

Firmwide governance – Risk council risks and responses

This forms part of our FY21 Transparency Report

Firmwide governance

- Committee structure and what they do
- Biographies of members of the MB, SB, PIB and AOB
- **Risk council risks and responses**
- Network and UK Firm Structure
- Update from the Chair of the Public Interest Body

Independence and ethics

People

Audit quality

Our Audit methodology

Finances and other disclosures



Firmwide governance

Risk council risks and responses



The Audit Firm Governance Code requires the firm to conduct, at least annually, a review of the effectiveness of the firm's internal control systems, covering all material controls such as financial, operational and compliance controls, and risk management systems as well as the promotion of an appropriate culture underpinned by sound values and behaviour within the firm.

The Management Board takes overall responsibility for establishing systems of internal control, and internal quality 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 controls rests with senior management. One of our independent non-executives has been involved in the review and the results of the review are reported to all the independent non-executives.

In respect of the year ended 30 June 2021, we have carried out a robust assessment of the principal risks facing the firm, including those that would threaten the firm's business model, future performance, solvency or liquidity, and included consideration of the sustainability of the audit practice within the UK.

We have also carried out a robust assessment of the principal risks facing the audit practice, including those that would threaten its business model, future performance, solvency or liquidity. We describe the risks which apply to both our firm and specifically our audit practice in our Annual Report, and explain how they are being managed or mitigated

The key risks faced by our business and the management response, are summarised below:

Risk title, description and trend direction	Risk landscape	Mitigations
<p>Regulatory developments impacting the business: Failure to adapt and respond to the impact of further significant regulatory change on our business and the competitive landscape.</p> <p>Risk trend direction: ↔</p>	<p>Continued focus on the audit profession and larger multidisciplinary firms, following the recommendations from the CMA, Kingman and Brydon reviews and now the extensive reform package via the BEIS consultation which is expected to result in legislation.</p>	<ul style="list-style-type: none">• Regular engagement and direct interaction, where possible, with governmental bodies and regulators to understand objectives, provisions of changes and the implications for our businesses• Regular/continuous monitoring of the cumulative impact of changes in the regulatory environment on the firm's ability to provide services to audit clients• Regulatory affairs specialists who lead the firm's efforts track all changes in applicable regulatory regimes, of whatever origin, under which the UK firm operates• Regular updating of firm processes and procedures to ensure compliance by all our people, on all our clients, with all applicable regulations• Business contingency planning



Risk title, description and trend direction	Risk landscape	Mitigations
<p>Audit services delivery quality: Significant audit quality failure in the UK firm or the PwC Network due to either:</p> <ul style="list-style-type: none"> Engaging with an inappropriate client; or Inadequate delivery of services, leading to a potential service failing, reputational risk, litigation and/or regulatory action <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> Increased complexity and risk due to Covid-19 restrictions Pressure on the audit profession potentially leading to fewer people joining the profession, and experienced professionals leaving the profession, which may negatively impact quality Continued regulatory scrutiny and challenging litigation environment in the audit market 	<p>Internal quality management systems including:</p> <ul style="list-style-type: none"> Recruitment standards and staff development procedures; Client engagement and acceptance processes, including the Audit Tender Acceptance Process and Client Committee; Client engagement standards supported by methodologies and tools; Increased communications and consultations to keep quality and professional scepticism front of mind during Covid-19 Real-time support for engagements through hot reviews of active engagement files through the Higher Profile Client (HPC) review programme; Continuation of the Programme to Enhance Audit Quality (PEAQ), including continuing to focus on improvements to AQR results; Continuous Improvement team focused on root cause analysis, dynamic issue identification and action planning; Quality reviews of PwC network firms, including the UK firm; and Monitoring and review of key performance indicators by various governance groups including the Executive Board and the Audit Oversight Body
<p>Non-audit services delivery quality: Significant quality failure in the UK firm or the PwC Network due to:</p> <ul style="list-style-type: none"> Engaging with an inappropriate client, or Inadequate delivery of services, leading to a potential service failing, reputational risk, significant cost to remedy, perceived or actual conflict of interest, litigation and/or regulatory action <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> Increasing complexity and evolving nature of client engagements Increasing demand for technology to be used in the delivery of services Challenges caused by Covid-19 restrictions 	<p>Internal quality management systems including:</p> <ul style="list-style-type: none"> Recruitment standards and staff development procedures; Client engagement and acceptance processes, including Line of Service Panels and Client Committee; Client engagement standards supported by methodologies and tools; Established quality policies, processes and procedures; Monitoring and reporting of higher risk engagements; Quality reviews of PwC network firms, including the UK firm; and Monitoring and review of key performance indicators by various governance groups including the Executive Board



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<p>Geopolitical risk: Risk that geopolitical changes significantly impact the firm and/or the services we provide.</p> <p>Risk trend direction: ↑</p>	<ul style="list-style-type: none"> • Global trade deals are evolving • Potential for sensitivities in political relations between significant territories such as the US, China, Russia, UK and the EU • Financial Services sector equivalence post-Brexit unclear, which could impact the stability of the firm's large FS client base • Potential for further UK devolution 	<ul style="list-style-type: none"> • Regular engagement and direct interaction, where possible, with governmental bodies and regulators to understand objectives, provisions of changes and the implications for our businesses • Liaison with PwC network firms
<p>Public perception and reputation: Failure to:</p> <ul style="list-style-type: none"> • Respond in an impactful and transparent manner to issues raised, in particular to those which contain a public interest or moral dimension, and/or are perpetuated by adverse media coverage which impacts the firm's reputation; or • Appropriately manage the firm's reputation by not proactively positioning the firm's communications including publicly stated ESG commitments. <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> • Continued heightened public scrutiny of business, professional services and the Big 4 • Societal trust in professional services and wider business landscape eroding • Keeping pace with societal expectations including social inclusion, D&I and climate change commitments • Risk of damage to the UK firm's reputation through negative media coverage of issues, litigation or regulatory enforcement in PwC Global network firms 	<ul style="list-style-type: none"> • Embedding a culture of 'doing the right thing' from the top to the bottom of the organisation with an emphasis on individual accountability for reputational risk • Engaging in open and serious debate with relevant stakeholder groups on trust-related and public interest issues to inspire change • Sharing of knowledge and insights on trust to sustain, widen and enrich the discussion • More actively promote the firm's positive contributions including those to our clients, our people and to broader society .e.g. through our commitments to net zero, D&I and social mobility



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<p>Information and Cyber Security: Inadequate protection of both the technology landscape and data leading to:</p> <ul style="list-style-type: none"> Loss, leakage or misuse of the firm's, personal or our clients' confidential data held electronically or in hard copy; or Business interruption through loss or encryption of business-critical data <p>Risk trend direction: ↑</p>	<ul style="list-style-type: none"> Evolving cyber threat landscape through a major catastrophic breach or ransomware incident Increased reliance on technology to deliver services leading to a greater risk of cyber security threats Hybrid working may increase the risk of data loss or leakage as engagements are conducted both through on-site and remote working teams Growth in the 'internet of things' creating a greater attack surface Increased possibility of a catastrophic cyber incident through links from trusted critical suppliers 	<ul style="list-style-type: none"> Cyber Committee chaired by a member of the Executive Board, which provides overall strategic direction, framework and policies for information security Project to consider the Global Network Information Security Programme agenda in the context of clients, UK Operations and the PwC network The firm operates an ISO/IEC 27001:2013 certified information security management system which includes: <ul style="list-style-type: none"> Governance – including policies, processes, leadership (Cyber Committee) and assessment for client data and other information Physical, technical and human resource controls. Threat intelligence Incident response capability Regular monitoring and independent review systems Continual investment in established cyber security controls Security awareness and education programmes Introduction of the monitoring of ISO27701
<p>Data to enhance services: Risk that inadequate data strategy, governance and management may impede the firm's ability to realise the benefits of responsibly using data to enhance services delivered to clients.</p> <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> Increasing demands of clients for additional data insights driving the need to adapt the use of data to provide increased value to clients Increased focus on the ethical use of data, AI and other technology Increasing volumes of data being produced as clients accelerate their digitisation efforts 	<ul style="list-style-type: none"> Data Use Policy and Data Governance model in place Upskilling of partners and staff to align the use of data analytic tools across the business Chief Data Officer appointed to oversee data strategy and governance



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<p>Regulatory compliance: Failure to comply with relevant independence, legal, regulatory or professional requirements leading to regulatory action, financial penalties, reputational damage and/or a client conflict of interest.</p> <p>Risk trend direction: ↓</p>	<ul style="list-style-type: none"> • Regulatory environment is becoming more assertive, leading to increased monitoring and reporting to ensure the firm is compliant • New ethical standard has been embedded across the business • Following the Court of Justice of the European Union (CJEU) judgement, the European Data Protection Board has issued draft guidance on transfer assessments which has impacted international transfer of data • The business is developing new services which may require additional regulatory checks and monitoring 	<p>Established compliance and independence management systems including:</p> <ul style="list-style-type: none"> • Clear policies, procedures and guidance • Regular updating of firm processes and procedures to facilitate compliance by all our people, on all our clients, with all applicable regulations • Mandatory annual training for all partners and staff • Client and engagement acceptance procedures • Annual independence and compliance submissions for all partners and staff enforced by penalties for non-compliance • Regular monitoring and reporting to the Executive Board
<p>Operating and leveraging the technology environment: Failure to ensure the IT infrastructure and applications across the technology ecosystem, including third parties and the global Network, support the running of the business now and in the future.</p> <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> • Criticality of technology solutions/products to support the delivery of services and the importance of business continuity planning • Importance of preparing for the IT infrastructure of the future which will affect the ability to serve clients in rapidly changing markets 	<ul style="list-style-type: none"> • Recovery of critical systems is secured by the use of two geographically distant data centres. If required, failed systems are reinstated at the second data centre, in line with business Impact Analysis priorities • Continuing programme of testing provides assurance of our ability to rebuild systems from backups • IT Incident management procedures identify key systems to determine the time criticality of impacted systems to ensure appropriate prioritisation of actions • Review of business critical systems • Continued programme of disaster recovery and cyber attack rehearsals • Technology Risk Board in place to approve use of new technology • Significant investment in new and innovative digitising technology solutions for existing services



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<p>Evolving delivery models and use of third parties: Failure to evolve and manage the implications of non-traditional business models in the delivery of client services, including Operate, Alternative Delivery Models (ADMs), Service Delivery Centres (SDCs) and third parties, leading to:</p> <ul style="list-style-type: none"> • Disruption in delivery; • Decline in quality; • Inefficiencies; • Uncompetitive pricing; or • Threats to the brand. <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> • Focus on improving efficiencies and evolving the way we deliver client services • Reliance on resilience/ business continuity of entities providing services to our clients from entities outside PwC UK • Increased demand for non-core skills and services to be provided by third parties in the delivery to clients 	<ul style="list-style-type: none"> • Firmwide process for reviewing new delivery models to identify and address relevant risks • Internal focus on relevant on-boarding and operating processes and procedures
<p>Evolving new client services and products: Failure to adapt to changing market and client needs and evolve new services / products at pace while managing potential risks leading to:</p> <ul style="list-style-type: none"> • Not achieving budgeted revenue and profitability; • Proposition failures; • Negative client feedback; • Declining brand loyalty; or • Significant regulatory/ independence issues. <p>Risk trend direction: ↑</p>	<ul style="list-style-type: none"> • Changing client needs require us to be agile and adapt at speed • Potential for new services to lead to increased regulatory and independence requirements 	<p>Well-established procedures for responding to changing client needs including:</p> <ul style="list-style-type: none"> • Monitoring of business dynamics and client trends • Upskilling programme to provide partners and staff with enhanced business and commercial skills • Client and Markets Executive review and consideration of new client service and product offerings • Client Committee involvement in acceptance of higher risk engagements and new significant offerings
<p>Client assets: Failure to adequately manage the risks associated with handling and processing client assets (monies and physical) leading to regulatory, financial, commercial and reputational implications.</p> <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> • Potential for increase in insolvencies in the future • Threat of theft is amplified by increasing cyber security risks • Increasing number and size of client engagements which include processing of significant client monies 	<p>Well-established procedures for dealing with client assets and related matters including:</p> <ul style="list-style-type: none"> • Portfolio diversification policy • Daily monitoring of credit and related ratings and maturities • Monitoring and independent review • A Treasury Committee which receives regular updates on the above



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<p>People: Failure to deliver on the People strategy due to:</p> <ul style="list-style-type: none"> • Failure to attract and retain diverse and key talented people, by not adapting to changing expectations; • Failure to develop the core competencies and capabilities of our people including their ability to anticipate and adapt quickly to changing client needs; • Failure to address adequately employee wellbeing; • Failure to prepare for the workforce of the future; and • Failure to ensure compliance with firm procedures and to police unacceptable behaviour <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> • Evolving expectations of employees risking the attractiveness of the firm and professional services to highly talented individuals • Attractiveness of Audit careers due to uncertainty of future regulations, the intensity of the work environment and perception of the audit profession which may inhibit ability to attract and retain top talent at both partner and staff levels • Increased competitiveness for talent risking increased attrition • Increasing need for technologists and the challenge in attracting and retaining them in professional services • Potential increased attrition as we start to come out of the pandemic • Importance of a diverse workforce and the risk of not achieving targets set or achieving a narrowing of pay gaps • Changing needs of clients and the importance of our people continually developing skills e.g. technology, data analytics, to provide high quality services to clients • Increased pressure on our people through Covid-19 and the future return to offices impacting health and wellbeing 	<ul style="list-style-type: none"> • Regular reviews of the market for student and experienced talent to benchmark the firm's relative competitive position and ensure agile management of resources • Use of various communication and discussion channels to engage with our people • Continued practical focus on building people engagement and supporting retention • Monitoring and review of key performance indicators by the Executive Board, including staff surveys, external Brand Health Index and regular client feedback • Regular review of the Learning and Development curriculum to ensure it supports the development of the skills and behaviours required for our people to deliver their roles and aligns to our culture and strategy • Diversity targets and action plans in place • Wellbeing remote working support
<p>Safety and Physical security: Failure to ensure the Covid-19 safety and physical security of all our people working:</p> <ul style="list-style-type: none"> • In our offices; • On client sites; or • Overseas. <p>Risk trend direction: ↔</p>	<ul style="list-style-type: none"> • The safety of our people whilst on business travel: the risk landscape for international travel is diverse and is under constant review to evaluate risks including geopolitical, security, safety and medical risks including Covid-19 • The risk landscape for Covid-19 is changing, with the emergence of new variants, but good progress being made with the UK vaccination programme • The UK Government has set tests which need to be met to progress along their four step Road Map to lifting of restrictions. Other parts of the world, particularly developing nations may take much longer and the associated risks may remain for a number of years • The current threat level for terrorism in the UK is substantial, meaning an attack is likely. Although PwC is not deemed a direct target for a terrorist attack, our city centre locations raise the likelihood of an attack impacting our people 	<ul style="list-style-type: none"> • Firmwide travel policy and processes for all our people, incorporating 24/7 tracking and, where appropriate, consultation with a dedicated security team • Comprehensive security infrastructure covering all our premises • The UK Government (and devolved nations) require that we complete a Covid-19 Risk Assessment for our offices and ensure that appropriate measures (including social distancing) are in place to ensure our offices are Covid secure and to minimise the risk of Covid transmission • We adhere to the requirements set by the UK Government and devolved nations • Our Covid Steering Committee continues to meet twice weekly to discuss and agree changes to policies and our Covid response • Continuous monitoring of threat levels and issues in overseas travel destinations, and potential threats to our premises

