

Building trust

Non-financial assurance

Page

110

Interaction with stakeholders

114



7

Non-financial assurance

Organisations are now being judged on more than just financial performance. In a complex world that is changing at pace stakeholders are looking to businesses for information they can trust.

The future of audit



In the market we are seeing a rise in ethical consumerism and investors increasingly looking beyond the numbers – to climate, biodiversity, social impact and purpose. And information on regulation, technology and ESG play an important role in helping stakeholders to understand full enterprise value.

In response to this changing environment we are seeing a reporting and regulatory revolution. Companies are expanding their reporting to meet the increased demand for more information and more complex reporting requirements, creating a gap between the information organisations report and what is assured.

We will continue to invest in our people, skills and technology to bridge that gap and address the demand for independent, robust assurance over non-financial information that is in the public interest.

More information on how we provide assurance over ESG, regulatory, third party and other non-financial reporting can be found on our Non-financial assurance [page](#)¹.

¹ Source: www.pwc.co.uk/services/audit/non-financial-assurance.html

² Source: www.pwc.co.uk/audit/assets/pdf/review-of-year-two-tcf-reporting.pdf

A focus on climate change

Over the past few years, we have heard requests from the investment community to provide additional transparency in our audit reports, particularly about whether, and how material climate risk exposure has been assessed and factored into our audit process, where relevant. This has been further outlined in our 'Interaction with stakeholders' section on [page 114](#).

Assurance over climate related information

Carbon and climate change performance data is a key part of non-financial reporting, where investors and other stakeholders demand reporting they can trust. Existing reporting frameworks such as Streamlined Energy & Carbon Reporting (SECR) and the Taskforce on Climate related Financial Disclosures (TCFD) already require disclosure of carbon emissions and other climate related metrics. Further reporting frameworks worldwide require the same.

Our [recent analysis of TCFD reports](#)² shows that organisations now disclose up to 16 metrics under the metrics and targets pillar to demonstrate how they are measuring and managing climate change. 80% of companies reported a carbon reduction related measure linked to executive remuneration. It is therefore more important than ever that this data is accurate and can be relied upon.

Critically, accurate carbon emissions data informs an accurate carbon reduction strategy and pathway to Net Zero. Reliable data is needed for accurate decision making as well as satisfying stakeholder needs, including employee engagement.

A summary of the non-financial services currently being delivered from our Audit Line of Service, in line with the FRC ethical standard for permissible work, are outlined below.



ESG assurance

Sustainability and carbon reporting.

Making sure that the reports of the organisations we audit stand up to rigorous scrutiny. This is about more than just data – it’s about challenging the measures and context they’re using to tell the story of their progress and ensuring compliance with the relevant reporting standards.

Diversity and inclusion reporting.

From reporting on gender pay to equal employment opportunities, stakeholders expect organisations to be creating an equitable, inclusive and progressive workplace. We make sure the organisations we audit can stand behind this information.

Social impact reporting. Providing assurance over how companies are measuring the positive impacts their actions are having on society.

Supply chain management reporting. Providing assurance that organisations understand and control their supply chains. From health and safety data to waste and water usage.

Green, social and sustainable financing. Checking that investors' funds are deployed in the manner intended.

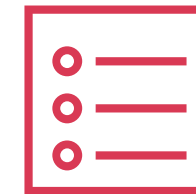
Corporate governance. Making sure that companies have adequate processes and controls over the governance considerations that matter most to their stakeholders – and that those processes and controls are working as intended.



Third-party assurance

Service providers are judged on more than just the services they provide. Customers of service providers are exposed to a broader set of risks such as IT resilience, cyber attacks, data loss, ethical sourcing, potential use of slave labour, and compliance. Customers are demanding greater transparency on how service providers are managing these risks.

- Financial services businesses, from assuring platforms for asset and wealth management, clearing, settlement and exchange, to performing reviews of various controls reports (SOC1, SOC2, ISAE3402 and AAF).
- IT systems and platforms, including assurance over market infrastructure, eCommerce, fulfilment and logistics platforms.
- Critical business systems, such as payment infrastructure and payroll systems.
- Cybersecurity systems, assuring resilience, privacy and security controls.
- Emerging risks, such as blockchain assurance and cryptocurrency.
- Supply chain, covering service levels, sustainability and regulatory/legal commitments.



Regulatory assurance

Client assets and money. For authorised investment firms, we scrutinise the processes and controls that are being operated to ensure their clients' funds are being adequately segregated from their own.

Benchmarks and indices. Testing policies, processes and controls to make sure organisations produce indices transparently and in accordance with their methodologies; avoid conflicts of interest; and play their part in protecting customers and investors.

Safeguarding. For authorised payment institutions (PI) and electronic money institutions (EMI), we scrutinise their ability to protect customers' funds.

Prudential reporting. Risk-weighted assets (RWA) Assurance. Scrutinising the reporting provided to regulators, to assess for compliance with prudential requirements.

Data privacy. Subjecting processes and controls of organisations to rigorous testing, so regulators can be confident that personal data and sensitive information has been adequately controlled and protected.

As new and emerging business areas demand scrutiny, we build assurance models to effectively scrutinise and challenge the data, metrics and controls that are being established. When these areas need specific expertise – such as blockchain and cybersecurity or emissions and offsets – we engage subject matter experts from across the firm, bringing industry or technical knowledge to help us design the right assurance approach.

Case study: Building trust in Unilever's global sustainability reporting

13 We attended 13 Unilever premises in eleven countries to assess their sustainability progress.

Our role Testing data to provide an accurate picture of Unilever's sustainability reporting.

Featuring Independently assessing a variety of performance measures in diverse locations.

Outcome Greater confidence in the transparency and accuracy of Unilever's sustainability reporting.

To build trust in the progress Unilever is making towards its sustainability performance goals, PwC UK works to independently assure its annual reporting.

Setting the scene

In 2020, Unilever launched its fully integrated corporate strategy called Compass. Central to this strategy is its ambition to be the global leader in sustainable business, and it has put in place company-wide sustainability commitments for all of its brands, as well as a set of performance measures reported annually to track progress.

While it's not currently mandatory for companies to have their non-financial reporting externally assured, Unilever wants its customers, employees and investors to have confidence in the progress they are making, and asked PwC to independently verify the accuracy of the sustainability data generated across its global operations.

How we helped

Unilever is one of the world's largest consumer goods companies, employing 127,000 people and operating 400 brand names in over 190 countries. While providing assurance for a company of this size can often prove challenging, when combined with the broad scope of sustainability performance measures Unilever tasked us with assuring, this year was particularly complex.

We worked to assure measures ranging from the amount of their ice cream products sold that meet WHO-aligned nutritional standards, to the amount of reusable plastic in their packaging. We assessed the amount of hazardous waste being generated in a number of their production facilities, through to the percentage change in greenhouse gas emissions from energy and refrigerant use across their operations. And, with support from colleagues across our global network, we conducted a combination of virtual and in person site audits of different Unilever production processes around the world including: ice cream in America; laundry detergent in Brazil; soap in Indonesia; and skin cleanser in South Africa.

By attending these sites, either in person or remotely, we were able to test the integrity of data that Unilever reported, challenging the methodologies used to provide an accurate picture of its sustainability reporting.

Making a difference

Having conducted the site visits, and tested the performance, we were then able to produce our report for Unilever confirming the progress it is making in the various areas we assured. This report, when combined with the ones we have previously produced, demonstrates to Unilever's customers, employees, investors and other stakeholders the impact that efforts to improve the business' sustainability is having.

As concerns over the level of corporate 'greenwashing' continue to grow, this type of regular independent assurance can help to build real confidence that companies are being transparent in their reporting and living up to their commitments.



“Sustainability matters are increasingly important for all businesses, and critical to their success. At Unilever, we committed some time ago to report on sustainability performance across our business and, where possible, our extended value chain, and PwC's independent assurance has been crucial to building confidence in the progress we're making.”

Lysanne Gray Executive Vice President, Sustainable Business, Unilever

Case study: Building trust in the charity sector through audit

5 PwC UK audits five of the top 20 most famous charities in the UK

Our role Our auditors underline trust in the charity sector

Featuring Some of the UK's best known charities

Outcome A sustainable future for the UK's charity sector

PwC is proud to audit some of the UK's most iconic charities, helping ensure transparency and reliability is at the heart of the country's most purposeful organisations.

Setting the scene

Whether securing safe water at WaterAid, supporting seriously ill young people at Great Ormond Street Hospital Children's Charity, or providing first aid and emergency medical services at St John Ambulance, all the charitable organisations we audit deliver solutions to some of society's most important problems every day.

Charities comply with the same standards and scrutiny during an audit as other companies but because they interact with some stakeholders differently – people donate money to support causes they care about, instead of investing for financial return – there is an additional lens of scrutiny.

How we helped

As societies grapple with a myriad of challenges, millions of people continue to rely on the vital work of charities.

But these organisations face challenges of their own. Donors, trustees and regulators want assurance that funds are being used as intended. They want to know that risk management and strong internal controls are driving the best possible outcomes while providing for a sustainable future. This includes compliance with the Charity Governance Code. On top of this, charities face the same rising expectation of transparency around environment, social and governance (ESG) issues.

All of the above is considered by our charity sector audit team. The audit opinion underpins confidence in the financial information presented in the annual report and accounts. Our audit teams are also in a unique position to give independent feedback on the internal control environment.

We encourage the charities we audit to invest in good practice reporting, particularly through the Charities Award, part of our annual Building Public Trust Awards, and our annual reporting workshop. Charities Audit Leader Daniel Chan MBE explains: "The 'S' in ESG is what charities inherently do, so this represents an opportunity for the sector to set an example on important non-financial disclosures in this area."

Running a charity requires specialist skills. We help foster networks through regular events for Finance Directors, CFOs and Trustees, in particular Audit Committee members of larger charities.

Making a difference

Among the iconic charities we audit are Charities Aid Foundation, Cancer Research UK, Great Ormond Street Hospital Children's Charity, Macmillan Cancer Support, MSI Reproductive Choices, The Royal National Theatre, Plan International, St John Ambulance, The Prince's Trust, and WaterAid.

Our people use technology and sector expertise to scrutinise the inner workings of charities, providing independent reasonable assurance that the financial statements are reliable.

We also review a charity's response to additional requirements, including how they report on their fundraising activities. Our clients tell us they find our insights and benchmarking useful, including visualisations from technology tools which identify trends in their activities.

By providing an independent opinion we help charities build and maintain trust with their stakeholders, supporting the wider sector in its long term goals to solve some of society's most important problems.

"Compliance and governance are critical to us as a charity, being responsible for the stewardship of our donors' money. Requirements continue to increase and having the support of PwC and their skills in audit and assurance is extremely valuable to us in ensuring high quality reporting."

Kevin Thompson Trustee and Chair of Finance & Resources Committee, Great Ormond Street Hospital Children's Charity

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 listen to the views of stakeholders on a range of reporting, regulatory and governance issues facing UK companies, as well as hear 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 investors. 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.

"If there is assurance on sustainability reporting, I think the purpose should be the same as the audit of the financial statements to that the reader can be comfortable that what's reported is reasonably accurate and relevant."

UK based investor

Some highlights of our stakeholder engagement team's work this year include the following:

Investor-focused events and publications

We engage with institutional investors, retail investors and analysts throughout the year on relevant and topical issues. These engagements cover a variety of themes including implementing major new accounting standards, tax reporting, audit reform, political developments, and climate reporting. Over the course of FY23, we sought investor input into multiple PwC research reports and publications, including the firmwide campaign 'Rethink Resilience', the Purpose of Work Survey and our Materiality Matrix. You can view our current material issues on our [website](#)¹.

As part of our ongoing work to understand the views of the investment community, PwC conducted a global investor survey in September 2022. A [UK cut of the survey](#)² was issued in February 2023, with 99 investment professionals focused on the UK market responding to the online survey, which was in tandem with in-depth conversations. The UK survey explored investors' views on how well they thought organisations are addressing the ESG issues they face; how companies are delivering their top priorities; and, the role of the audit and high quality information in building trust.

We also hosted investors at PwC's Building Public Trust Awards and the Trust and Transparency Forum 2022. Based on our regular dialogue with investors on the topics most important to them, we have reset and refreshed our investor events agenda to ensure it meets investor demands for information, including how companies can evolve for disruption, cybersecurity and supply chain issues. The first event of the new programme took place in July 2023.

¹ Source: <https://www.pwc.co.uk/who-we-are/our-purpose/strategy/materiality.html>

² Source: <https://www.pwc.co.uk/issues/esg/investors-demand-greater-clarity-on-esg-data-how-can-businesses-keep-up.html>

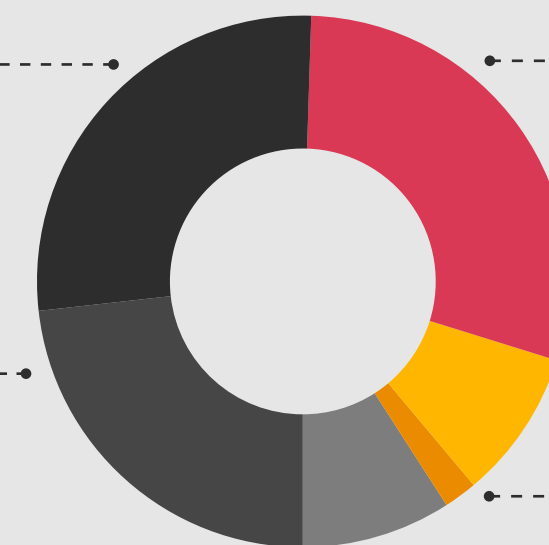
89%

of respondents who invest in the UK suspect corporate disclosures still contain some greenwashing

% of respondents who think corporate reporting contains unsupported claims about a company's sustainability performance to this extent

To a large extent **27%**

To a very large extent **23%**



To a moderate extent **29%**

To a limited extent **9%**

Not at all **2%**

Don't know **9%**

74%

of UK investors say independent reasonable assurance opinion gives them confidence in the accuracy of a company's sustainability reporting.



Climate risk in the financial statements and audit

Investors and wider society are demanding that companies provide greater transparency on their emissions, more detail on their environmental strategies, and further insight into how climate change will impact their business in the future. Our [2022 CEO Survey](#)¹ found that over 40% of CEOs say they will invest in decarbonising their business model this year and are investing in technology to support their ESG efforts.

Climate risk has remained a critical area of audit focus over recent years and we've made significant strides in responding to the growing expectations of us in this area, including:

- providing all of our qualified auditors with training on climate related risks and their impact on the statutory audit;
- encouraging the sharing of knowledge through our audit climate change industry networks; and
- setting up a climate audit technical team to provide practical support to our people.

¹ Source: <https://www.pwc.co.uk/ceo-survey.html>

² Source: <https://accif.co.uk/ACCIF%20-%20The%20Spring%20Report%20-%20full%20Report%20June%202023.pdf>

From a policy perspective, below are some of the actions we have taken in recent years:

- mandatory consideration of climate related risks in all audits; and
- policy requiring specific reference to our audit work on climate in our FTSE 350 audit opinions.

For premium listed companies there are mandated climate related disclosures, and other businesses are now also choosing to include climate related statements in their reporting. With more regulation on the horizon, businesses must navigate their way through layers of complexity in order to ensure clarity and transparency.

The Spring Report

In autumn 2022 the Audit Committee Chairs' Independent Forum (ACCIF) brought together a group of experienced audit committee chairs, auditors, and executives from the FRC with the objective of further enhancing audit quality. The group met a number of times over the course of several months and discussed a range of different aspects of audit quality. The output from these discussions was ACCIF's [Spring Report](#)² which was published in June 2023. The report includes key learnings from the discussions and the next steps that ACCIF, the FRC and the audit firms that participated agreed to take to share the learnings and put them into practice.

PwC participated in the project and we have already taken a number of actions in response to the commitment we made to share the learnings of the project, with further engagement planned. The project reaffirmed to us the benefits of engagement between key stakeholders across the ecosystem we work in and we look forward to further opportunities to engage with all stakeholders on this important topic.

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 assistance on technical points when requested. This year we have continued to help the CRUF raise awareness of the group and their views on reporting.

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, sustainability-related matters, including climate reporting, and accounting standards. The strong relationships and open dialogue we have with the investment community enable 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 such as corporate reporting and governance, climate risk in the financial statements, and audit transparency have been discussed with the investment community and 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.

Trust and Transparency Forum

We actively invite members of the investment community, alongside audit committee chairs, non-executive directors and other stakeholders, to our Trust and Transparency Forum. This forum was held in November 2022 for the first time and is an important part of our commitment to transparency and building trust in our approach to audit.

At the forum, guests had the opportunity to hear from our people including our leadership team on multiple topics, such as climate reporting, the use of technology, our commitment to audit quality and the future of audit and assurance. The second event will be held in autumn 2023.

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.

¹ Source: <https://www.pwc.co.uk/who-we-are/the-leadership-exchange/the-audit-committee-network.html>

Audit Committee Network

The PwC Audit Committee Network supports audit committee chairs and members in an ever changing market landscape. The role of the Audit Committee is becoming more challenging due to increasing demands from regulation and an expanding risk environment. We offer a series of workshops designed for FTSE 350 (and equivalent) audit committee chairs and members. Our workshops include updates on regulatory, accounting and corporate reporting developments, as well as other topics high on the Audit Committee agenda. Further information can be found [here](#).¹

External reporting

The form and content of our audit reports for UK entities are laid down by UK legislation and the 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 and company law 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.

