

# Our Audit methodology – Interaction with stakeholders

This forms part of our FY21 Transparency Report

Firmwide governance

Independence and ethics

People

Audit quality

**Our Audit methodology**

- Engagement acceptance and continuance
- Engagement performance
- **Interaction with stakeholders**

Finances and other disclosures



# Our Audit methodology

## Interaction with stakeholders



### Investor engagement

We have a dedicated team that works with shareholders and other members of the investment community, including asset owners, asset managers, analysts, corporate governance and stewardship professionals, proxy advisers and credit ratings agencies.

Through this engagement we are able to listen to the views of stakeholders on a range of reporting, regulatory and governance issues facing UK companies, as well as their thoughts on assurance matters and the role of the audit profession in their work. This dialogue ensures that we understand the needs and expectations of this important stakeholder group. This enables us to help our client engagement teams, as well as our clients' executive and non-executive directors, to better respond to shareholder needs. Some highlights of our investor engagement team's work this year include the following:

#### Investor events

We held a number of round-table and educational events for investors, retail investors and analysts throughout the year on topical issues. These events covered a variety of subjects including accounting standards such as IFRS 16 and 17, tax reporting, audit reform, political developments and climate reporting. After each investor event we typically produce a summary publication of what we heard to help companies understand investor perspectives.

#### Corporate Reporting Users' Forum (CRUF)

PwC continues to provide secretariat support to the CRUF in the UK and across their global network. As secretariat we provide administrative support for meetings, liaise with standard setters and regulators to facilitate the submission of comment letters and provide technical support when needed. This year we have continued to help the CRUF raise awareness of the group and their views on reporting, and have facilitated the set-up of a new sub-group dedicated to Environmental, Social and Governance (ESG) matters.

#### Ongoing dialogue between the investment community and senior partners

We met with shareholders, analysts and proxy advisers across a number of sector specialisms through one-on-one meetings to discuss various topics, including audit reform, ESG matters, including climate reporting, and accounting standards. The strong relationships and open dialogue we have with the investment community enables high quality engagement on a range of topics of mutual interest.

### Communicating with our Public Interest Body (PIB)

The feedback and insight received from our investor engagement activities informs the regular updates provided to our governing bodies, including our PIB. Over the last year, key topics discussed with the investment community have been included in the briefings provided to the PIB so that these topics can be discussed amongst the executives and Independent Non-Executives (INEs) at their regular meetings.

#### Audit reporting

We are acutely aware that the effectiveness of our work as auditors is directly linked to the effectiveness of our reporting to audit committees and boards of directors, and in the role we play in external reporting to the owners of the entity being audited.

#### Reporting to audit committees

When reporting to audit committees and those charged with governance in organisations where no audit committee exists, we place particular emphasis on communicating our audit scope and approach, together with our assessment of audit risk. During the course of the audit we communicate threats to auditor objectivity, including independence, the significant risks and judgements that impact the reported financial performance and position, and the manner in which the information is presented in the annual report.

This includes highlighting judgements made by management in preparing the financial statements that we believe are important to an understanding of the performance and position being presented. The nature of accounting and the need to make judgements and estimates means that there is often not a precise answer, and this is reflected in our reporting. It is also our role to inform the audit committee whether we can conclude that what is reported externally is true and fair within established norms of materiality, including considering both qualitative and quantitative aspects of accounting and reporting.



## External reporting

The form and content of our audit reports for UK entities are laid down by UK legislation and the Financial Reporting Council (FRC). We are committed to making our reports clear and unambiguous. Enhanced audit reports provided to a range of organisations, including all listed entities, include descriptions of: how our audit was scoped; how we addressed the risks of material misstatement that we identified; and our application of materiality in determining the nature, timing and extent of our audit procedures and evaluating the effect of misstatements. These enhanced audit reports provide us with the ability within our audit report to ‘tell the story of our audit’ in a meaningful and informative way to enhance users’ understanding of the financial statements. For UK public interest entities as defined by the FRC Ethical Standard the enhanced audit reports also include increased transparency on our independence including:

- a declaration that the non-audit services prohibited by the FRC’s Ethical Standard were not provided and that the firm remained independent of the entity in conducting the audit;
- an indication of any services, in addition to the audit, which were provided by the firm to the entity and its controlled undertaking(s) and which have not been disclosed in the annual report or financial statements; and
- disclosure of our period of tenure.

We welcome, fully support and embrace the moves towards greater transparency over the audit process that results from these enhanced audit reports. Sometimes it is necessary for us to modify our audit opinion, or to include details of a material uncertainty in respect of going concern. In such cases, engagement teams consult with others, including technical specialists, to help ensure that the modification/emphasis is warranted and that the audit report wording is clear.

In addition to our audit report, in certain situations we also have reporting obligations to regulators and to other organisations specified by auditing standards, UK law and regulation such as the Financial Conduct Authority and the Prudential Regulation Authority.

