UK Transparency Report 2021
PricewaterhouseCoopers LLP
Registered number: OC303525

# Our Audit methodology – Engagement performance

This forms part of our FY21 Transparency Report

www.pwc.co.uk/transparencyreport

# Our Audit methodology
**Engagement performance**

## Audit methodology

PwC UK operates Audit as a separate, standalone line of service that delivers audit and other reasonable assurance engagements. Within other Network firms, it is more common for these services to be offered within a wider Assurance line of service that also delivers other services alongside these. Global Assurance Quality operates at the PwC Network level, and develops and maintains the Network's risk and quality standards and methodologies in relation to Assurance services.

As a member of the PwC Network, PwC UK has access to and uses PwC Audit, a common audit methodology and process. This methodology is based on the International Standards on Auditing (ISAs), with additional PwC policy and guidance provided where appropriate.

PwC Audit policies and procedures are designed to facilitate audits conducted in compliance with all ISA requirements that are relevant to each individual audit engagement. Our common audit methodology provides the framework to enable PwC member firms to consistently comply in all respects with applicable professional standards, regulations and legal requirements. PwC Audit is developed by the Global Assurance Quality – Methodology Group (GAQ – Methodology). GAQ – Methodology has responsibility for the maintenance and update of global audit policies and guidance, included within: the PwC Audit Guide; libraries of audit steps for our global Enterprise Resource Planning (ERP) system (Aura); and template letters and other documents for use by engagement teams.

The UK, along with other member firms, support GAQ – Methodology by seconding staff to work alongside the group's permanent staff. There are also a number of review and consultation groups, comprising representatives from member firms including PwC UK, which provide input to GAQ – Methodology via regular conference calls and review of materials prior to release to the PwC Network.

The Global Audit Methodology Leaders Group, which includes senior representation from PwC UK, exists for the purpose of ensuring global alignment of methodology priorities, sharing of territory emerging matters, providing input on PwC's response to proposed auditing and assurance standards, and acting as a forum for discussion.

The governance of Global Assurance Technology and Tools is covered by two complimentary committees. The Global Assurance Implementation Team is responsible for oversight and implementation of assurance technology solutions. The future technology strategy and investment is overseen by the Global Assurance Project Approval Committee. Both groups include the Global Assurance Chief Operating Officer and Chief Digital Officer, along with partner representation from major territories, including the UK.

## Audit technologies and tools

PwC Audit is underpinned by Aura Platinum, our global audit documentation system which is used across the entire PwC Network. Aura Platinum is the heart of how we build and execute our audit plans by supporting teams in applying our methodology effectively, by creating transparent linkage between risks, required procedures, controls and the work performed to address those risks, as well as providing comprehensive guidance and project management capabilities. Targeted audit plans specify risk levels, controls reliance and substantive testing. Smart dashboards show teams audit progress and the impact of scoping decisions more quickly.

New features and functionality for Aura are continually being developed at a global level to reflect technology initiatives to improve quality and efficiency, themes from external and internal quality reviews and feedback from global users. Requests for new features and functionality are approved by the Assurance Working Group, which is composed of PwC partners and directors and IT specialists from across the Network including PwC UK. Aura changes impacting methodology involve GAQ – Methodology, risk management, legal and IT specialists as appropriate. Prior to release to the Network, changes are tested globally through a collaborative testing approach involving a number of member firms, including PwC UK. In addition, Aura specialists work closely with global and member firm learning and education functions in determining the extent of any training requirements and the development of appropriate materials.

Aura Platinum is supported by a series of technology-based audit support tools and templates which are accessible via a range of electronic devices ranging from PCs to smartphones. These tools increasingly integrate with Aura, populating audit evidence directly into Aura. The main tools include:

- The Connect Suite is our collaborative platform where we share data, document requests and audit status. It provides fast, efficient and secure information sharing with audited entities' management, and multi-location audit teams, at every stage of the audit:

  – Connect monitors the status of requests and information between management and the audit engagement team in real time. Audit teams and management know where things stand at all times through a consolidated dashboard showing all sites, digitisation of engagement matters, and automated key performance indicators

  – Connect Audit Manager streamlines, standardises and automates group and component teams' coordination for multi-location and statutory audits. It provides a single digital platform to see all outbound and inboard work and digitises the entire coordination process so there's greater transparency, compliance and quality for complex multi-location audits

- Halo is our market-leading audit technology that allows us to identify and assess risks and determine where to focus audit efforts. Halo interrogates, tests and analyses huge volumes of business-critical data, analysing whole populations, spotting and visualising anomalies and trends in financial information. It enables us to analyse patterns and trends, identify unusual and high-risk transactions, and provide valuable insight to our teams and to management

- Count facilitates the end-to-end process for inventory counts, allowing our engagement teams to create and manage count procedures, counters to record results directly onto their mobile device or tablet and engagement teams to export final results into Aura

- PwC's Confirmation System makes it easy for clients to return requested information securely. Automated, flexible technology means it works for virtually all confirmation types – from accounts receivable to derivatives to loans to inventory

These other applications either involve global teams of audit and IT specialists developing the concept or involve a territory, such as PwC UK, taking the lead on behalf of the Network. Input and approvals are obtained from relevant methodology, risk management, legal and IT specialists as appropriate. PwC UK has had a significant involvement in the development of these global applications.

## Comprehensive policies and procedures

The firm has policies and procedures governing accounting, corporate reporting, regulatory and auditing practice. These are regularly updated to reflect new professional developments, changes in our operating environment and emerging external issues, as well as the needs and concerns of the practice and regulators. These policies and procedures are supported by guidance that PwC UK provides to its professionals on how best to implement them.

The policies, procedures and guidance are available in electronic files, databases and on web based applications. These are readily accessible to our people remotely at any time.

## Our Distributed Delivery Model

We continue to evolve the way we deliver our services so that we give our people and our clients an even better experience, improve the quality of what we do and create the economic capacity to invest in the future.

We recognise that the way we operate needs to continually evolve, as the technological world around us changes. We cannot afford to stand still – our clients and our people are expecting us to make some big changes.

Our Distributed Delivery Model supporting our front line delivery teams is formed of three key elements, with increasing levels of complexity of work performed in support of our Assurance engagements, namely:

1. **Service Delivery Centres:** Delivering tasks that do not require audit judgement, from offshore locations;

2. **Competency Centre:** Delivering lower complexity areas, where some judgement is required, from Bradford; and

3. **Centres of Excellence:** Delivering highly complex technical and judgemental areas, from primary locations in Manchester, Glasgow, Birmingham and Belfast.

The Distributed Delivery Model enables us to deliver on our ambitions by:

- Enhancing the quality of the work we do, by creating centres to deliver our work in specialist areas and in turn drive increasing levels of standardisation;

- Automating as much of what we currently do manually, through standardisation;

- Adding further value to our clients; and

- Improving the working experience of our partners and staff

## Service Delivery Centres

Under our Distributed Delivery Model, we reallocate certain administrative and common audit procedures that do not require auditor judgement to be applied to offshore Service Delivery Centres, based in Poland and India. Allocating certain tasks to a centralised location achieves the following benefits:

- enhanced quality through standardisation;

- improved efficiency and speed through scale;

- improved flexibility in delivery; and

- controlled cost of audit delivery

The use of delivery centres allows our front line delivery teams in the UK to focus on applying their judgement and professional scepticism in the audit process, as well as spending more "face-to-face" time with the client. The firm uses delivery centres to carry out a variety of procedures, the most common of which are:

- casting, cross-referencing, internal consistency and quality review of financial statements;

- assisting audit teams with detailed testing, including vouching to supporting documentation, reconciliations and recalculation of amounts;

- managing the preparation of requests for, and subsequent receipt of, external confirmations;

- assistance with data extraction and transformation for use in the audit of journals; and

- related parties searches and other client knowledge management

The centralisation and standardisation of work in these areas (which are prerequisites to our offshoring process) have improved the consistency and quality of work done. Specific steps that we take to ensure quality in our offshored work include:

- The onshore front line delivery team retains overall responsibility for the quality of any work that is done by offshore delivery. The onshore front-line delivery team reviews all work done by the delivery centre on their audit, and interacts with the delivery centre teams to the extent needed for the services being performed;

- Delivery centres are permitted to carry out only specific procedures that have been authorised by the UK firm's audit governance bodies;

- Staff in delivery centres are recruited in accordance with the firm's standards, and receive training in the specific audit activities they carry out;

- The delivery centre carries out quality checks on the work they do before outputs are returned to front line delivery teams;

- Service Delivery Centres are subject to annual quality reviews that assess the design and operating effectiveness of controls and procedures within the delivery centres' quality management system and ultimately concludes on their compliance with the Network requirements; and

- Service Delivery Centres invest heavily in driving continuous improvements, including the automation of certain standardised activities, automatic allocation of work to appropriate staff to drive efficiencies, as well as adopting latest behavioural methodologies to change the ways staff engage to be even more effective and continue to drive excellence in performance

## Competency Centre

Our Competency Centre, called Nexus internally, was launched in 2019 to complete specific audit tests, or aspects of the audit of financial statement line items that are less complex and judgemental, such as aspects of the audit of Cash and Property, Plant and Equipment, Accounts Payable and Accounts Receivable.

While delivering lower complexity areas of the audit, having Competency Centre staff specialise in delivering these areas is driving increasing levels of standardisation. The centre will help PwC continue to provide quality and exceptional client service in changing times, standardising work in key areas of their engagements to be able to use technology effectively through automation.

## Centres of Excellence

Centres of Excellence were established to deliver the audit in more complex technical and judgemental areas of our audit engagements. Centre of Excellence staff members specialise in delivering areas that engagement teams may come across less frequently, enabling them to drive a more standardised approach and ultimately further enhance quality in delivery.

Centre of Excellence team members are specialist staff based in the UK, who have completed additional in-depth training in these more complex areas. They interact directly with clients, but do so virtually from primary locations in Belfast, Birmingham, Glasgow and Manchester.

To further capitalise on the potential for enhanced quality in these more complex technical areas, the Centre of Excellence undertakes a portfolio of activities including Pensions, Share Based Payments, Earnings per Share, the Audit of Tax and Controls testing activities.

## Consultation and differences of opinion

Consultation is a key element of quality control. The firm has policies setting out the circumstances under which consultation on accounting, auditing and risk management matters is mandatory. The firm's technical experts track new developments in relevant areas and provide updates to the appropriate professional staff. Our strong consultative culture also means that our engagement teams regularly consult with each other on an informal basis, as well as with experts and others, often in situations where consultation is not formally required.

Within Audit, we use a consultation database that has been specifically designed to aid the enquiry and consultation process. It also makes sure documentation of consultations with the Audit Risk & Quality group (ARQ) is in accordance with relevant professional standards. ARQ, whose remit is to establish the Audit Practice's technical risk and quality framework, supports engagement teams in a number of areas, including accounting and corporate reporting, risk management and audit methodology. ARQ also helps teams to meet professional standards, regulatory and legal requirements and in some instances, provides support to clients when the need arises.

For example, ARQ's accounting specialists perform quality "hot reviews" on interim review reports, preliminary announcements and annual IFRS financial statements of certain entities prior to issuance. These reviews consider the financial statements' and reports' compliance with law, regulation, and the relevant accounting framework. For a selection of audits, ARQ reviews certain aspects of the audit work on a real time basis, as the audit progresses.

These reviews aim to be primarily a coaching exercise focusing on risk assessment, the resolution of judgemental matters and our reporting to Those Charged with Governance. They are flexible and will, on occasion, involve a more in depth review of detailed audit working papers as well as the below call-out box of stats, please also include the following paragraph of prose that also set out the same statistics within the copy:

---

During the year ended 30 June 2021, a total of

**12,009**

FY20 12,241

consultations were completed with

**295**

FY20 296

hot reviews of financial statements and reports

---

During the year ended 30 June 2021, a total of 12,009 consultations were completed (FY20: 12,241 completed in the period to 30 June 2020 with an additional 2,040 in progress as at 30 June 2020, totalling the previously disclosed total of 14,281 consultations per our 2020 Transparency Report), covering audit, accounting and risk management issues, and 295 hot reviews of financial statements and reports (FY20: 296 completed in the period to 30 June 2020, with an additional 64 hot reviews in progress as at 30 June 2020, totalling the previously disclosed total of 360 hot reviews per our 2020 Transparency Report). Where an engagement

has particular complexities, risk characteristics or auditing or accounting areas requiring significant judgement (e.g. in some situations where uncertainty exists around a client's going concern or impairment assessment), engagement leaders may consult a panel of experienced client-facing partners, technical experts and, in some cases, specialists in particular audit or industry areas ('technical panel'). During the year ended 30 June 2021, 112 (FY20: 132) technical panels took place on audit clients, the majority of which related to the consideration of a client's going concern status. COVID-19 has been one of the main factors of the number increase of queries and technical panels.

During the year ended
30 June 2021

## 112

FY20 132

technical panels took place on audit clients

Protocols exist to resolve the situations where a difference of opinion arises between the engagement leader and either the QRP, another Audit partner or central functions such as ARQ or Compliance. These include the use of technical panels consisting of partners independent of the engagement.

### Supervision and review

The engagement leader and senior engagement team members supervise the audit, review the work done, coach the team and maintain audit quality. Our audit software, Aura Platinum, is designed to help audit team members track the progress of the engagement and therefore make sure that all work has been completed, that work is reviewed by the relevant individuals including the engagement leader and, where relevant, the Engagement Quality Control Reviewer (known in PwC Audit as the Quality Review Partner), and that all matters arising have been appropriately addressed.

The engagement leader is expected to:

- lead the performance of the audit and its documentation by being proactively and sufficiently involved throughout the audit, including being satisfied that risks have been assessed and responded to appropriately;

- drive a cultural mindset that strives for continuous quality improvement, challenges engagement team members to think, analyse, question and be rigorous in their approach, and embody the experiences of our clients and people in how the team delivers the audit and applies professional scepticism;

- foster an integrated coaching culture and demonstrate a willingness to learn and to coach others;

- be responsible for the engagement team undertaking appropriate consultation on difficult or contentious matters, initiating those consultations where necessary;

- have an ongoing involvement in assessing the progress of the audit, and in making key judgements;

- be satisfied that the review, supervision and quality control procedures in place are adequate and effective; and

- have an overall responsibility for reviewing and assessing the quality of the work done, its proper and timely documentation and the conclusions reached.

Senior engagement team members support the engagement leader by:

- setting an example in the performance of the audit and its documentation by being involved throughout the audit, including identifying the risks and being satisfied that they are responded to appropriately;

- striving for continuous quality improvement, challenging engagement team members and applying rigour to the audit process;

- fostering an integrated coaching culture and demonstrating a willingness to learn and coach others;

- together with the engagement leader, putting in place arrangements for timely reviews of audit work and documentation, and, taking into account the nature, extent and level of reviews already performed by other members of the team, satisfying himself or herself that the work performed and documentation are consistent with the understanding of the engagement; and

- reviewing work done and the record of the audit, including considering the quality of the audit process and the results of the work and the documentation of conclusions.

In addition to reviews by the engagement leader and senior engagement team members, all staff are expected to critically self-review their own work to make sure that it meets the relevant requirements.

## Engagement Quality Control Reviews

We appoint a Quality Review Partner (QRP) to conduct engagement quality control reviews of the audits of listed clients, other public interest entities and clients identified as higher risk or higher profile. Higher Profile Clients include those private companies which employ 10,000 or more individuals in the UK (excluding subsidiaries of a UK listed company which is audited by PwC UK) or:

- any entity with a significant risk over going concern and either:
  - more than 5,000 UK employees, or
  - a pension deficit agreement exceeding 15 years; and
- any entity with more than 5,000 UK employees and a pension deficit funding agreement exceeding 15 years

QRPs are experienced individuals, usually partners, who are independent of the core engagement team; they receive training when appointed as a QRP and on an annual basis thereafter.

QRPs are appointed to an engagement based on their experience and expertise. The QRP is responsible for reviewing key aspects of the audit including independence, significant risks and responses to these risks, judgements, uncorrected misstatements, documentation of work done in the areas reviewed, the financial statements, communication with those charged with governance and the appropriateness of the audit report to be issued. QRPs are involved throughout the audit process so that their input is timely.

The QRP discusses the results of their review with the Key Audit Partners (which include those engagement leaders of material components in group engagements which are involved in the group audit) on Public Interest Entity engagements defined by the FRC Ethical Standard.

The QRP will challenge the audit team in the judgements they have made and work done. Their review is completed and any matters raised are resolved to the QRP's satisfaction in advance of the audit report date.

Second partners are required to be appointed to certain types of non-audit work and, depending on the nature of the engagement, may fulfil a role similar to that of a QRP on an audit. In other situations, their role is defined and agreed with the engagement leader and evidenced on the file.

## Engagement Documentation

At the end of an engagement, teams are required to assemble the hard copy paper file and then archive both this and the electronic file in accordance with a timeline that is more stringent than that required by professional standards. In the case of the electronic audit file, the act of archiving prevents any further amendments being made to the file.

The hard copy paper file is similarly archived and retained in a secure access controlled filing system either within the office or off-site, with an electronic logging system used to manage the archive.

Unless required for legal, regulatory or internal review purposes, electronic and hard copy paper files are only accessible by members of the engagement team or by specific individuals for risk management, quality review and compliance purposes until they are destroyed.

All engagement files are destroyed after periods specified by law or professional standards. In the case of audit files, this is generally seven years after the audit report date, but can be as long as 12 years after the balance sheet date where required by applicable law/standards.

## Independent senior partner review

PwC UK operates a programme of obtaining direct feedback from our clients via face-to-face interviews, undertaken by senior partners independent of the engagement team, as well as client satisfaction surveys. We use this feedback to make sure that we continue to provide high-quality services and address any service issues promptly.

## Governance of the Audit Line of Service

As noted above, Hemione Hudson is the Head of Audit and the member of the firm's Management Board responsible for the Audit Line of Service (Audit LoS). Hemione Hudson is also a member of the firm's Public Interest Body (PIB) and reports to the PIB on audit quality matters at each meeting including progress of the Programme to Enhance Audit Quality (PEAQ).

From an operational perspective, and consistent with all other Lines of Service, Hemione Hudson leads an executive team, the Audit Executive, which includes a Chief Operating Officer, Head of Audit Risk and Quality, Head of People and Resourcing, Head of Audit Strategy and Public Policy, Partner Matters and various Market Leaders.

The firm's Executive Board is responsible for the policies, strategy, direction and management of the firm as a whole, on behalf of the Management Board. The Audit Executive takes responsibility for day-to-day policies, strategy and direction of the Audit LoS,

including translating the firm's overall vision and strategy into practical actions and decisions specific to the LoS, in particular in relation to audit quality. The Audit Executive oversees the Programme to Enhance Audit Quality and approves the application of the firm's Accountability Framework.

The Audit Executive meets monthly, with the exception of August, and more regularly as needed – for example, at the height of the COVD-19 pandemic the Audit Executive met daily. The Audit Executive escalates significant matters to the Management Board, the Executive Board or the Clients and Markets Executive, as relevant.