

# Audit quality



# Our Programme to Enhance Audit Quality



We are committed to performing consistently high quality audits and in June 2019 launched our three year Programme to Enhance Audit Quality (PEAQ). At the start of PEAQ we created an audit practice with a singular focus on external audit and audit-related services, and over the last three years we've been focused on the four workstreams: structure and governance, culture and recognition, quality control activities, and supply and demand. Taken together these workstreams ensure our commitment to audit quality is reflected in everything we do and the key achievements include;

- Creating a distinct Audit Line of Service with increased governance and oversight provided by the Audit Oversight Body;
- Establishing a culture that supports the public interest, which continues to be promoted through our three Audit Behaviours: Team First, Challenge and be open to challenge, and Take Pride;
- Enhancing our quality control activities by creating a Chief Auditor Network of over 100 people and increasing the size of our Audit Risk and Quality function by more than 50%, which has supported the inflight reviews that we perform each year; and
- Rebalancing our supply and demand by recruiting over 1,500 experienced auditors in the last three years and exiting audit engagements that do not generate a return that allows us to continue to invest in audit quality.

While PEAQ formally concluded in June 2022, the initiatives, processes and activities we implemented are now embedded into our business as usual processes and will continue to have a positive impact on audit quality.

We have developed a detailed Audit Quality Plan (AQP) to ensure performing consistently high quality audits remains our primary focus. The AQP sets out all of our activities

which remain fundamental to delivering high quality work, including our root cause analysis and action planning processes.

## 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.

Our Continuous Improvement (CI) Team, a separate team which is independent from engagement teams, is responsible for undertaking all root cause activity on a continual 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 root cause analysis (RCA) on quality findings, assessing relevant data, 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.

We use PwC global methodology to undertake RCA 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 audit teams to deliver consistently high quality audits. We look at audits across the quality spectrum, including those with identified '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.

Potential causal factors are identified by evaluating engagement information, performing interviews with engagement team members and specialists, holding focus groups on specific 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, a number of data points and indicators 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, the timeliness of receipt of deliverables from the audit entity management and other audit milestones.

We evaluate the results of our analysis to identify enhancements to implement either at an engagement level or across the practice and, where appropriate, build these into the audit quality action plan. The learnings from RCA are shared with the practice in a number of different ways, including, at learning & development events, in all Audit communications, and through the Chief Auditor Network (CAN).

### Action plans

Action plans are developed in response to causal factors identified from external 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 the year 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, the CI team looks to understand why and, if required, a new action would be put in place.

Individual actions are agreed with a sponsor 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 firm's Supervisor and 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 Engagement Compliance Reviews (ECR) and QMSE 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. 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.



# Our system of quality management

## Our system of quality management and monitoring processes

PwC UK's Audit internal quality control systems are based on International Standard on Quality Control (UK) 1 – 'Quality Control for firms that perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements' (ISQC (UK) 1). ISQC (UK) 1 applies to firms that perform audits of financial statements, report in connection with investment circulars, and provide other assurance services where they relate to activities that are reported in the public domain and are therefore in the public interest.

The objective of ISQC (UK) 1 is for the firm to establish and maintain a system of quality control to provide it with reasonable assurance that:

- The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- Reports issued by the firm, or by engagement leaders, are appropriate in the circumstances.

In addition to compliance with ISQC (UK) 1, the UK firm is also impacted by the following requirements:

- **ICAEW Audit Regulations:** as a Registered Auditor regulated by the Institute of Chartered Accountants in England and Wales (ICAEW), we are required to comply with the Audit Regulations and Guidance (Audit Regulations) issued by the ICAEW. Compliance with the Audit Regulations is required to enable the firm to retain its audit licence in the UK;

- **Other regulatory bodies:** We are required to comply with the policies and regulations of a number of other regulatory bodies which PwC UK is either registered with, as a condition of ongoing registration to perform audits of certain entities, or regulated by. These regulatory bodies include the Financial Reporting Council, Public Sector Audit Appointments Limited, NHS Improvement, the Financial Conduct Authority and the Prudential Regulation Authority in the UK; and
- **Other registrations requirements:** The UK firm is also required to comply with other requirements in relation to our registrations to conduct audits of entities that are either listed in other territories, or to claim exemptions. In addition, we are also required to comply with the ICAEW Local Audit Regulations and Guidance (to enable us to do certain public sector audits) and the ICAEW Licensed Practice Handbook (currently covering our reporting to the Civil Aviation Authority re ATOL returns).

Each PwC Network firm is required to have in place a rigorous System of Quality Management (SoQM), to annually complete a SoQM performance assessment and to communicate the results of these assessments to global leadership. These results are discussed in detail with the leadership of each local firm and if they are not at the level expected, a remediation plan is agreed, with local leadership taking responsibility for its successful implementation.

As our services change and develop, and the needs and expectations of our stakeholders also change, we are continually reviewing and updating the scale, scope and operations of our SoQM and investing in programmes to enhance the quality of the services that we provide.



## ISQM (UK) 1 and ISQM (UK) 2

During 2022, ISQC (UK) 1 is being replaced by two new quality management standards: International Standard on Quality Management (UK) 1 (ISQM (UK) 1) and ISQM (UK) 2. These require that the SoQM is designed and implemented in line with the new standards by 15 December 2022, and evaluated within one year of that date.

Changes to the firm's Quality Management for Service Excellence (QMSE) framework, designed to comply with ISQC (UK) 1 were introduced in 2021 to incorporate new requirements imposed by the new quality management standards, ISQM (UK) 1 and 2. The existing QMSE framework already captured the essence of ISQM (UK) 1 and was largely consistent with the new standard. In preparation for the new standard, a comprehensive gap analysis was performed to identify aspects of the new standards which required additional consideration ahead of the implementation date.

## Quality Management for Service Excellence (QMSE)

The quality agenda to drive continuous improvement relies on establishing a culture that prioritises quality in everything we do. This culture is supported by appropriate tone at the top through regular communication from leadership to all partners and staff about the firm's commitment to quality.

The QMSE framework provides a basis for firms to develop a dynamic risk based SoQM to achieve the overall quality objective for the Audit practice which is to have the capabilities to consistently meet the expectations of our clients and other stakeholders. This overall quality objective is supported by 15 quality management objectives.

The UK firm maintains a SoQM by designing, implementing and operating an ongoing process to achieve the QMSE quality objectives and the overall quality objective. This ongoing process includes monitoring, evaluating, assessing, reporting and being responsive to changes in quality risks, driven by PwC UK's internal and external environment. This is the quality management process (QMP).





### Root Cause Analysis (RCA)

### Recognition and Accountability Framework (RAF)



#### Quality Management for Service Excellence

- QMSE requires the implementation and use of a QMP that encompasses four key quality initiatives (RCA, RTA, AQIs and RAF) in an integrated and iterative way.
- Designed to enable measurements of whether firms are achieving against those objectives, in term of design effectiveness and operating effectiveness.
- Performance measures including AQIs/KPIs are embedded to support monitoring and measurements of success in achieving the objectives.



### Audit Quality Indicators (AQIs)

### Real Time Assurance (RTA)



Firm and Audit leadership, business process owners (BPOs), partners and staff are responsible for the operation of the QMP including maintaining their risk assessment which includes the design and operation of appropriate risk responses, monitoring the design and operating effectiveness of the risk responses, and for continually improving the SoQM when areas for improvement are identified or when circumstances change that may impact identified quality risks or introduce new quality risks.

The objective of the annual QMSE review, covering the calendar year 1 January to 31 December 2021, is to provide reasonable assurance that the SoQM is appropriately designed and operating effectively to enable the 15 quality objectives established in the framework to be met.



The diagram below illustrates the various components of the QMSE framework and how they fit together.





One important component of the SoQM is that of monitoring. Below we have summarised the principles of our internal monitoring processes.

### **Quality Management Review (QMR)**

The UK SoQM and the Quality Management for Service Excellence (QMSE) self-assessment are subject to an independent annual review by partners/staff from other PwC Member firms through the Quality Management Review (QMR) programme. The QMR team assessed the firm's own assessment of its SoQM in the two weeks from 21 March 2022 and performed independent testing, where appropriate.

The QMR scope is determined and agreed between the International Team Leader (ITL) and the Member firm and approved by the Global Assurance Quality – Inspections Leader. The ITL provides oversight for all phases including scoping, execution and the overall classification and assessment of findings in the QMR. Reviews take place each year, ensuring that each of the 15 quality objectives are covered at least once every three years.

The QMR monitors progress on remediation of any findings raised in the last review and assesses the impact of any new developments on the internal quality control systems. No severe and/or pervasive deficiencies have been self-identified by PwC UK, or identified by the 2022 QMR review which covered the calendar year to 31 December 2021.

### **The Member Firm Report**

A Member Firm Report is prepared annually by the ITL assigned to PwC UK. The report includes the results of both the QMR and ECR for that year and an overall conclusion on the firm's quality control systems. We have not identified any significant matters that suggest the firm's SoQM is insufficient to provide it with reasonable assurance that it complies with ISQC (UK) 1, relevant Network Standards and Audit Regulations (UK and overseas).

The report also summarises the main points arising from the QMR and ECR that merited attention. PwC UK responded to the points raised within the 2021 Member Firm Report as well as from the root cause analysis performed on the ECR and external regulator reviews and developed an action plan to address the matters noted. These actions were assigned to specific individuals and significant progress has been made in addressing these matters.

The 2022 Member Firm Report was issued in Autumn 2022 to the Head of Audit, the Audit Risk & Quality leader, the governance bodies of the firm, and PwCIL. The Financial Reporting Council (FRC) read the prior year Member Firm Report as part of their annual inspection and the 2022 report will be shared with the FRC in due course.

### **Engagement Compliance Reviews (ECR)**

The key features of the annual ECR programme are:

- A cold review of completed audit engagements of individuals in the firm who are authorised to sign audit reports (known as Responsible Individuals);
- An audit engagement of each Responsible Individual is reviewed at least once every three years as required by the ICAEW Audit Regulations;








- Completed audit engagements of market-traded companies incorporated in the Crown Dependencies (i.e. Jersey, Guernsey and the Isle of Man) are reviewed once every three years as required by the Crown Dependencies' Audit Rules and Guidance;
- In addition, the firm maintains a list of clients with a high public profile (HPCs) and the audits of these clients are reviewed twice in a six year period;
- A review of a sample of completed non-audit assurance engagements under the international and UK assurance standards and regulatory frameworks. The sample aims to reflect the range of different non-audit assurance work and its significance to the firm;
- Engagement compliance reviews are led by experienced partners, supported by teams of partners, directors and senior managers who are all independent of the office, business unit and engagement leader being reviewed;
- Follow-up reviews take place if significant deficiencies are identified;
- Adverse findings and examples of high quality, where relevant, are taken into consideration in determining the reward and promotion of engagement leaders; and
- The results are reported to the Audit Executive, the Audit Oversight Body, and to PwCIL. The Financial Reporting Council and ICAEW also obtain these results as part of their annual inspections.

Each engagement reviewed is assessed using the following categories:

- 'Best in class' – All relevant auditing, assurance, accounting and professional standards have been complied with in all material respects and key aspects of the work made the engagement stand out from others as an example of best practice. This is designed to celebrate the achievements of engagement teams that embody the Audit Behaviours: Team first, Challenge and be open to challenge, and Take pride; bringing them to life on their engagement to drive exceptional audit quality;

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|---|---|
|    | <b>Team first</b>                         |
|  | <b>Challenge and be open to challenge</b> |
|  | <b>Take pride</b>                         |

- 'Compliant' – relevant auditing, assurance, accounting and professional standards have been complied with in all material respects;
- 'Compliant with improvement required' – the following circumstances would generally lead to this conclusion:
  - Required assurance procedures relating to a significant account, or area not performed, or not documented substantially in accordance with standards, but it is determined that due to the audit evidence in other sections of the archived work papers no additional procedures are required to be performed;

- Assurance procedures that failed to detect a departure from applicable accounting standards that was considered both quantitatively and qualitatively insignificant; or
- Evaluation of control weaknesses was not performed substantially in accordance with professional standards, but the impact was not considered to be sufficiently significant to require modification to the audit report on internal control over financial reporting if applicable and/or adequate consideration was not given to any necessary modifications to the substantive approach applied due to the control weaknesses; and

However, in all cases, sufficient audit work has been performed in all other respects.

- ‘Non-compliant’ – relevant auditing, assurance, accounting and professional standards or documentation requirements were not complied with in respect of a material matter.

In the case of a ‘best in class’ engagement, there is a mechanism to ensure that the high quality work is recognised as part of key personnel’s annual performance assessment.

In the case of a non-compliant engagement, follow up reviews are undertaken in the same cycle, the engagement leader will be reviewed again in the subsequent year’s ECR and there are financial implications for the individual engagement leader. Following root cause analysis, consideration is also given as to whether additional support, training and/or monitoring of the engagement leader is required.

The circumstances giving rise to non-compliant findings are also considered in order to assess whether additional work is needed to support the report, if the auditor’s report needs to be withdrawn, or if the entity’s financial statements for the current period of the following period need to be restated.

For engagements which were found compliant with improvement required, the engagement leader is included in the following year’s ECR, and this may also lead to financial implications depending on that engagement leader’s previous quality track record.

The firm undertakes root cause analysis (RCA) for all inspections with non-compliant outcomes and a number of compliant with improvement required and compliant engagements, including engagements identified as ‘best in class’. The ‘best in class’ analysis helps identify success factors that inform potential actions. Following RCA, a Quality Improvement Plan (QiP) is developed to respond to the drivers of systemic issues and specific matters arising from the ECR. Responsive actions may be identified at either the engagement delivery and/or line of service levels. All quality action plans are monitored by the Audit Risk and Quality leadership, the Audit Executive and the firm’s Public Interest Body.



## Navigating the impact of external factors on our system of quality management

The past several years have seen unprecedented challenges. From the global COVID-19 pandemic to the Russian government's invasion of Ukraine, these events are first and foremost human tragedies.

Our SoQM reflects our response to these events and changing risks based on impacts to our client, our people and the way we operate, including new or revised policies and procedures in our firm that have been implemented or are under consideration at any given point in time.

Under the QMSE framework, our SoQM is designed and operated to consider changes in facts and circumstances resulting in:

- New or changing quality risks to achieving one or more of the quality objectives;
- Changes to the risk assessment of existing quality risks; and
- Changes to the design of the firm's SoQM, including the risk responses.

The QMSE framework has helped us navigate the changes in our firm's environment, by assessing the completeness and effectiveness of our responses including any additional monitoring to be put in place, and identifying any gaps to address new or emerging quality risks.

## Our network's response to COVID-19

From the early stages of the pandemic, the PwC network put a team in place to monitor developments globally and to highlight areas of critical importance to ensure we did not compromise on audit quality. We have leveraged the guidance developed by our network to provide sustained, consistent leadership and guidance on audit quality and equip our teams to consider their client's unique circumstances and respond accordingly.

The COVID-19 pandemic resulted in us facing a number of new challenges in our audits. This ranged from how we operate as a team to plan and complete the audit, to how we interact with our clients to obtain the necessary audit evidence and execute specific audit procedures such as completing physical inventory counts.



## **Our network's response to the war in Ukraine including separation of PwC Russia and Belarus and our approach to sanctions**

Following the Russian government's invasion of Ukraine, the PwC network's main focus continues to be doing all we can to help our colleagues and support the humanitarian efforts to aid the people of Ukraine.

The PwC network's response to the war in Ukraine resulted in several actions including the decision that, under the circumstances, PwC should not have member firms in Russia and Belarus, and consequently PwC Russia and PwC Belarus have exited the network.

In addition, the PwC network is exiting work for Russian entities and individuals subject to sanctions. Any sanction on Russian entities or individuals that is passed anywhere in the world will be applied everywhere in the PwC Network. The PwC network will also not undertake any work for the Russian Federal Government or State-owned Enterprises and is also conducting reviews to identify engagements with non-sanctioned Russian clients and considering the appropriateness of any ongoing relationship.

Our network's response to the conflict including the separation of PwC Russia and PwC Belarus and approach to sanctions, as well as consideration of the broader risks that impact our clients are being factored into our firm's SoQM through the identification of potential quality risks that have or may arise. Our firm is monitoring the actions we have and will take to address the identified risks to assess whether further changes are needed to our firm's SoQM or how we perform our engagements and interact with our clients.



# Inspections and Investigations on our audits

## Inspections and Investigations

We operate in a highly regulated field and PwC UK is subject to monitoring by a number of regulatory authorities.

### External inspections – UK regulators

Each year, the Financial Reporting Council's (FRC) Audit Supervision team undertakes inspections of the quality of the firm's work as statutory auditors of public interest entities, and on a cyclical basis perform a review of aspects of the firm's policies and procedures supporting audit quality. The Quality Assurance Department (QAD) of the Institute of Chartered Accountants of England and Wales (ICAEW) undertakes an annual inspection of audits of entities that do not fall within the FRC's scope. The results of the inspections undertaken by the FRC and QAD are reported to the ICAEW's Audit Registration Committee (ARC). In addition, the work in respect of a number of ATOL returns have been inspected under the Licensed Practice Scheme (both inspections are undertaken by the QAD).

The ARC is due to consider the findings arising from the most recent FRC and QAD inspection reports during the Autumn as part of their consideration of the firm's UK audit

registration. The ARC will also consider the firm's registrations as a recognised auditor in Jersey, Guernsey and the Isle of Man.

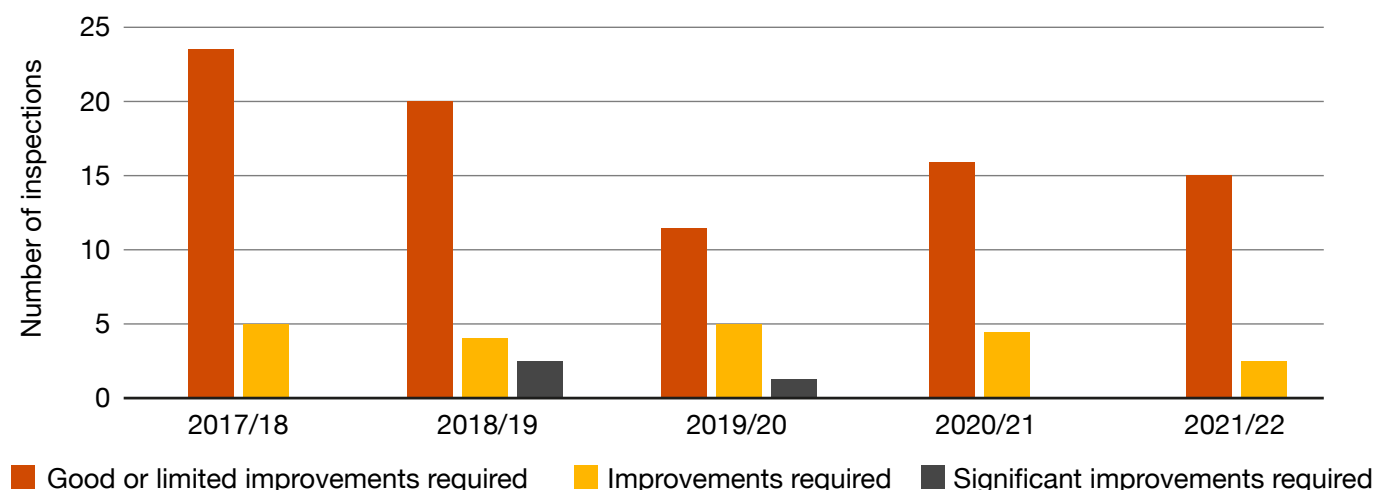
### FRC – Audit Quality Inspection and Supervision Report

The FRC issued its [2021/22 Audit Quality Inspection and Supervision Report on PwC UK](#) on 20 July 2022. Alongside the results of the FRC inspection, the report also included the firm's own 2021 internal quality monitoring results and those of the annual QAD inspection.

The 2021/22 inspection comprised reviews of 18 (2020/21: 20) individual audit engagements relating to FTSE 100, FTSE 250 and other listed and public interest entities. Of the 18 audits reviewed in the 2021/22 cycle, the AQR assessed that:

- 83% or 15 audits (80% or 16 audits in 2020/21) were graded 'good or limited improvements required';
- 17% or 3 audits (20% or 4 audit in 2020/21) were graded as 'improvements required'; and
- No audits (no audits in 2020/21) had 'significant improvements required'.

## PwC UK Audit Quality Review (AQR) inspection outcomes – five year track



The positive progress indicated by the overall outcome of the 2021/22 AQR inspection is pleasing, and we are proud of our people and their contribution to achieving this result, particularly given the challenging circumstances in which many of the audits were undertaken.

The FRC's report highlighted the following key findings in respect of their individual file reviews, and concluded that PwC should:

- Improve the consistency of the testing of revenue;
- Continue to improve aspects of the audit of impairment; and
- Further improve aspects of journal testing in response to the risk of management override of controls.

Whilst none of our audits required significant improvement, we recognise that aspects of three of our audits did not meet the expected quality standard. We have reflected on the engagement specific findings, and are taking responsive action as appropriate.

We also welcome the increased focus on identifying good practice by the AQR team. Where these are reported on certain inspections in the same areas as individual findings on other inspections, it demonstrates to our teams that high quality audit is achievable. We are now focused on the importance of consistency of execution across all our audits.

The FRC also reported on their review of four areas of the firm's quality control procedures. The following areas were reviewed with key findings and areas of good practice reported:

- **Implementation of the FRC's Revised Ethical Standard** – The FRC evaluated the firm's actions to implement the Revised Standard, including changes to policies and procedures and the support provided to audit teams to aid the transition. The FRC raised two key findings; the first requesting improvements to the firm's Objective Reasonably Informed Third Party consideration guidance, and the second relating to an enhancement of existing controls to prevent network firms commencing inappropriate non-audit services for UK audited entities.
- **Engagement performance** – EQCR, consultation and audit documentation – The FRC evaluated the firm's policies and procedures in relation to the appointment of Engagement Quality Control Reviewers (EQCR), EQCR training and EQCR activities. The review also covered consultation policies and procedures with central quality teams, including the requirement for mandatory consultation, and guidance and procedures relating to audit documentation. There were no key findings. Two areas of good practice were included within the FRC report, relating to workpaper review requirements, and consideration of mandatory consultations in our internal quality monitoring processes.
- **Fair value methodology** – The FRC evaluated the quality and extent of the firm's methodology and guidance relating to auditing the fair value of financial instruments, with a focus on the audit of banks and similar entities. There were no key findings from this review. Three areas of good practice were identified, being our risk assessment guidance, model risk guidance and illustrative examples guidance provided to engagement teams.





- **Engagement performance – Internal quality monitoring** – The FRC evaluated key aspects of the firm’s annual process to inspect the quality of completed audits. This included the criteria for selecting audit partners and completed audits for review, the composition and allocation of quality review teams, the scoping of areas to review, the evidencing of review, the identification of findings and the overall assessment. The FRC identified a key finding relating to the granularity of recording of professional judgements made by the review team, including in relation to the scope of review and conclusions drawn. Two areas of good practice were identified, being the use of a moderation panel to determine final gradings, and the policy of re-review for adverse review outcomes.

The firm has considered the findings and examples of best practice identified as part of each of these reviews, and developed responsive actions as appropriate.

The FRC report also sets out FRC observations relating to their forward looking supervision activities, including in respect of audit quality initiatives, root cause analysis and action planning and other areas such as tone at the top and constructive engagement. The firm was not subject to increased supervisory activities during the year.

The report outlines that the FRC are introducing a Single Quality Plan (SQP) to be maintained by each firm, as a mechanism to facilitate their holding firms to account and monitoring the progress and effectiveness of actions to improve quality.

The report also highlights that the firm was the first among the tier 1 firms to have published a digital transparency report and highlighted the increased accessibility that this facilitates.

We recognise we need to continue to invest, address recurring findings and implement our AQP to deliver consistently high quality audits. We will continue our focus on Audit Behaviours and psychological safety, to ensure that we embed a culture that best supports our teams to deliver high quality audits.

### Other FRC review activity

The Audit Market Supervision team of the FRC have undertaken a number of inspections, including a review of the audit approach in respect of fraud and on the firm’s preparation for the implementation of International Standard for Quality Management 1 (ISQM 1) during the year. Other areas of thematic-based work include Tone at the Top and Overseas Delivery Centres.

In November 2021, the FRC issued their ‘What Makes a Good Audit?’ publication. The report was analysed, appropriate actions determined, and the report shared with the practice as a key resource document. In June 2022, the AQR team also published separate publications outlining examples of good practice and key findings from their 2020/21 inspections.

We expect that the AMS team will publish their thematic review into the culture of scepticism and challenge at the audit firms in Autumn 2022.

Copies of the published reports can be found by clicking on the link [www.frc.org.uk](http://www.frc.org.uk).

### FRC PIE auditor registration

During the year, the FRC has been preparing to assume responsibility for PIE Auditor Registration. As part of those preparations, the FRC has developed the PIE Auditor Registration proposals that were subject to consultation during April/May 2022.



## ICAEW – QAD inspection

The standard-scope QAD audit engagement 2021 inspection results were published within the AQR's monitoring and supervision report on the firm in July 2022. They will also be included within the ICAEW's 2021 Audit Monitoring report, to be released in Autumn 2022.

The 2021 QAD inspection comprised standard scope reviews of 10 (2020: 10) individual audit engagements, of which:

- Ten audits (Nine in 2020) were assessed as 'good or generally acceptable',
- No audits (One in 2020) were graded as 'improvement required', and
- None of the audits in 2021 or 2022 were graded as 'significant improvement required'.

The QAD concluded that overall, the audit work reviewed was of a good standard, with all ten standard reviews graded either good or generally acceptable, a favourable comparison to the prior year.

The report did not include any key findings. The report also included a number of broader good practice themes, including in relation to the extent of documentation of audit work, the demonstration of professional scepticism in audit team discussions and challenge of assumptions in impairment models, and high quality reporting to management and those charged with governance.

As with the AQR 2021/22 inspection, we are pleased with the improved outcome of the 2021 QAD inspection. The QAD's findings have been incorporated into our RCA processes and responsive actions identified.

## Local Audit monitoring

The AQR did not undertake any Local Audits inspections at PwC as part of the 2021/22 cycle.

## ATOL inspections

As an ATOL reporting accountant, the firm is subject to inspection as part of the Licensed Practice Scheme. The procedures performed in respect of five ATOL returns were selected for review. The review concluded that the firm had appropriate policies and procedures in place in relation to ATOL work, and that no significant issues identified on the files reviewed.

## Other UK regulatory bodies with which we have interactions

As statutory auditors we engage in ongoing dialogue with regulators of our clients. For example, many audit engagement teams meet with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) on a regular basis. We also have a duty, for example, to report to the PRA and FCA in respect of matters set out in the Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001, and to report to the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for Northern Ireland matters required by applicable charities legislation.

We also engage with the PRA and FCA through other roles including reporting as a skilled person under s166 of the Financial Services and Markets Act 2000 and Client Asset/Client Money reporting, as set out in the FCA's Supervision Manual. Additionally, PwC LLP is authorised and regulated by the FCA for, inter alia, designated investment business and consumer credit related activity; details of our status can be viewed on the FCA website under firm reference number 221411. We also work with audited entity management to enable them to assist the Corporate Reporting Review team of the FRC in their work monitoring public company reporting.



## Canadian Public Accountability Board

The Canadian Public Accountability Board (CPAB) is the regulator for the audits of reporting issuers in Canada. No reviews were performed on UK audits in the current year.

## The Crown Dependencies

Under arrangements with the relevant regulatory authorities in the Crown Dependencies, the FRC undertakes the review of relevant audits performed by PwC UK of the financial statements of certain entities registered in the Crown Dependencies. In their 2021/22 inspection of PwC UK, no such audits were reviewed by the FRC.

## Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board (PCAOB) is the regulator for the audits of public companies with securities listed in the US. Engagements in scope for inspection by the PCAOB are US registrants including Domestic Filers and Foreign Private Issuers (FPIs), and UK components of groups listed in the US.

The PCAOB commenced its most recent triennial inspection of PwC UK in September 2020. The inspection covered the 2019 audits of two FPI engagements and one UK component of a US listed company. The PCAOB inspection report dated 10 March 2022, describes the PCAOB's 2020 inspection.

The PCAOB inspection report contains an overview of the inspection procedures, observations on the engagements inspected and instances of non-compliance with PCAOB standards or rules. There were no identified audit deficiencies on the three engagements inspected nor other instances of non-compliance with PCAOB standards or rules.

## Internal monitoring

Quality monitoring is an integral part of the firm's continuous improvement programme. We constantly seek to improve policies, procedures and the consistency of the quality of our work. Instances of failure to meet defined performance standards are treated seriously and the engagement leader responsible will be counselled to improve performance. In addition, under our accountability framework, financial penalties can be imposed on engagement leaders in case of adverse quality findings. Similarly, engagement leaders for any files that are considered 'exceptional/best in class' can have their reward positively impacted.

## Engagement Compliance Review (ECR)

Within the 'Our system of quality management' section of the report on page 80, the key features of the annual ECR programme were outlined. The programme is an integral part of the firm's internal monitoring. The experienced reviewers have the opportunity to select areas of key audit matter that enable a focused review to take place.

PwC UK's monitoring programme is also designed to meet the requirements of ISQC (UK) 1, the ICAEW Audit Regulations and requirements of our other registrations including the Crown Dependencies' Audit Rules and PCAOB regulations and include the requirement to undertake an annual Audit Compliance Review (ACR).

This monitoring programme comprises of two parts:

1. The ECR programme is used to assess whether engagements are performed in accordance with relevant standards. Partners and staff are informed on a timely basis about the review results to enable them to apply any relevant learnings and for appropriate action to be taken; and



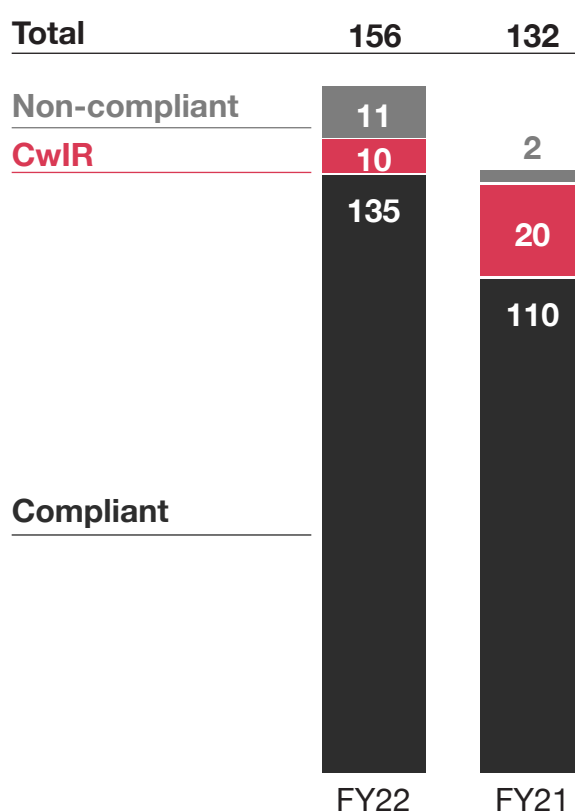
2. Whole firm review of policies and procedures adopted by PwC UK in respect of audit quality and ISQC (UK) 1 compliance. The firm conducts its own review of its compliance with policies and procedures each year as part of its Quality Management for Service Excellence (QMSE) review programme. This process is reviewed annually by the firm's regulators, and also by a PwC Network team independent of PwC UK as part of the Quality Management Review (QMR) programme. The Global Assurance Quality – Risk Leader informs engagement leaders of our firm who are responsible for group audits involving cross-border work about relevant quality review findings in other PwC firms which enables our partners to consider these findings in planning and performing their audit work and take action if needed to mitigate any quality issues identified by either the firm or individual engagement leader.

- 35 non-audit assurance engagements (FY21: 19), representing 90% (FY21: 90%) of the 39 non-audit assurance engagements reviewed were classified as 'compliant'. 3 non-audit assurance engagement (FY21: 1) representing 8% (FY21: 5%) of those reviewed was classified as 'compliant with improvement required'. 1 non-audit assurance engagement (FY21: 1) was classified as 'non-compliant'.
- In addition, a further 8 audit engagements (FY21: 19) were subject to limited scope, targeted reviews of a specific aspect of the overall audit engagement. 8 engagements were classified as 'compliant' (FY21: 18) and no engagements were classified 'compliant with improvement required' (FY21: 1). No non-audit assurance engagements were subject to limited scope, targeted reviews in FY22 (FY21: 4).

### Details of the coverage and results of the 2022 ECR are as follows:

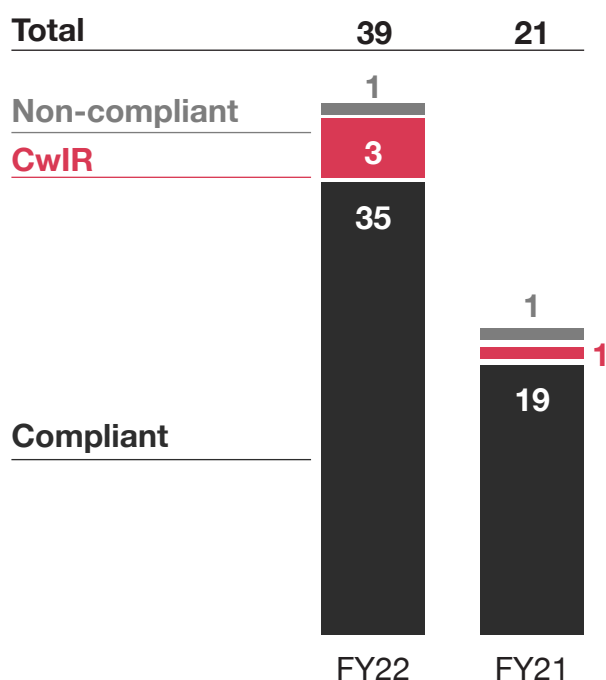
- 156 audit engagements (FY21: 132) were reviewed in FY22, covering 44% (FY21: 39%) of the firm's Responsible Individuals. 39 non-audit assurance engagements (FY21: 21) were also reviewed.
- 135 audit engagements (FY21: 110), representing 87% (FY21: 83%) of the audit engagements reviewed were classified as 'compliant'. 10 audit engagements (FY21: 20), representing 6% (FY21: 15%) of the audit engagements reviewed were classified as 'compliant with improvement required', and 11 (FY21: 2) were classified as 'non-compliant'.

### Audit ECR Results





## Non-Audit ECR Results



ECR results are in the process of a RCA in order to assess findings, identify potential causal factors and implement remedial actions.

### Audit Compliance Measures (ACMs)

The Audit Compliance Measures (ACMs), which assess compliance against quality measures at an engagement level, are set each year to take account of matters arising from regulatory reviews and the previous year's ECR findings, in order to ensure that they focus on those aspects of our work where behavioural change and improvements in quality are considered necessary. They also consider areas where our audit methodology has changed, which merit examination to determine how methodology is being implemented.

In the year to 30 June 2022, 13 ACMs were assessed, covering various aspects of the audit from planning to execution and completion. These metrics are assessed quarterly through the review of files by partners and staff who are independent of the engagement under

review. The results are moderated at both a business unit and a national level.

The overall metrics for the Audit Line of Service are reported to the Executive Board. The overall ACM compliance score for the year ended 30 June 2022 was 94.3% (FY21: 92.5%).

These results are analysed by specific questions as well as by business units, and form the basis of amendments to policies, procedures and training materials.

### Responding to matters raised by our Regulators

The Audit Risk & Quality Investigations Team works alongside PwC's Office of General Counsel (OGC) to resolve Troublesome Practice Matters (TPMs) which arise on completed audits. TPMs include FRC regulatory enquiries and enforcement actions, ICAEW enquiries and, in some cases, matters raised by clients and litigation. The team sits within Audit Risk & Quality and acts as internal experts who review and assess the quality of audit work under enquiry/investigation under the instruction of OGC. The OGC litigation team provides legal advice relating to TPMs.

Having an established Investigations Team within the Audit Line of Service is part of our recognition that we do not always get things right. We actively work with stakeholders, learn lessons, put in place remedial actions and, where necessary, defend our work by being clear about what we do, why we do things and how we comply with our obligations under international auditing standards.

We recognise and accept any identified shortcomings in our audit work, and acknowledge whenever our work falls below the professional standards expected of us and that we demand of ourselves.



## FRC Investigations

The FRC is the ‘competent authority’ for audit under the UK Audit Regulation and Audit Directive. The FRC deals with cases that appear to raise important issues affecting the public interest in the UK, and investigates whether there is evidence of misconduct (under the Accountancy Scheme) or breach of a relevant requirement (under the Audit Enforcement Procedure) by an accountant or accountancy firm. The FRC conducts enforcement investigations some of which are made public. We have the following ongoing FRC investigations which are in the public domain:

- London Capital & Finance plc for the year ended 30 April 2016;
- Babcock International Group plc for the years ended 31 March 2017 to 31 March 2020;
- Eddie Stobart Logistics plc for the year ended 30 November 2018; and
- Wyelands Bank plc for the year ended 30 April 2019.

In the year to 30 June 2022, there have been two (2021: nil) FRC Final Decision Notices issued against the firm following investigations by the Enforcement division of the FRC. In respect of the audit of the Kier Group Plc consolidated financial statements for the year ended 30 June 2017 the firm was fined £3.35 million, adjusted for aggravating/mitigating factors and admissions/early disposal to £1,959,750. In addition, the FRC imposed a non-financial sanction, comprising: a requirement for the firm to evaluate and report to the FRC on certain audits conducted in 2022-2023 which feature long-term contacts and the impact of remedial actions put in place. In respect of the audit of the Galliford Try Plc consolidated financial statements for the years ended 30 June 2018 and 2019 the firm was fined £5.5 million, adjusted for aggravating/mitigating

factors (in particular reflecting an exceptional level of cooperation) by a reduction of 15% and further discounted for admissions/early disposal by 35% to £3,038,750. In both cases the FRC issued severe reprimands to the firm and a declaration that the Audit Reports did not satisfy the Relevant Requirements. The Final Decision Notices applicable to these cases are available on the FRC website at <https://www.frc.org.uk>.

Subsequent to the period covered by this report, in August 2022, the FRC published the outcome of its investigation into our audit of BT Group plc for the financial year ended 31 March 2017. The firm received a financial sanction of £2,500,000 adjusted for admissions/early disposal to £1,750,000 and non-financial sanctions, comprising a Severe Reprimand and a declaration that the Audit Report did not satisfy the Relevant Requirements.

## FRC Case Examination and Enquiries (CEE)

The CEE process, handled by the FRC CEE team, seeks to deal with cases where the audit quality concerns can be appropriately and satisfactorily addressed, and the risk of repetition mitigated through engagement with the firm without the time and expense of full enforcement action. A key part of resolving an enquiry through ‘Constructive Engagement’ enquiries is for the CEE team to agree appropriate remedial actions with the audit firm. Throughout the year, we have successfully resolved enquiries from the CEE team by promptly responding to enquiries and putting in place the necessary remedial actions to prevent similar matters from reoccurring. These actions have included, for example, updating Aura file work papers, issuing additional guidance in the form of the firm’s “InBrief” technical updates to the audit practice and updates to the PwC Audit Guide. As part of resolving enquiries, we often provide evidence to the CEE team that the actions have been completed.





We also have open enquiries and are committed to working with the CEE team to constructively resolve these, and to proactively take the steps we need to, to improve audit quality.

Further details of the CEE process, Accountancy Scheme and Audit Enforcement Procedures can be found on the FRC's website at [www.frc.org.uk](http://www.frc.org.uk)

### **ICAEW**

In the year to 30 June 2022 there were no audit cases (2021: one) found against the firm by the Investigation Committee of the ICAEW. We have ongoing enquiries with the ICAEW which we are committed to continuing to work with the ICAEW in resolving. Further details of the ICAEW's disciplinary process can be found at [www.icaew.co.uk](http://www.icaew.co.uk).

### **Complaints and allegations**

If clients are not satisfied with the services we have delivered, or have suggestions for how we can improve, they may contact either the engagement leader or Alison Statham, the firm's General Counsel and Chief Risk Officer, who is located at our registered office. We look carefully and promptly at any complaints or allegations we receive. The Institute of Chartered Accountants in England and Wales (ICAEW) or the institute of which the individual PwC UK partner or member of staff is a member, may also be contacted directly.



# Audit Quality Measures & Audit Quality Indicators



Measuring and assessing audit quality is fundamentally important. Using measures and indicators effectively can help the users of audit services and wider stakeholders to engage in a richer discussion about what constitutes a high quality audit, and how it might be achieved.

Audit Quality Indicators are complex and the term 'AQI' can often mean different things to different stakeholders. We are actively engaged with the FRC and other stakeholders including Audit Committee Chairs to support their consideration of AQIs and how best they can be used at both a firmwide and engagement level.

We participated in the FRC's engagement level AQI pilot and implemented our own extended engagement level AQI pilot through 2021/2022. From these pilots we have learnt a great deal about the information Audit Committee Chairs are interested in.

The non-prescriptive approach to the pilot promoted innovation and allowed for continuous improvement in this area. We continue to support the promotion of innovation and improvements in the use of AQIs, and exploring what good practice looks like.

We also support the use of AQIs that are reflective of the way an audit practice operates, increasing the information available to the users of audit services and wider stakeholders beyond just external inspection results.

To improve our own reporting, set out below in one place are our external audit quality measures, as well as supporting data.

We also comment on the evolution of the use of Audit Quality Indicators, and present additional metrics to provide insight on our system of audit quality management.

## Audit Quality Measures (AQMs)

We have four key measures of audit quality to provide a comprehensive view of the quality of our audits. These measures are included in the firmwide balanced scorecard that is reported to our Executive Board each quarter.

| Audit Quality Measure  | FY22 | FY21 | Page |
|--|------|------|------|
| Percentage of audit files inspected through internal and external inspection processes were rated good or limited improvements required (or equivalent rating) | 87%  | 83%  | 8    |
| Percentage of the audits inspected that did not require a restatement of the financial statements  | 99%  | 99%  | 8    |
| How the organisations we audit score us when asked whether our teams challenged them during the audit (out of 10)  | 8.5  | 8.3  | 8    |
| Percentage of respondents to our annual audit culture survey who feel proud of the quality of our audit work   | 85%  | 82%  | 8    |



## Supporting Data

We present below the supporting data referenced elsewhere in this report which provides further context in relation to the two inspection-related Audit Quality Measures.

|   | FY22    | FY21    | Page |
|---|---------|---------|------|
| <b>Internal Inspections</b>   |         |         |      |
| ECR audit file inspections performed*   | 156     | 132     | 90   |
| Percentage of the firm's Responsible Individuals covered by ECR audit file inspections* | 44%     | 39%     | 90   |
| ECR audit file inspections graded 'compliant'*  | 87%/135 | 83%/110 | 90   |
| ECR audit file inspections graded 'compliant with improvement required'*                | 6%/10   | 15%/20  | 90   |
| No. of ECR audit file inspections graded 'non-compliant'*                               | 11      | 2       | 90   |
| No. of ECR non-audit file inspections graded 'compliant'                                | 35      | 19      | 90   |
| No. of ECR non-audit file inspections graded 'compliant with improvement required'      | 3       | 1       | 90   |
| No. of ECR non-audit file inspections graded 'non-compliant'                            | 1       | 1       | 90   |
| The overall ACM compliance score for the year   | 94.3%   | 92.5%   | 91   |
| <b>External Inspections</b>   |         |         |      |
| AQR file inspections graded 'good' or 'limited improvements required'*                  | 83%/15  | 80%/16  | 85   |
| AQR file inspections graded 'improvements required'                                     | 17%/3   | 20%/4   | 85   |
| AQR file inspections graded 'significant improvements required'*                        | 0       | 0       | 85   |
| No. of QAD file inspections graded 'good' or 'generally acceptable'                     | 100%/10 | 90%/9   | 88   |
| No. of QAD file inspections graded 'improvement required'                               | 0       | 10%/1   | 88   |
| No. of QAD file inspections graded 'significant improvement required'                   | 0       | 0       | 88   |

\*These metrics are those which have been mutually agreed with the Policy and Reputation Group (PRG) to be disclosed in Transparency Reports.



## Audit Quality Indicators (AQIs)

AQIs are a tool to provide greater information to the users of audit services and wider stakeholders to enable a richer discussion about what constitutes both a high quality audit and a high quality audit practice. Importantly, AQIs can be considered at both a firmwide and engagement level.

AQIs can't cover all aspects important to audit quality, they require context and there are practical challenges to using them. In our experience, AQIs provide the most value and insight for users of audit services at an engagement level and AQIs at this level lead to a richer discussion about audit quality. However a 'one size fits all' approach is not necessarily the best way to engage and there continue to be differing perspectives on what makes a high quality audit.

Where AQIs are used, we encourage the number of indicators to be limited and for them to be agreed between those charged with governance and the auditor. Commonly

used AQIs, which we believe are key to a high quality audit, include those relating to the resources allocated to the engagement, the project management of the audit, and the quality and timeliness of management deliverables. These AQIs are most useful when measured at an engagement level.

At a firmwide level we continue to develop our approach to quality indicators. We recognise that for an audit practice as wide and varied as ours, the collation of data sets across such a diversified engagement portfolio can provide limited insight to wider stakeholders.

In addition to AQIs, there are many other metrics and management information that can provide insight on our system of audit quality management at a firmwide level. Presented below are the additional metrics included within this Transparency Report. They include metrics that have been mutually agreed with the Policy and Reputation Group (PRG) to be disclosed in Transparency Reports.



|  | FY22 | FY21 | Page |
|--|------|------|------|
| <b>Metrics from partner and staff surveys</b>  |      |      |      |
| I am encouraged to perform a high quality audit*   | 92%  | 92%  | 103  |
| I have sufficient time and resource to deliver quality audits* <sup>1</sup>  | 63%  | 60%  | –    |
| I receive enough training and development to enable me to deliver quality audits*  | 80%  | 77%  | 10   |
| The leaders I work with encourage me to deliver quality services   | 94%  | 91%  | 101  |
| My team regularly shares problems with each other in order to find effective solutions   | 86%  | 84%  | 103  |
| My team regularly challenges each other around whether the course of action we are taking is realistic and/or will deliver a quality audit outcome | 83%  | 82%  | 103  |
| I feel confident to challenge others who demonstrate behaviours that put audit quality at risk   | 86%  | 85%  | 102  |
| I understand how the work I do on a day to day basis supports the purpose of audit   | 93%  | N/A  | 9    |
| <b>External surveys</b>  |      |      |      |
| Audit Committee chairs and those charged with governance rated our overall audit quality (out of 10)   | 8.4  | 8.5  | –    |

\*These metrics are those which have been mutually agreed with the Policy and Reputation Group (PRG) to be disclosed in Transparency Reports.

1. Responses in relation to the question 'I have sufficient time and resource to deliver quality audits' include both favourable and neutral responses.

N/A: Survey question introduced in FY22.



|   | FY22                          | FY21                          | Page |
|---|-------------------------------|-------------------------------|------|
| <b>External Investigations</b>  |                               |                               |      |
| Decision notices issued against the firm by the Enforcement division of the FRC   | 2                             | 0                             | 92   |
| Audit cases found against the firm by the Investigation Committee of the ICAEW  | 0                             | 1                             | 93   |
| <b>Resource</b>   |                               |                               |      |
| Number of UK Audit people   | 5,400                         | 5,300                         | 8    |
| People recruited into Audit   | 1,355                         | 1,302                         | 8    |
| Number of Responsible Individuals   | 337                           | 327                           | 8    |
| Responsible Individual to staff ratio   | 6.2%                          | 6.2%                          | –    |
| <b>Training</b>   |                               |                               |      |
| The average time charged to training time codes by qualified (and equivalent grade) partners and staff in Audit during the calendar year, including mandatory and elective training             | 95<br>hours per<br>person     | 116<br>hours per<br>person    | 111  |
| The total number of hours charged to training time codes by all partners and staff in Audit during the year, including exam training for staff under training contracts                         | 1.4m<br>hours                 | 1.3m<br>hours                 | 111  |
| The minimum structured training hours provided to qualified audit partners and staff within the annual mandatory audit, accounting and compliance update programme*                             | 30<br>hours per<br>person     | 33<br>hours per<br>person     | 110  |
| The range of possible structured mandatory training hours required by qualified audit partners and staff based on their grade, experience and role (defined by their learner profile responses) | 30-270<br>hours per<br>person | 33-216<br>hours per<br>person | 110  |
| Percentage of qualified auditors who completed climate training during the year   | 100%                          | N/A                           | 10   |

\*These metrics are those which have been mutually agreed with the Policy and Reputation Group (PRG) to be disclosed in Transparency Reports.





|                             | FY22 | FY21 | Page |
|-----------------------------|------|------|------|
| <b>Training (continued)</b> |      |      |      |

|   |                                |                          |    |
|---|--------------------------------|--------------------------|----|
| Digital Academy completions during the year | <b>4,900</b><br>(Audit: 1,300) | 15,000<br>(Audit: 4,000) | 10 |
|---|--------------------------------|--------------------------|----|

|   |            |     |     |
|---|------------|-----|-----|
| Percentage of our people who have already completed our Open Mind training, with all of our people required to complete our race awareness training over the coming year. | <b>97%</b> | N/A | 104 |
|---|------------|-----|-----|

## Inclusion and Diversity

We believe that a diverse and inclusive audit practice enables better quality outcomes. Our commitment to building a diverse and inclusive workforce is further detailed on page 103, with specific reference to our recruitment initiatives on page 114.

We also report diversity metrics for both gender and ethnic minority, at a firmwide level, on our [integrated reporting hub](#).

## Consultation, Technical panels and Hot reviews

|   |              |        |     |
|---|--------------|--------|-----|
| Consultations completed                                   | <b>9,588</b> | 12,009 | 125 |
| Technical panels completed                                | <b>54</b>    | 112    | 126 |
| Hot reviews of financial statements and reports completed | <b>247</b>   | 295    | 125 |

\*These metrics are those which have been mutually agreed with the Policy and Reputation Group (PRG) to be disclosed in Transparency Reports.





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