

Our Audit methodology – Engagement acceptance and continuance

This forms part of our FY21 Transparency Report

- Firmwide governance
- Independence and ethics
- People
- Audit quality
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Our Audit methodology

Engagement acceptance and continuance



Acceptance and continuance considerations

Our principles for determining whether to accept or continue an audit appointment are fundamental to delivering quality, which we believe goes hand-in-hand with our purpose to build trust in society. We have established policies and procedures for the acceptance of client relationships and audit engagements that consider whether we; are competent to perform the engagement and have the necessary capabilities including time and resources; can comply with relevant ethical requirements, including independence, and have appropriately considered the integrity of the entity and its management. We reassess these considerations in determining whether we should continue in an audit appointment and have in place policies and procedures related to withdrawing from an engagement or client relationship where necessary.

Relationship checks and independence assessments during Acceptance

Before accepting any new engagement, a dedicated Relationship Checking team within our Independence function performs specific checks to identify relevant relationships that might bear on our objectivity in relation to our audit client.

Where potential conflicts of interest are identified, we either decline to accept an engagement or we put in place robust arrangements to make sure that the potential conflicts of interest are appropriately managed, (see the “Conflicts of interest and sensitive situations” section below).

In the case of new audit clients, an independence assessment is performed covering all relevant independence considerations before an audit engagement is accepted. The nature and complexity of either the relationship or the structure of the prospective audit client determines whether the assessment is performed by a dedicated team within Independence or by the prospective audit engagement team with advice from Independence. The assessment enables us to identify existing relationships including business relationships, non-audit services and firm and personal arrangements and determine whether:

- those relationships which are prohibited by the FRC Ethical Standard can be terminated before we are appointed as auditor. Where this is possible, the relevant partners and staff are instructed to terminate the service prior to our appointment and confirm to the prospective audit engagement leader that they have done so. If we are unable to terminate the non-audit service before our potential audit appointment, we decline the audit appointment; and
- for those relationships which are permissible or where the service can be amended to be made permissible and can therefore continue after our appointment as auditor, they may still create a threat to our independence and objectivity. Where such threats are identified and appropriate safeguards could be put in place, these are discussed and agreed with those charged with governance prior to appointment. Where safeguards are not acceptable or the nature of the service could be considered by third parties to be inappropriate given our role as prospective auditors, the services would again be terminated in advance of our appointment

Risk based acceptance considerations

Within the Audit Line of Service, two IT systems are used to determine acceptability of a given engagement:

- Acceptance and Continuance (A&C) is used for all audit work; and
- Clientwise is used for non-audit assurance work.

Both systems:

- Enable engagement teams to:
 - Document their consideration of matters required by professional standards related to acceptance and continuance;
 - To identify and document issues or risk factors and their resolution, for example through consultation by adjusting the resource plan or audit approach or putting in place other safeguards to mitigate identified risks or by declining to perform the engagement;
 - To facilitate the evaluation of the risks associated with accepting or continuing with an engagements, including whether or not PwC UK should be associated with a particular entity, its management and/or the proposed services in question



- Enable the firm to:
 - Facilitate the evaluation of the risks associated with accepting or continuing with engagements,
 - Provide an overview of the risks associated with accepting or continuing with entities and engagements across the client portfolio,
 - Understand the methodology, basis and minimum considerations all other member firms in the PwC Network have applied in assessing audit acceptance and continuance;
 - Use automated criteria to trigger required consultations with appropriate individuals or committees within business units and/ or at the firm level. This allows the right people to make the right decisions at the right time and also enables the firm to put in place safeguards to mitigate identified risks.

These systems serve as automated tools to support engagement teams in complying with policies and responding to risks identified as they make acceptance and continuance decisions.

In addition:

- The Audit Tender Approval Panel ('ATAP') process further considers the acceptance and continuance process for all audit tenders, or potential new audit appointments where any defined commercial, resourcing or risk criteria apply. The ATAP is a subcommittee of the Audit Executive, chaired by a member of the Audit Executive and including at least two members of the Audit Executive and attended by the proposed engagement leader, and the respective business unit leader and the relevant market leader. The ATAP considers a range of matters including whether the potential audit client meets our quality objectives; whether we have sufficient appropriate resources to support both the bid process and the subsequent audit; and whether the commercial outcomes of the tender meet our goals; and
- the Client Committee, a sub-committee of the Clients and Markets Executive (CME), will convene to consider engagement or client acceptance decisions, and in some cases continuance decisions, that carry significant risks to the firm or that relate to particularly sensitive or confidential circumstances.

Withdrawal from an engagement

Policies and procedures are in place for circumstances in which we determine that we should, or are required to, withdraw from an engagement. We have previously resigned from audit appointments for a variety of reasons, which include:

- threats to our independence being, in our judgement, too great to apply effective safeguards;
- where we have been provided evidence in the course of our audit that our testing has revealed to have been falsified;
- where management has, without reasonable cause, failed to provide us with information that we have requested or has otherwise obstructed our audit; or
- because we are required to under the UK's mandatory firm rotation rules

Our policies in this area include the need for appropriate consultations both within the firm and with those charged with governance at the entity, together with ensuring compliance with legal and professional obligations. This may include informing our and/or the entity's regulators of the reasons for our resignation.

We have processes in place to make sure that we notify those charged with governance in good time when mandatory firm rotation rules require the entity to rotate their auditor, or put the audit out to competitive tender.

Our policies and procedures also deal with circumstances where we become aware of information after accepting an engagement which, had we been aware of it earlier, would have led us to decline the engagement.



Conflicts of interest and sensitive situations

Conflicts of interest and sensitive situations arise when two or more clients have conflicting interests in a matter and the services being provided relate to that matter. Where applicable, appropriate measures (e.g. specific consents, ethical walls or other separation barriers) will be put in place to safeguard both the confidentiality of client information and mitigate the actual or perceived conflict. The need for specific information barriers including ethical walls is normally identified as a result of performing a relationship check, and the Relationship Checking Team within our Compliance function will coordinate and lead the process of establishing these.

It is important that engagement leaders are alert to whether conflict of interest or sensitive situations exist and that engagement leaders and staff recognise they need to be dealt with carefully and sensitively to protect the best interests of the firm and its clients. Policies, guidance and training are provided to engagement leaders and staff to facilitate this.

If a conflict of interest or sensitive situation is identified, engagement leaders are responsible for implementing the relevant information barrier or ethical wall instructions that relate to their team, and ensuring they are followed, and for promptly providing Compliance and their line of service risk management team with details of the engagement, as well as for keeping Compliance apprised of updates to the scope of the engagement or composition of the team.

