisory Board (and its committees)

- **Chair:** an elected partner remote from the day to day management and leadership of the firm.
- **Nature of role**: an oversight governance body with responsibility for the interests and wellbeing of the wider partnership and the UK firm.
- **Areas of focus:** consider a wide range of issues for the firm such as risk, strategy, reputation, people matters including health and wellbeing, technology, financial resilience, return on investments, and partner culture.
- **Membership:** 12 of the 14 members of the Supervisory Board are elected partners remote from the day to day management and leadership of the firm.

Public Interest Body (and its committees)

- **Chair:** an INE.
- **Nature of role**: an oversight governance body responsible for discharging PwC UK's duties under the AFGC, in particular to enhance stakeholder confidence in the public interest aspects of the firm's activities, through the involvement of INEs.

- **Areas of focus:** considers a wide range of issues, including oversight of the public interest aspects of the firm's strategy, matters to reduce the risk of firm failure, people and culture matters, and the firm's policies and procedures for quality and compliance with regulation.
- **Membership:** a majority of INEs.

Audit Oversight Body (AOB)

- **Chair:** an INE/ANE.
- **Nature of role:** an oversight governance body responsible for overseeing the firm's obligations with respect to the pursuit of the FRC's objectives, outcomes and principles for operational separation of audit practices insofar as they are within the control of the audit practice.
- **Areas of focus**: provides oversight and challenge in areas such as audit strategy, audit culture and key control processes (as they relate to audit).
- **Membership:** a majority of INEs, including one INE/ANE and one doubly independent ANE.

In addition, we have a number of checks and balances in place which support and promote effective challenge of management, for example:

- Members of the SB are elected by partners within the firm for a term of four years. The SB Chair is elected by the SB members (other than the firm's Chairman and Senior Partner) for a two year term. Therefore the role of SB members is not dependent on management for their seat at their board.

- Similarly, all partners are remunerated through a robust partner income system, operationally independent of the firm's Chairman and Senior Partner, with built in checks and balances.

All members of the SB, PIB and AOB have access to the same information as management wherever possible and relevant.

Q.7: What are your views on the proposals to underpin connectivity with the global network and monitoring of its potential to impact the UK Firm? Do you have other suggestions for how this could be addressed?

The proposals to underpin connectivity with the global network include INE access to, and assessment of, the activities of the global network. The outcome sought is an understanding of how the network may impact on the UK audit business, wider firm, and the public interest in the UK.

As recognised in the consultation paper, global network structures vary considerably across audit firms. Some firms have a much more integrated global network than others. At PwC we are a network of independent member firms - all of which are separate legal entities. We are not a global partnership, a single firm, or a multinational corporation. Therefore when the regulator is assessing firms/INEs and how they have accessed, 'assessed' and considered the influence / risks posed by global structures to UK firms, proportionality must be applied. In addition, each territory will be subject to their own legal, regulatory and confidentiality frameworks which the UK firm must remain cognisant of - there is no 'one size fits all'.

In the context of a proportional approach which reflects a firm's global structure, we are supportive of the spirit of the proposals that underpin connectivity with the global network and the impact of a network on the UK audit business or resilience of the whole firm. At PwC we intend to meet these proposals through our existing structures which are designed to support appropriate information sharing and connectivity between the UK firm and the global network:

- The Chair of the SB is an elected member of the PwC network Global Board (PwCIL Global Board). In addition, any UK partner who is elected to the Global Board will be a UK SB member (ex officio) for the duration of their global tenure.

- The PIB membership includes network representation by virtue of the Chairman and Senior Partner's membership of the Network Leadership Team (as set out below) and the SB Chair being elected to the PwCIL Global Board.

- Joint meetings of members of the PIB, AOB and SB take place three times a year to discuss matters of shared interest which include a Global focus.

- The PIB also meets periodically with the PwC Global Board (typically annually).

- The firm's Chairman and Senior Partner is a member of the SB and PIB and a member of the Network Leadership Team.

We support the statement within the consultation that *"strong global networks can have a positive impact on audit quality and on the resilience of Firms"*[5] From our perspective, we have observed a number of benefits to being part of a global network which include:

- Global coordination and cooperation enables us to deliver high quality audits for global clients by having access to local expertise and ensuring the necessary scale and reach are available.

- Network wide investments in key areas such as consistent audit methodologies, technology and training.

- Overall increased resilience of the UK firm.

[5] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Section 5, page 14

Q.8: How supportive are you of the approach taken to people and culture in section B of the proposed 2022 Code? Please include any suggestions for how we could improve it further.

We understand the Code's intention to bring people, values and behaviours together into one place within section B of the Code, and we are broadly supportive of the principles and provisions within, whilst noting the following points:

The consultation states *"Provision 10 places a joint responsibility on a Firm's Board and Management for establishing purpose and values and ensuring that culture is aligned"*[6]. Given our governance structure, responsibility for these matters is considered at different governance bodies through different lenses, for example:

- The MB is the executive governance body responsible for leadership of the firm, including setting of, and oversight of, the execution of the purpose, culture, and values.
- The SB is the governance body with a particular focus on partner culture and behaviour, as part of its responsibility to review, challenge and give guidance to the executive on matters it considers may be of concern to partners.
- Insofar as matters impact on the public interest aspects of the firm's activities, the PIB considers the firm's culture, values and behaviours, supported by the AOB which is responsible for reviewing the culture, values and behaviours within the audit practice.

We believe the interplay between the PIB and AOB in overseeing the culture of audit is important and is a good example of where the INEs who are also ANEs provide "*a helpful bridge*"[7] to ensure there is alignment and connectivity where it is needed. Audit culture in particular may be an area where the new concept of mutual reliance (as set out in Principle S of the Code) comes into play. How this is intended to operate is not clear from the proposed revisions to the Code, but from a PwC perspective the Chair of the AOB provides a critical role - being the linchpin for two-way trusted, open and effective communication between the PIB and the AOB.

Q.9: Are there any matters you believe we should include in section C that do not currently feature and/or can you suggest other improvements to how the proposed 2022 Code approaches operational matters and resilience?

We have the following comments in relation to section C.

We note that this section focuses on the importance of effective management information and we agree that this is critical to support management and governance oversight bodies to execute their duties appropriately. However, information needs to be tailored for the audience to be most effective. Therefore where provision

[6] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Appendix 1, page 29
[7] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Section 9, page 21

20 requires the *"sharing [of] information openly"* with the regulator, we believe checks and balances are needed to understand how the information is intended to be used and interpreted, and how it is proportional (e.g. how it relates to the purpose of the Code - specifically enhancing audit quality or resilience of the firm).

We support the observation in the consultation paper that *"a partner-led audit quality committee to oversee initiatives to improve audit quality…[are] a positive step in supporting audit quality as an alternative to an independent Audit Board"*[8]. From our own experience as a firm with an independent Audit Board (the AOB), we have benefited from having a governance body to focus solely on audit quality and the audit business. As such, we would support the regulator's proposal to encourage other firms that do not have operationally separate audit practices to adopt a similar approach in a proportionate and flexible manner which works for their business model.

Q.10: Do you think that the proposed 2022 Code is clear enough about the role INEs play in the Firms?

Q.11: What are your views on the proposals for strengthening the status and role of INEs? Please include any suggestions for other ways to increase their impact and effectiveness.

We understand that the firm's INEs and ANE have shared their own response to this consultation, setting out their independent reflections on their role and responsibilities. We are aligned with the INEs in their observations and would supplement Questions 10 and 11 as follows.

INE positioning

We support the outcomes sought by the Code in relation to INE positioning, including access to information and people, and a formal right to attend other governance oversight fora.

At PwC, INEs have full access to information (wherever possible) and set their own agenda. They also have access to people - from other PIB members including the Chair of the SB and the firm's Chairman and Senior Partner, the Head of Audit who is a member of the AOB, to engagement teams in the business across the UK.

INEs may periodically attend SB meetings both to observe and contribute to governance debates, and some INEs are also embedded within committees of the SB - namely the Risk Committee and the Talent & Remuneration Committee. The independent perspectives enhance the committee discussions, and attendance at key meetings helps the INEs to gain a better understanding of the business.

INE roles and responsibilities

Following the changes made as a result of operational separation, we are encouraged by the inclusion of

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[8] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Section 7, page 17

Principle N[9] in the Code which provides more clarity on the INE role within the wider firm.

However, in line with our observations in Question 1, the concept of public interest is abstract, and yet is at the heart of the INE role. We agree that INEs should *"take account of"* the public interest in the execution of their role, but do not believe it is feasible for them to be "*accountable to"* a concept that is so subjective.

More broadly, the language used in section D of the Code relating to INE responsibilities could benefit from clarity. For example, provision 30 states *"they [INEs] should assess the impact of firm strategy, culture, senior appointments, financial performance and position, operational policies and procedures including client management processes, and global network initiatives on the firm and the audit practice in particular"*[10]. We would expect the INEs to oversee the impact of the firm strategy and culture etc through review and challenge, but to "assess" such activities infers a level of detail and involvement which goes beyond oversight responsibilities.

Please also see our response to Question 7 in relation to oversight of global network activities.

INE appointments

Provision 31 asks firms to establish a nomination committee, including INE involvement to *"lead the process for appointments and re-appointments of independent non-executives (and Audit Non-Executives)."*[11] At PwC the current process for INE and ANE appointments includes three key steps:

- Consultation between the firm's Chairman and Senior Partner with the Chairs of the PIB and SB
- Formal nomination of an individual by the firm's Chairman and Senior Partner to the SB
- Approval of the nominated individual by the SB.

We expect that these steps will remain the core of our INE/ANE appointment process going forward.

INE impact

Our experience is that INEs - in their roles on the PIB, AOB and in SB committees - bring significant value and benefit to the firm. Other areas where we've found input from the INEs to be effective includes their roles in external and internal stakeholder engagement, e.g. audit committee roundtables or regional office visits. To enhance INE impact even further with our external audience, we profile some individuals in our digital transparency reports through videos and statements.

INEs may also create an impact by raising a fundamental disagreement. We disclose our process for dealing with fundamental disagreements on our website and support the outcome sought by provision 37.

[9] "Independent non-executives should provide constructive challenge and specialist advice with a focus on the public interest. They should assess and promote the public interest in firm operations and activities as they relate to the purpose of this Code, forming their own views on where the public interest lies."

[10] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Appendix 1, page 33

[11] Consultation document: Proposed Revisions to the Audit Firm Governance Code, Appendix 1, page 34

Q.12: What are your views on the proposed boundaries between the responsibilities of INEs and Audit Non Executives? Please give examples of any potential difficulties you foresee with what is proposed

For us, it is essential that INEs and ANEs remain connected to ensure the audit business is represented in the firm’s wider governance appropriately and with sufficient focus. This is why we designed the AOB to be a committee of the PIB. It ensures an appropriate flow of information between the bodies and allows for cross representation between the PIB and AOB without unnecessary duplication. This model works well for our business model and culture at PwC.