

Audit quality – Our programme to Enhance Audit Quality, and our Root Cause Analysis

This forms part of our FY21 Transparency Report

Firmwide governance

Independence and ethics

People

Audit quality

- Inspections and investigations on our audits
- Our system of quality management
- **Our programme to Enhance Audit Quality, and our Root Cause Analysis**
- FRC Report on PwC UK's audit quality

Our Audit methodology

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Audit quality

Our programme to Enhance Audit Quality, and our Root Cause Analysis

Continuous improvement and PEAQ

The PEAQ was launched in June 2019 as a three year programme covering the period to June 2022. We continue to invest £30m annually in PEAQ. It includes a wide-ranging and fundamental package of measures, with the single objective of delivering consistently high quality audits.

The PEAQ underpins our audit strategy, which is centred around a commitment to high quality, embedding this approach into all our activities. We believe there are many positive indicators that the PEAQ is embedding the desired change through the programmes four workstreams: structure and governance, culture and recognition, quality control activities, and supply and demand.

When the PEAQ is completed, our aim is for the primary focus on audit quality to be fully embedded, both in our audit strategy and the activities and behaviours of our audit practice. We are committed to continuous improvement beyond the PEAQ.

Root cause analysis

We hold our reputation for quality in the highest regard and are committed to working constructively with, and take seriously all the findings identified by, the firm's regulators in relation to the quality of the firm's audit work.

We use PwC global methodology to undertake root cause analysis (RCA) on both external inspections and internal reviews to establish the underlying reasons why findings have arisen which helps inform the development of our action plans so that we continuously improve. One of our primary objectives when conducting RCA is to identify how our firm can provide the best possible environment for our engagement teams to deliver a high quality audit. We look at audits both with and without deficiencies, including those we consider good practice, to help identify possible distinctions and learning opportunities. Our analyses cover matters arising from both individual engagement file reviews as well as those relating to the firm's systems of quality control.

On 1 July 2020 we established a new Continuous Improvement Team (CI), a separate team, independent from engagement teams, responsible for undertaking all root cause activity on an ongoing basis. The team proactively gathers intelligence from a range of sources including findings from external inspections, internal reviews and other live data sources to identify risks and issues as they emerge. The team performs RCA on identified issues, assessing interview and focus group discussions against a taxonomy of risk factors that incorporates key behavioural factors. This approach drives consistency in the identification and analysis of the risk and causal factors impacting audit quality and provides a clear audit trail from the underlying data to the risk factor conclusions.

Potential causal factors are identified by evaluating engagement information, performing interviews with engagement team members and specialists, holding focus groups on specific audit areas, reviewing training and guidance, and, where appropriate, reviewing audit working papers, to understand the factors that may have contributed to audit quality. In addition, for audits both with and without deficiencies, certain data points and Audit Quality Indicators (AQIs) are compared and contrasted to identify whether certain factors appear to correlate to audit quality. Examples of this data include the hours incurred on the audit, the number of years that key engagement team members have been on the engagement, the timing of when the audit work was performed and other audit milestones.

We evaluate the results of these analyses to identify enhancements to implement across the practice and build this into the action plan.



Action plans

Action plans are developed in response to causal factors identified from regulatory inspections and investigations, internal reviews and other sources. The agreed action plans include for example, specific technical training, the introduction of project management milestones, behavioural expectation messaging, and revisions to the firm's guidance where appropriate. During 2020/21 the team has started to measure the effectiveness of actions taken, understanding if an action has had the desired impact. Where the action has not delivered the benefit expected, a new action would be put in place. The team will continue to focus on this in 2021/22.

Individual actions are agreed with named individuals together with a timeline for completion. Each action plan is then approved by the relevant individuals in the Audit Line of Service governance structure and in a number of cases, agreed with third parties such as the AQR in respect of the action plan responding

to AQR findings, or PwC's Global Audit Quality team in respect of the action plan responding to the ECR findings. Regular status meetings take place to monitor outstanding actions and individuals are held to account where actions are not completed without an acceptable justification.

The Head of Audit, the Head of Audit Risk & Quality and other partners responsible for the regulatory process within the firm also monitor progress against agreed action plans on a regular basis. The firm's Public Interest Body is kept apprised of progress against the action plan periodically via the Audit Leader's Quality Update. Once actions are considered to be completed, evidence is provided to the action planning team to demonstrate completion of the action. This evidence is also reviewed, in some cases, by regulators in subsequent years as part of their inspections into the firm to evaluate timely completion of agreed actions.

