

# Audit quality

	<i>Page</i>
Audit Quality Plan (AQP) and continuous improvement	51
Our system of quality management	55
Our audit methodology	61
Inspections and investigations on our audits	67
Audit Quality Measures and Audit Quality Indicators	77



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# Audit Quality Plan (AQP) and continuous improvement





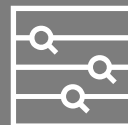
Achieving consistently high quality audits underpins the current and future Audit Line of Service strategy. The Programme to Enhance Audit Quality (PEAQ) transitioned to business as usual at the start of FY23 with the development of the Audit and Single Quality Plans.

Our Audit Quality Plan (AQP) is aligned with our Audit Strategy, and includes five pillars to support the delivery of consistently high quality audits. The pillars bring together our actions and activities relating to: Quality; Passionate people; Technology and transformation; Commercials and Responsible growth. These are underpinned by our audit culture and behaviours.



## Audit Quality Plan

**Audit vision:** We will deliver the highest quality audits and assurance to build trust in society.

<b>Quality</b> 	<b>Passionate people</b> 	<b>Technology and transformation</b> 	<b>Commercials</b> 	<b>Responsible growth</b> 
<b>Objective</b>				
<p>We will deliver consistently high quality audits and assurance that meet the needs of investors, stakeholders and the organisations we audit and have regard to the public interest.</p>	<p>We will be an inspiring and inclusive place to work where the best people want to stay and build their careers.</p>	<p>We will innovate and transform using the latest technology to improve the quality of what we do, the efficiency and effectiveness of our audits, the insight we provide and our working experience.</p>	<p>We will achieve a return that allows continual investment in our people and technology with a focus on quality.</p>	<p>We will balance our portfolio and work with organisations who share our standards, values and commitment to quality. We will invest in our future through the development of products and services to build trust in our chosen markets.</p>
<b>Core activities that drive audit quality</b>				
<p>We are committed to delivering consistently high quality work. As a profession and as a practice, we believe that everyone in Audit has a role to play to enhance the quality of our work and deliver to the highest quality. Central support is provided to the practice through a team of experienced auditors and technical specialists. These individuals support consistent quality through the setting of guidance and methodology, the delivery of internal and external review programmes, timely responses to audit and risk management queries and the provision of accounting advice to facilitate high quality financial reporting.</p>	<p>We have a clear employee value proposition which outlines the benefits, expectations and opportunities at each grade, which is consistently and openly communicated to our people. We have an effective, flexible and agile approach to resourcing which enables high quality audits and a great people experience. We have a focused recruitment and onboarding strategy for the areas and grades with the greatest need. We provide a range of talent development opportunities to our people at all grades where quality is at the heart of career progression.</p>	<p>We recognise the ever-changing technology environment in our clients, and the increasingly important role technology plays in delivering consistently high quality audits. We are focused on making best use of technology to innovate and improve our audit procedures, as well as ensuring a high level of expertise to respond to client-based technology. There are a wide range of tools available to support the practice to simplify, optimise and automate the audit. A high quality outcome is also dependent on successful contracting with the entities we audit. In order to achieve consistent high quality tools are available to the practice to support them to agree a clear plan, confirm the audit evidence required and to take clear actions where deliverables are late or of poor quality.</p>	<p>Audits have become more complex, and as such we have invested more in technology and people. Our commercial strategy is focused on ensuring we are achieving a return that allows continual investment in audit quality. Where we are not achieving an appropriate return, support is available for engaging in discussions with the entities we audit in order to achieve a balanced, fair and optimal outcome in each circumstance. In considering our portfolio as a whole, we take into account the risk associated with the entities we audit and whether they share our standards and commitment to quality.</p>	<p>We stand for audit quality – above everything else and will never compromise on audit quality. Our overall market strategy aims to improve the quality of our portfolio and supports the practice to ensure we are recognised for getting it right, demonstrating robust challenge and rigour in all interactions. We will pursue growth responsibly, in targeted areas. Growth will be managed so as not to compromise quality or profitability. Our tender approval processes, the proposals hub, client listening programmes and industry thought leadership help support the delivery of our market aspirations.</p>
<b>Culture and behaviours</b>				
<b>Team first</b>	<b>Challenge and be open to challenge</b>		<b>Take pride</b>	

## Case study: Client contracting

**We continue to recognise that working effectively with the organisations we audit is critical to help support consistent high quality audits. We use client contracting as a term to describe the interaction between audit teams and the organisations we audit, in order to support the provision of timely and relevant audit evidence.**



We believe that this concept of contracting is key to a successful, high quality audit and is crucial to the audit experience both for our own teams and for the organisations we audit.

The FRC highlighted in their most recent Tier 1 Firms Audit Quality Report that management of audited entities and their audit committees are also a critical element of a high quality audit and financial reporting ecosystem. This reinforced similar messages in their ‘What makes a good environment for auditor scepticism and challenge’ (November 2022) and their ‘What makes a good audit guide’ (November 2021).

These views are also shared by the Audit Committee Chairs’ Independent Forum (ACCIF). ACCIF published the Spring Report in June 2023 which noted that “delivering a high quality audit relies on the auditor, management and those charged with governance working effectively together.”

Acknowledging that the organisations we audit play a vital role in facilitating high quality, we launched our ‘A New Conversation: Have you had it yet?’ client contracting campaign.

The campaign highlighted the importance to quality of having open and transparent conversations with the organisations we audit about the information we require and when we need it.

Effective contracting helps us to be clear on what we, as the auditors, require to complete our work, including the agreed timelines and desired format of deliverables, as well as the PwC tools, such as Connect, available to the organisations we audit when providing evidence.

In turn, this enables our audit teams to have a considered plan which they can execute in a timely manner, allowing us to focus on delivering high quality audit work.

To embed these behaviours we introduced the ACT framework: Agree a plan, Confirm evidence required, Take action.

The integral contracting behaviours and resulting actions that formed the foundation of our campaign aligned to what the FRC identified as key elements that make a good audit in their ‘What makes a good audit guide?’.

We provided our teams with educational videos that could be shared with the organisations we audit, covering key messages and technical areas to help them understand the procedures, methodology and complexity of the auditing process. In addition, we provided our teams with a framework including specific roles and responsibilities for each team member so that all individuals felt empowered and confident to discuss client contracting with their audit contacts.

Successful client contracting is helping us to enable a more effective high quality audit, supporting an improved audit experience for our people and those involved at the organisations we audit.

### Working with the organisations we audit



In August 2022, following guidance from the FRC, we developed our Single Quality Plan (SQP), a prioritised plan including key audit quality actions, which follows the principles set out in guidance. The SQP is underpinned by a number of detailed action plans developed in response to quality processes, and overlaid with actions identified by the Audit Executive. The SQP is approved by the Audit Executive, and is discussed with, and challenged by, the Audit Oversight Body (AOB). The AOB has the responsibility to oversee the FRC's objective to improve audit quality by ensuring that people in the audit practice are focused on delivery of high quality audits in the public interest; to promote a culture supportive of the public interest; and to support (as appropriate) the firm's senior management in the execution of their responsibilities under the principles through robust oversight and constructive challenge.

The SQP is a detailed action plan which contains all of the actions we are taking to continually improve audit quality and underpins the AQP. This includes priority focus areas in line with the strategy covering methodology implementation, people initiatives and transformation programmes.

## Root cause analysis and action planning

We hold our reputation for quality in the highest regard and take seriously all the findings identified by the firm's regulators in relation to the quality of the firm's audit work. Through our continuous improvement activities we are committed to working constructively with our regulators.

Our Continuous Improvement (CI) Team, a separate team which is independent from engagement teams, is responsible for undertaking all root cause analysis (RCA) 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. RCA is also undertaken on other firmwide activities, processes and controls where there is an impact on audit quality.

The RCA process is well established and is performed on a continuous basis across the quality spectrum. In conducting RCA, the CI Team applies a consistent methodology that utilises a range of quantitative and qualitative techniques. The team assesses the relevant data, conduct interviews 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 enables analysis of patterns and trends of both causal factors and other quality indicators over time.

We evaluate the results of our RCA to identify and develop actions at either an engagement level, or across the practice, and build these into the SQP. Each action has an individual sponsor at the Audit Executive level and a clear timeline for completion. Regular status meetings take place to monitor outstanding actions and individuals are held to account where actions are not completed without an acceptable justification.

To support our overall assessment of audit quality, the CI team assess action effectiveness through our SQP. The framework for assessing the effectiveness is to monitor the package of actions under the priority areas as a whole, rather than the individual actions. We continue to develop how action effectiveness is measured so that both immediate and long term effectiveness is considered.

The learnings from RCA are shared with the practice in a number of different ways, including, at learning and development events, in all Audit communications, the annual CI 'Insights from Root Cause Analysis' publication, and through the Chief Auditor Network (CAN).

# Our system of quality management

## Overall quality objective:

To have the necessary capabilities in our organisation and to deploy our people to consistently use our methodologies, processes and technology to deliver services in an effective and efficient manner to fulfil the expectations of our clients and other stakeholders.

## A specific focus on audit quality across the Network

### The PwC Network's Assurance QMSE framework

Delivering high quality work is at the heart of what we do at PwC; it is what our stakeholders rightly expect of us.

To deliver services in an effective and efficient manner that meets the expectations of our clients and other stakeholders, the PwC Network has established the Quality Management for Service Excellence (QMSE) framework which integrates quality management into how each firm runs its business and manages risk.

This framework introduces an overall quality objective that is supported by a series of underlying quality management objectives. Each firm's system of quality management (SoQM) should be designed and operated so that the overall quality objective, which includes meeting the objectives of ISQM (UK) 1, is achieved with reasonable assurance.

### The International Standard on Quality Management 1 (ISQM (UK) 1)

ISQM (UK) 1 became effective from 15 December 2022 and requires all firms performing audits or review of financial statements, or other assurance or related service engagements, to have designed and implemented a SoQM to meet the requirements of the standard. The PwC Network's Assurance QMSE framework was designed to enable the firms to meet the requirements of ISQM (UK) 1.

In the UK, three interrelated quality management standards have been issued by the FRC:

- ISQM (UK) 1;
- ISQM (UK) 2; and
- ISA (UK) 220 (Revised).

We implemented ISQM (UK) 1 by the deadline of 15 December 2022. Both ISQM (UK) 2 and ISA (UK) 220 (Revised) are applicable for financial periods beginning on or after 15 December 2022. This suite of standards interact together to support quality on engagements. As auditors we welcome these new standards as they align with our focus on quality. These standards replace ISQC (UK) 1.

To help us achieve these objectives, the PwC Network invests significant resources in the continuous enhancement of quality across our Network. This includes having a strong quality infrastructure supported by the right people, underlying tools and technology at both the Network level and within the firm, and a programme of continuous innovation and investment in our technology. The PwC Network's Global Assurance Quality (GAQ) organisation aims to support PwC firms in promoting, enabling, and continuously improving assurance quality through effective policies, tools, guidance and systems used to further promote and monitor quality and to build an appropriate level of consistency in what we do.

These elements have been integrated and aligned by our Network to create a comprehensive quality management framework that each firm tailors to reflect their individual circumstances. Each firm is responsible for using the resources provided by the Network as part of our efforts to deliver quality to meet the expectations of our stakeholders.

## The Quality Management Process

The achievement of these objectives is supported by a quality management process (QMP) established by the firm and Audit leadership, business process owners, and partners and staff. This quality management process includes:

- identifying risks to achieve the quality objectives;
- designing and implementing responses to the assessed quality risks;
- monitoring the design and operating effectiveness of the responses, including policies, procedures and controls through the use of monitoring activities such as real-time assurance as well as appropriate Audit Quality Indicators;
- continuously improving the system of quality management when areas for improvement are identified by performing root cause analyses and implementing remedial actions; and
- establishing a quality-related recognition and accountability framework to be used in appraisals, remuneration, and career progression decisions.

The QMP encompasses the following four strategic quality initiatives which are key to making sustainable improvements to quality. This involves the integrated use of Audit Quality Indicators to aim to predict quality issues, Real Time Assurance to aim to prevent quality issues, Root Cause Analysis to learn from quality issues, and a Recognition and Accountability Framework to reinforce quality behaviours, culture and actions.

### Quality Management Review

The UK SoQM and the Quality Management for Service Excellence (QMSE) self-assessment are subject to an independent annual review by partners and staff from other PwC firms through the Quality Management Review (QMR) programme.

The QMR team assesses the firm's own assessment of its SoQM and performs independent testing where appropriate. Reviews take place each year, ensuring that each of the 15 quality objectives are covered at least once every three years.

The QMR also 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.

## The key factors that impacted our system of quality management

Our system of quality management (SoQM) is made up of policies, processes and controls that support the delivery of quality assurance engagements.

The SoQM must be designed, implemented and operated on an ongoing basis to achieve the quality objectives. This ongoing process includes monitoring, evaluating, assessing, reporting, and being responsive to changes in quality risks, driven by the firm's internal and external environment. This is our QMP. Our focus on quality management is therefore not to apply prescribed rules but rather to design and implement risk responses which are fit for purpose to manage the risks we identify in our own risk assessment and achieve the quality objective taking into consideration the conditions, events, circumstances, actions and/or inactions that may impact our SoQM.

On an annual basis, we conduct a review of the effectiveness of our SoQM. The QMSE period runs each calendar year.

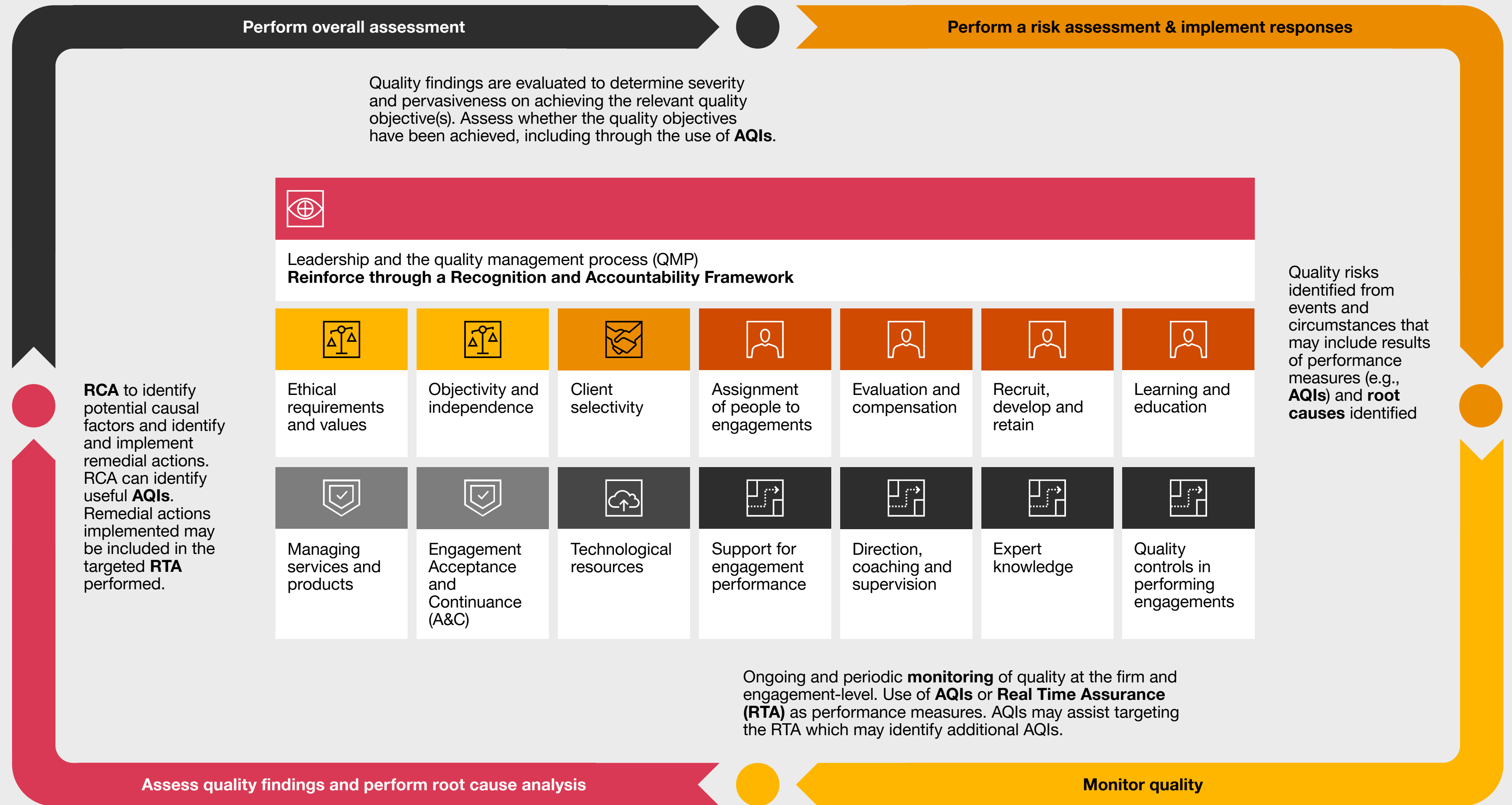
The Executive Board and the Head of Audit have ultimate responsibility for the SoQM.

Our SoQM involves a dynamic risk assessment process that takes and analyses the information about the conditions, events, circumstances, actions or inactions which may result in:

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

We continue to invest in and improve our SoQM, tailoring it to the risks we face as a firm and building upon our existing system of policies, processes and controls that enable us to achieve our quality objectives whilst demonstrating compliance with relevant standards.

This diagram illustrates the 15 QMSE quality objectives and the various components of our QMSE Framework and how they fit together.





In the 2022 QMSE year, which runs from 1 January to 31 December, we saw various factors impact our SoQM but in particular some of the more meaningful conditions, events, circumstances actions and/or inactions that necessitated changes to our SoQM included the following.

**Implementing ISQM (UK) 1 and embedding it into the SoQM –**

In 2021, we performed a gap analysis to identify aspects of the new standard which required additional consideration ahead of the implementation date. Whilst we had already implemented a number of the requirements of ISQM (UK) 1 prior to 2022, there were some areas which required further work in 2022 to fully comply with the standards.

A detailed ISQM (UK) 1 implementation plan was formalised in consultation with the business process owners and included key milestones, relevant stakeholders and impact on risk responses. We reviewed this on a regular basis to ensure that all outstanding actions were completed in advance of the implementation date.

As at 15 December 2022, we had designed and implemented the relevant components of the SoQM to ensure compliance with ISQM (UK) 1.

**Technological resources** was an area of continued focus for QMSE in 2022. This was driven by the updates introduced in ISQM (UK) 1 as well as the focus on and developments in Global PwC guidance on Network Resources, Network Assurance Software Tools (NAST) and other service providers.

Given the focus we had already given on technological resources in 2021, we were well positioned to respond to this additional guidance with key risks already identified, as well as embedded risk responses.

**Resourcing** – retention of our best people is one of the most important aspects in maintaining audit quality. A limited and competitive market provides ongoing challenges in retaining and recruiting qualified staff.

To respond, we’ve expanded the use of our offshore Service Delivery Centres (SDCs) and we’ve reassessed our recruitment strategies to attract a broader demographic. Additional QMSE risks have been added to recognise the increased use of the SDCs, in particular the use of a Remote Team Model.

Further information about our Distributed Delivery Model can be found on [page 96](#), and recruitment and resourcing on [page 93](#).

**Training integrity and unethical behaviour** – a key development in 2022 was around responding to training integrity and unethical behaviour related risks. There has been an increased market and regulatory focus on unethical behaviour and training integrity in the profession and we expect this to continue.

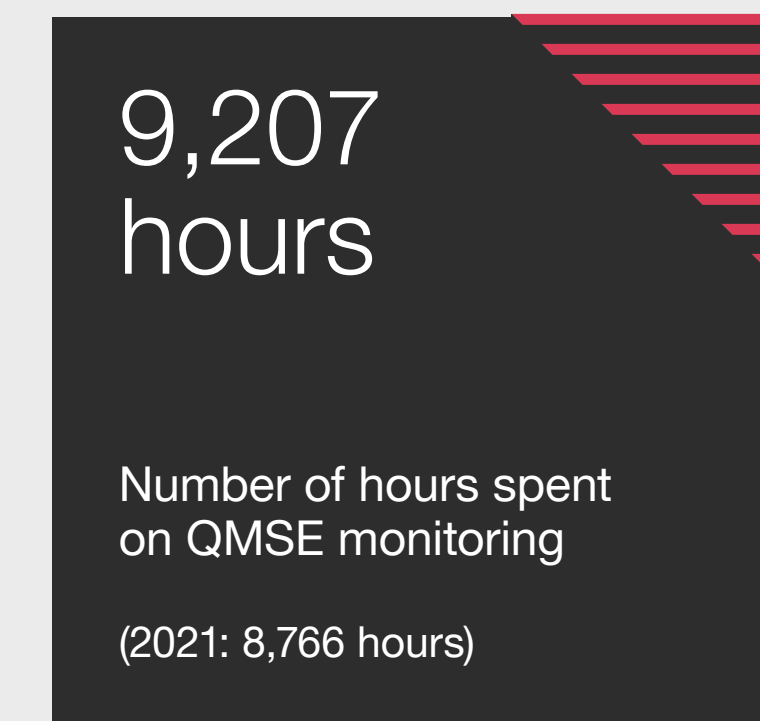
Additional QMSE risk responses were added in 2022.

**Impact of the Russia/Ukraine conflict**

– the impact of this rapidly evolving conflict, including the separation of the Russian firm, was considered and documented across all the QMSE objectives from a risk perspective to assess if any changes were required in the 2022 risk assessments. No changes were considered necessary.

Based on the results of the activities described above, as well as consideration of regulator reviews and the results of other monitoring activities, we are satisfied that our SoQM provides us with reasonable assurance that the objectives of the SoQM are being achieved. Whilst certain areas of improvement were self-identified, no significant or pervasive deficiencies have been identified by us, or identified by the 2023 QMR review which covered the calendar year to 31 December 2022.

**Our system of quality management**



## Engagement Quality Reviews (EQR)




EQR reviews are an integral part of the firm's system of quality management. The key features of the annual EQR programme are as follows:

- 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 Institute of Chartered Accountants in England and Wales (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.
- The results are reported to the Audit Executive, the Audit Oversight Body, and to PwCIL. The FRC 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.

	<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;
- 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.

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 EQR 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 EQR, 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 EQR. 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, the AOB and the firm’s PIB.

# Our audit methodology

## Audit methodology

PwC UK operates Audit as a separate, standalone Line of Service that delivers audit and other assurance engagements.

Within other Network firms, it is more common for these services to be offered within a wider Assurance line of service. Global Assurance Quality operates at the PwC Network level, and develops and maintains the Network's risk and quality standards and methodologies in relation to Assurance services.

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

PwC Audit policies and procedures are designed to facilitate audits conducted in compliance with all ISA requirements that are relevant to each individual audit engagement. Our common audit methodology provides the framework to enable PwC member firms to consistently comply in all respects with applicable professional standards, regulations and legal requirements.

PwC Audit is developed by the Global Assurance Quality – Methodology Group (GAQ – Methodology). GAQ – Methodology has responsibility for the maintenance and update of global audit policies and guidance, including: the PwC Audit Guide; libraries of audit steps for our global audit software (Aura Platinum); and template letters and other documents for use by engagement teams.

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

PwC UK is represented on the Global Assurance Quality – Methodology Leaders Group by the UK Chief Auditor. The group exists to ensure global alignment of methodology priorities, sharing of territory emerging matters, providing input on PwC's implementation of new or revised auditing and assurance standards, and acting as a forum for discussion.

Our UK Audit Risk and Quality group (ARQ) is responsible for developing policy and guidance to supplement the global methodology where required to address additional requirements included in UK professional standards and laws and regulations. The additions to policy are subject to oversight by the UK firm's Audit Risk and Quality Committee, a group of senior Risk and Quality and practice partners.

## Comprehensive policies and procedures

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

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



## Consultation

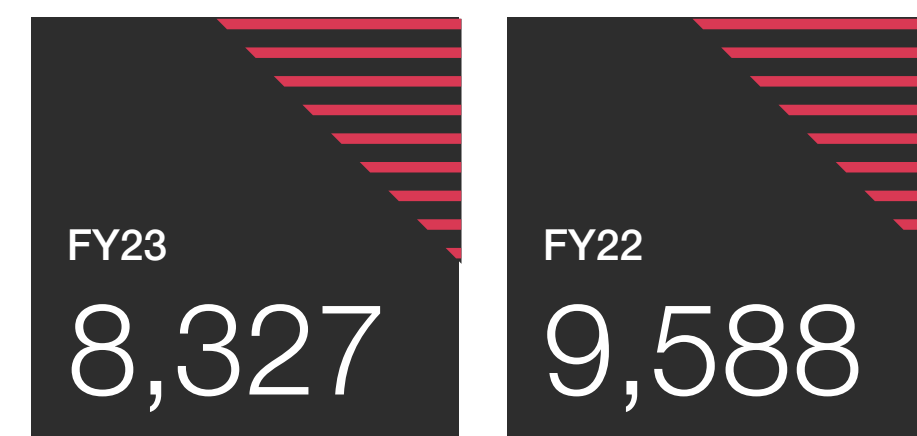
Consultation is a key element of quality control. The firm has policies setting out the circumstances under which consultation on accounting, auditing and risk management matters is mandatory. The firm's technical experts track new developments in relevant areas and provide updates to the appropriate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



### Consultations

Within Audit, we use a consultation database that has been specifically designed to aid the consultation process. It also makes sure documentation of consultations within ARQ is in accordance with relevant professional standards. ARQ, whose remit is to establish the UK Audit Practice's technical risk and quality framework, supports engagement teams in a number of areas, including accounting and corporate reporting, risk management and audit methodology.

During the year ended 30 June 2023, a total of 8,327 consultations were completed (FY22: 9,588). One of the factors that has reduced the total number of consultations is the continued involvement of the Chief Auditor Network (CAN). Engagement teams consult with the CAN on an informal basis on audit related matters, continuing to reduce the number of consultations logged with ARQ. These cover a range of topics, including audit, accounting and risk management matters.



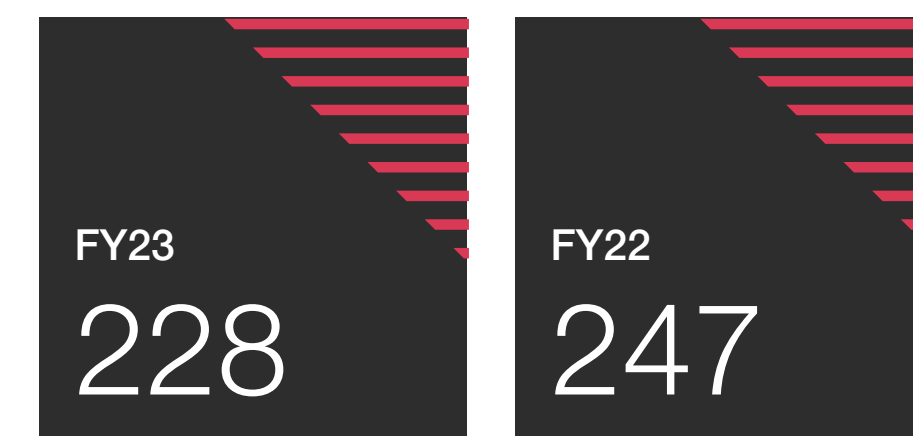
### Hot reviews of financial statements and reports

ARQ's accounting specialists perform quality 'hot reviews' on interim financial reports, preliminary announcements and annual reports of certain entities prior to issuance. These reviews consider the financial statements' and reports' compliance with relevant laws and regulations (including listing rules) and the relevant accounting framework.

For a selection of audits, ARQ reviews certain aspects of the audit work on a real-time basis, as the audit progresses.

These reviews aim to be primarily a coaching exercise focusing on risk assessment, the resolution of judgemental matters and our reporting to those charged with governance. They are flexible and will, on occasion, involve a more in-depth review of detailed audit working papers.

228 hot reviews of financial statements and reports were completed during the year (FY22: 247).



### Technical panels

Where an engagement has particular complexities, risk characteristics or auditing or accounting areas requiring significant judgement (e.g. in some situations where uncertainty exists around a client's going concern or impairment assessment), engagement leaders may consult a panel of experienced client-facing partners, technical experts and, in some cases, specialists in particular audit or industry areas (technical panel).

During the year ended 30 June 2023, 65 (FY22: 54) technical panels took place on audit clients, the majority of which related to the consideration of a client's going concern status.

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





## Supervision and review

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

Some of the key aspects which the engagement leader is expected to perform includes the following:

- actively managing the performance of the audit and its documentation by being proactively and sufficiently involved throughout the audit, including being satisfied that risks have been assessed and responded to appropriately;
- ensuring sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner;
- driving a cultural mindset that strives for continuous quality improvement, challenges engagement team members to think, analyse, question and be rigorous in their approach, display and challenge engagement team members to display the PwC Audit Behaviours, and embody the experiences of our people in how the team delivers the audit and applies professional scepticism;
- fostering an integrated coaching culture and demonstrate a willingness to learn and to coach others;
- being responsible for the engagement team undertaking appropriate consultation on difficult or contentious matters, initiating those consultations where necessary;
- being responsible for ensuring that they and the engagement team understand the relevant ethical requirements for the engagement, remaining alert to any breaches of the requirements and taking action where necessary;
- having an ongoing involvement in assessing the progress of the audit, and in making key judgements;
- implementing the firm's response to quality risks applicable to the engagement and be satisfied that the review, supervision and quality control procedures in place are adequate and effective; and
- having an overall responsibility for the direction, supervision and review of work on the engagement, ensuring that conclusions are reached and documented in a proper and timely manner and taking overall responsibility for managing and achieving quality on the engagement.

Senior engagement team members support the engagement leader by:

- setting an example in the performance of the audit and its documentation by being involved throughout the audit, including identifying the risks and being satisfied that they are responded to appropriately;
- striving for continuous quality improvement, challenging engagement team members and applying rigour to the audit process and display and challenge engagement team members to display the PwC Audit Behaviours;
- fostering an integrated coaching culture and demonstrating a willingness to learn and coach others;
- together with the engagement leader, putting in place arrangements for timely reviews of audit work and documentation, and, taking into account the nature, extent and level of reviews already performed by other members of the team, satisfying themselves that the work performed and documentation are consistent with the understanding of the engagement; and
- reviewing work done and the record of the audit, including considering the quality of the audit process and the results of the work and the documentation of conclusions.

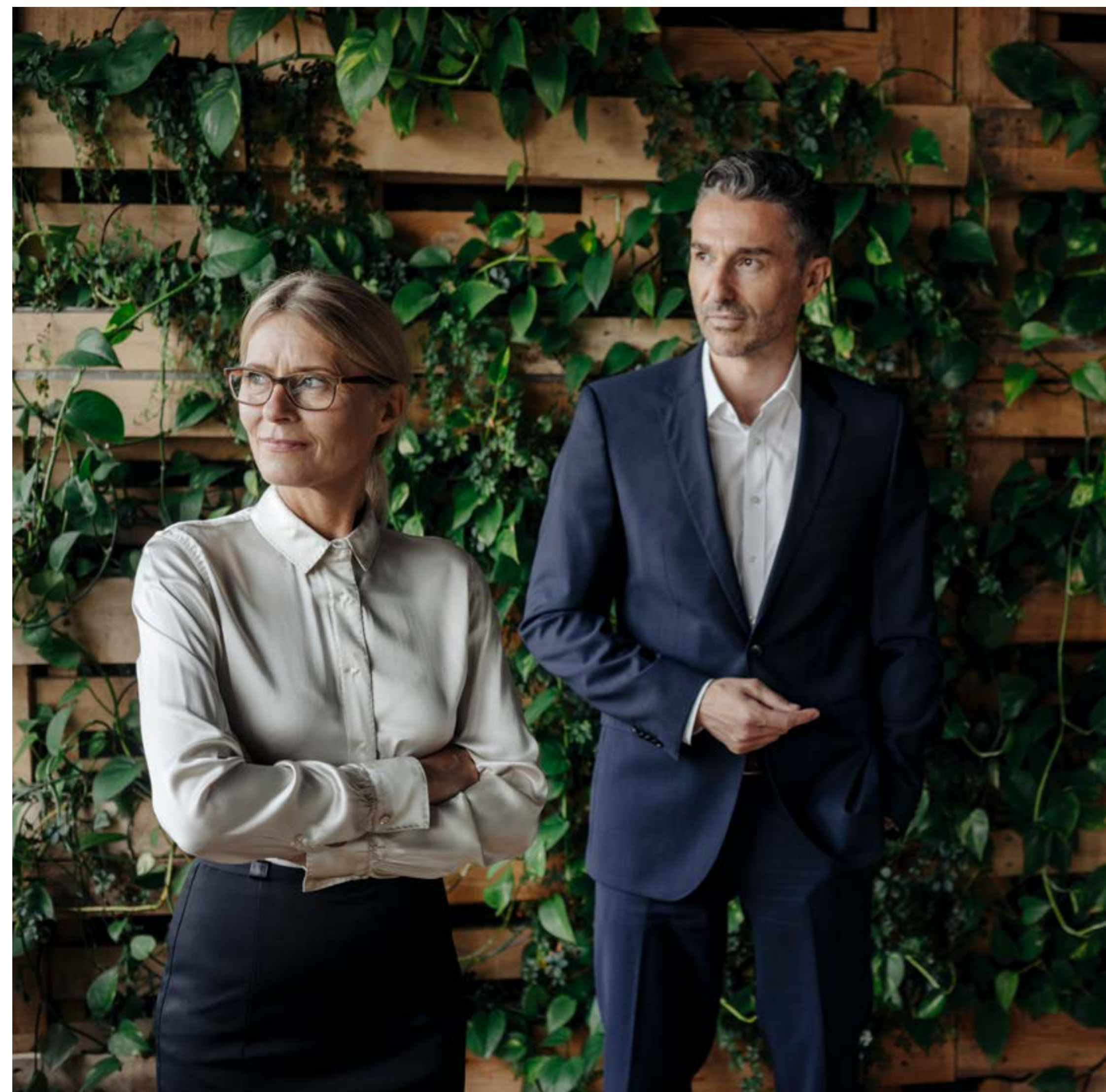
In addition to reviews by the engagement leader and senior engagement team members, all staff are expected to critically self-review their own work to make sure that it meets the relevant requirements.

## Engagement quality control reviews

We appoint a Quality Review Partner (QRP) to conduct engagement quality control reviews of the audits of listed clients, other public interest entities and clients identified as higher risk or higher profile. Higher Profile Clients (HPCs) include:

- any entity with a significant risk over going concern and either:
  - more than 5,000 UK employees, or
  - a pension deficit agreement exceeding 15 years.
- any entity with more than 5,000 UK employees and a pension deficit funding agreement exceeding 15 years;
- private companies which employ 10,000 or more individuals in the UK (excluding subsidiaries of a UK listed company which is audited by PwC UK) not included in other criteria above; and
- other entities whose engagement's heightened profile, based on the firm's judgement, could represent a heightened financial risk to the firm or reputational risk to the firm or the network.

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



QRPs are appointed to an engagement based on their experience and expertise. The QRP is responsible for: reviewing key aspects of the audit including independence, significant risks and responses to these risks, judgements, uncorrected misstatements, documentation of work done in the areas reviewed, the financial statements, communication with those charged with governance and the appropriateness of the audit report to be issued. The QRP is also required to understand the firm's monitoring and remediation processes, in particular any identified deficiencies that may impact areas involving significant judgements made by the engagement team. Furthermore, the QRP is responsible for evaluating the engagement leader's determination that relevant ethical requirements relating to independence have been fulfilled, appropriate consultation has occurred and the engagement leader's involvement is sufficient and appropriate. QRPs are involved throughout the audit process so that their input is timely.

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

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

As explained below, our guidance in relation to QRPs was reviewed in light of the implementation of ISQM (UK) 2 and ISA (UK) 220 (Revised) 'Quality Management for an Audit of Financial Statements'.

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

## New standards

During the year, we have invested significant time into the implementation of the suite of quality management standards ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220 (Revised) 'Quality Management for an Audit of Financial Statements'. This included revising certain Aura Platinum workpapers and sections within the PwC Audit Guide to respond to the new quality management requirements, including the responsibilities of the engagement leader and Engagement Quality Control Reviewer detailed above. The implementation effort was not as significant as it may otherwise have been as a number of the new requirements were already embedded into our existing methodology and audit culture. Training modules were developed to educate our people on the new standards.





We also moved onto the next stage of our implementation of ISA (UK) 315 (Revised) during the period after completion of initial training and roll-out of the revised methodology during FY22. Our Chief Auditor Network, in tandem with ARQ, supported engagement teams through using the new Aura Platinum work programme developed to meet the requirements of ISA (UK) 315 (Revised) through workshops and further training sessions, and new practical guidance was developed to respond to the initial feedback received from engagement teams. We are reflecting on the initial findings from both our EQR and Audit Compliance Measure (ACM) processes, as well as feedback received directly from the practice, to identify any emerging themes to be addressed through our training programs.

In the coming year, we will evaluate our initial implementation of the new quality management standards. We are also working towards the implementation of ISA (UK) 600 (Revised), 'Special considerations – Audits of group financial statements (including the work of component auditors)' which is effective for audits of financial statements for periods commencing on or after 15 December 2023.

### Engagement documentation

At the end of an engagement, audit teams are required to archive the audit file in accordance with a timeline that is more stringent than that required by professional standards. The act of archiving prevents any further amendments being made to the file.

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

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

### Engagement conversations

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



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# Inspections and investigations on our audits

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



## External inspections – UK regulators

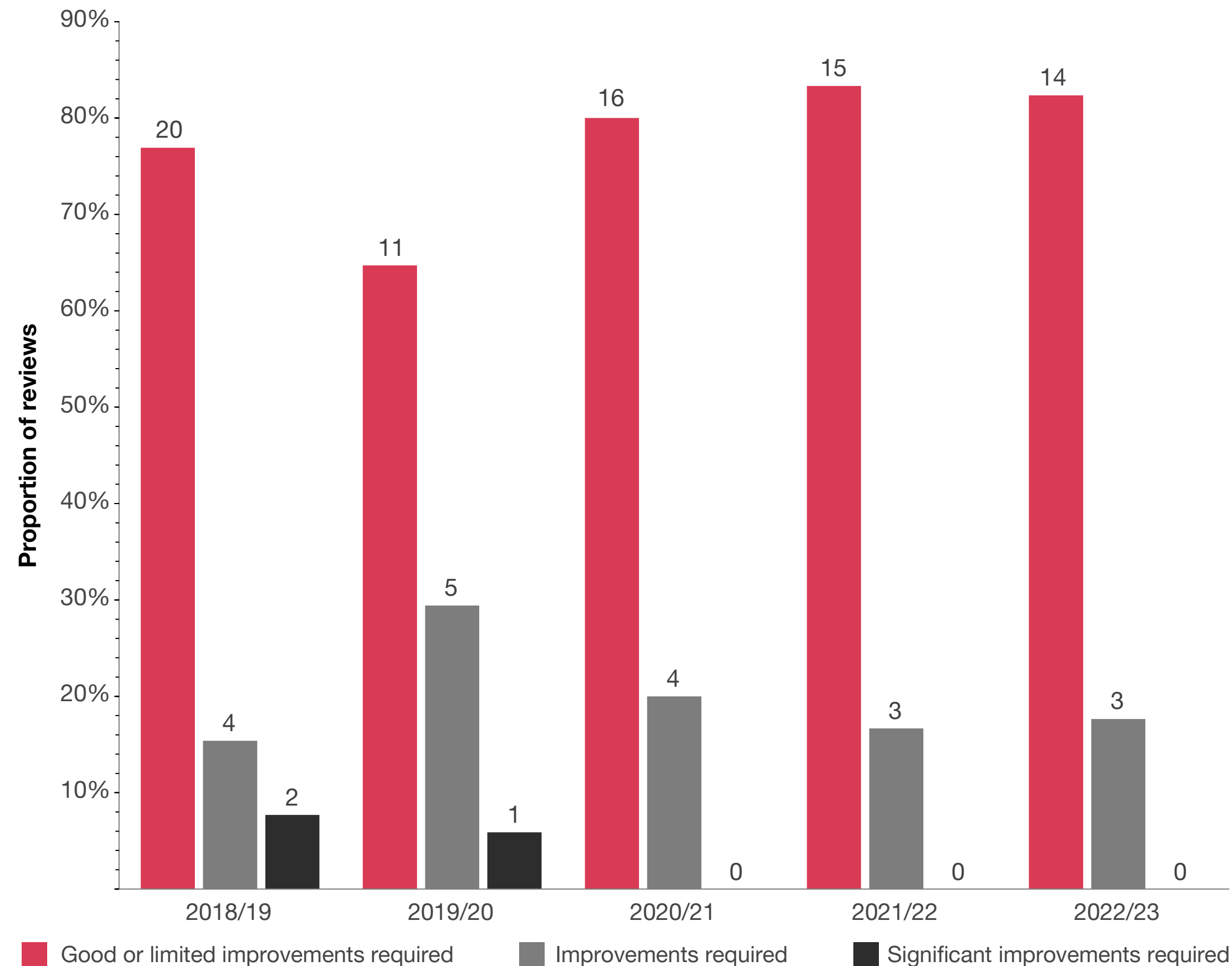
Each year, the FRC's Audit Supervision team undertakes inspections of the quality of the firm's work as statutory auditors of public interest and other entities, and on a cyclical basis perform a review of aspects of the firm's policies and procedures supporting audit quality. The Quality Assurance Department (QAD) of the Institute of Chartered Accountants of England and Wales (ICAEW) undertakes an annual inspection of non-PIE audits. The results of the inspections undertaken by the FRC and QAD are reported to the ICAEW for PIE Auditor Registration purposes and to the Audit Registration Committee (ARC).

The ARC is due to consider the findings arising from the most recent FRC and QAD inspection reports as part of their consideration of the firm's UK audit registration. The ARC will also consider the UK 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 [2022/23 Audit Quality Inspection and Supervision Report on PwC UK](#)<sup>1</sup> on 6 July 2023. Alongside the results of the FRC inspection, the report also included the firm’s own 2022 internal quality monitoring results and those of the annual ICAEW QAD inspection.

### FRC Inspection Results 2018/19 – 2022/23 PwC – All reviews



The 2022/23 inspection comprised reviews of 17 (2021/22: 18) individual audit engagements relating to FTSE 100, FTSE 250 and other listed and public interest entities. Of the 17 audits reviewed in the 2022/23 cycle, the AQR assessed that:

- 82% or 14 audits (83% or 15 audits in 2021/22) were graded ‘good or limited improvements required’;
- 18% or three audits (17% or three audits in 2021/22) were graded as ‘improvements required’; and
- no audits (no audits in 2021/22) had ‘significant improvements required’.

We are proud of our people and how they work together to deliver high quality audits, which has resulted in the overall outcome of the 2022/23 Audit Quality Review (AQR) inspection cycle. Achieving consistently high quality audits is a key objective of our audit culture programme and a focus of our audit teams.

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

- improve the audit of cash and cash flow statements, in particular in respect of classification;
- continue to improve the testing of revenue and profit margin recognition; and
- further improve aspects of the audit of impairment.

We also recognise there are instances where the outcome of an inspection is disappointing, if parts of our audits do not meet the high standard expected by ourselves and other stakeholders. We continue to learn lessons from these instances through focused Root Cause Analysis (RCA), and have reflected on the engagement specific findings, and are taking responsive action as appropriate.

The report also includes examples of good practice identified by the AQR, and it is pleasing that these have been identified across audit planning, execution and completion phases, and in areas where the AQR have previously reported findings. We will continue to utilise these examples within our RCA and in demonstrating what high quality looks like with our people.

<sup>1</sup> Source: [https://media.frc.org.uk/documents/PricewaterhouseCoopers\\_LLP\\_Audit\\_Quality\\_Inspection\\_and\\_Supervision\\_Report\\_2023.pdf](https://media.frc.org.uk/documents/PricewaterhouseCoopers_LLP_Audit_Quality_Inspection_and_Supervision_Report_2023.pdf)

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.

**Compliance with the FRC's Revised Ethical Standard 2019:** The FRC evaluated the firm's compliance with the FRC's Revised Ethical Standard 2019. The work considered the breadth of the Ethical Standard, focusing on the areas where there were more significant changes to the requirements in the 2019 revisions. The key findings related to:

- the firm's assessment of proposed accounting advice services;
- ensuring appropriate approvals are obtained before commencing non-audit services;
- enhancing monitoring of UK audited entities with overseas activities to ensure required approvals for non-audit services are obtained prior to commencement of the service; and
- ensuring that relevant individuals' pension investments are logged to facilitate prompt identification of any conflicts.

The FRC also identified areas of good practice. These included an example of a communication to an entity setting out the impact on the non-audit service should the firm be appointed as auditor; the firm's policy on the provision of gifts and hospitality to/from audited entities and an example of an internal communication to a non-audit service team explaining why they could not accept a gift from an audited entity; and the analysis of conflict checks undertaken by the firm's Independence, Compliance and Ethics function.

**Partner and staff matters:** recruitment, management of partner and senior staff engagement portfolios, appraisals, remuneration and promotion processes. The FRC reviewed the firm's policies and procedures in these areas and tested their application for a sample of partners and staff for the 2021 appraisal year processes. The key finding related to inconsistencies in the consideration of quality in staff appraisals and the process to ensure that results of internal or external inspections are appropriately considered where senior staff below Responsible Individual (RI) level are deemed to have significantly contributed to adverse or positive quality outcomes. The FRC identified good practice in the firm's requirement for all audit RI promotion candidates to pass two internal file reviews to evidence their attainment of audit quality.

**Acceptance, continuance and resignation procedures:** the FRC reviewed policies and procedures relating to acceptance, continuance and resignation procedures, including the firm's wider risk assessments of entities. The FRC also reviewed the application of these policies for a sample of audits accepted, continued and ceased in the year. The FRC had no key findings to report and identified one area of good practice relating to the Bid Review process for prospective audits.

**Audit Methodology:** settlements and clearing processes for banks and building societies. The FRC evaluated the quality and extent of the firm's methodology and guidance relating to the audit of the cash and payments process for the audit of banks, building societies, other credit institutions and payment service providers. The review did not identify any key findings, or specific examples of good practice.



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 the FRC's observations relating to their forward looking supervision activities, including in respect of: the firm's Single Quality Plan; other quality improvement plans and audit quality initiatives; root cause analysis process; PIE auditor registration; other activities focused on holding firms to account; culture and conduct; initiatives to ensure compliance with the Revised Ethical Standard 2019; and operational separation of audit practices. The firm was not subject to increased supervisory activities during the year.

The report outlines that in response to the inspection the FRC will:

- maintain the reduced number of audits inspected at PwC in proportion to the number of audits in scope compared with other Tier 1 firms;
- continue to review the Single Quality Plan and use it to monitor the actions taken to improve audit quality, their effectiveness (over the short and long term) and its use in complying with ISQM (UK) 1; and
- continue to monitor and assess the firm's initiatives in relation to audit quality, in particular resourcing, culture and ethics.

We are also committed to working with the FRC to ensure that the high value of audit is recognised, and the profession remains attractive in years to come. To do this, delivering high quality audits consistently is our priority, and this is embedded in our continuous improvement mindset, our Audit Behaviours and our audit culture.

Copies of the FRC Audit Quality Inspection and Supervision report on PwC UK are available on the [FRC website](https://www.frc.org.uk)<sup>1</sup>.

### Other FRC review activity

The Audit Market Supervision (AMS) team of the FRC have undertaken a number of reviews during 2022/23, including of the firm's:

- firmwide processes to support the auditor in responding to the risk of climate change;
- methodology around IFRS 9, focusing on the audit of Expected Credit Losses (ECL) for larger banks; and
- audit culture supporting professional scepticism and challenge behaviours.

The AMS team are undertaking thematic reviews as part of their 2023/24 inspection cycle on audit sampling methodology, hot reviews, the identification and assessment of network resources and service providers and Root Cause Analysis. Copies of the published reports are available on the [FRC website](https://www.frc.org.uk)<sup>2</sup>.



<sup>1</sup> Source: [https://media.frc.org.uk/documents/PricewaterhouseCoopers\\_LLPAudit\\_Quality\\_Inspection\\_and\\_Supervision\\_Report\\_2023.pdf](https://media.frc.org.uk/documents/PricewaterhouseCoopers_LLPAudit_Quality_Inspection_and_Supervision_Report_2023.pdf)

<sup>2</sup> Source: <https://www.frc.org.uk>

## ICAEW – QAD inspection

The QAD audit engagement 2022/23 inspection results were published within the FRC’s Audit Quality Inspection and Supervision report on the firm on 6 July 2023. They will also be included within the ICAEW’s 2022 Audit Monitoring report, expected to be released in autumn 2023.

The 2022/23 QAD inspection comprised standard scope reviews of ten (2021/22: ten) individual audit engagements, of which:

- nine audits (ten in 2021/22) were assessed as ‘good or generally acceptable’;
- no audits in 2022/23 or 2021/22 were graded as ‘improvement required’; and
- one audit (none in 2021/22) was graded as ‘significant improvement required’.

As highlighted above, the QAD concluded that overall, the audit work reviewed was of a good standard, with nine out of ten engagements graded either good or generally acceptable, including the AIM-listed and both public profile audits. The QAD identified one engagement as requiring significant improvement. The audit was of an entity significantly impacted by the COVID-19 pandemic and lockdowns. The audit team had dealt with various challenges due to restructuring of the business and issued a modified audit report. The QAD identified a very specific error in transactions following the refinancing within the group with a risk that the parent company balance sheet was materially misstated. The issue did not alter the group balance sheet position.

The report included one key finding relating to the audit requiring significant improvements required. The report also included a number of good practice examples across two broad themes: demonstrable professional scepticism and challenge of management in audit approaches to accrued income, going concern and impairment reviews; and comprehensive audit documentation, including consideration of risks relating to accounting estimates and IT systems; and closing down matters raised by the firm’s specialist teams.

As with the AQR 2022/23 inspection, whilst we are pleased with the overall outcome of the 2022/23 QAD inspection, we are disappointed that one of our audits did not meet the high standard expected by ourselves and other stakeholders. 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 2022/23 cycle.

## ATOL inspections

As an ATOL reporting accountant, the firm is subject to inspection as part of the Licensed Practice Scheme. The review takes place on a tri-annual cycle. No review was undertaken during 2022/23.

## Other UK regulatory bodies with which we have interactions

As statutory auditors we engage in ongoing dialogue with regulators of entities we audit. 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 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](https://register.fca.org.uk/s/)<sup>1</sup> 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.

## 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.

As we disclosed in our 2022 Transparency Report, the PCAOB, in cooperation with the AQR, inspected 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.

The PCAOB commenced its most recent triennial inspection of PwC UK in September 2023, again in cooperation with the AQR. The inspection is ongoing. We will report the results of the inspection in due course.

<sup>1</sup> Source: <https://register.fca.org.uk/s/>

## 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 2022/23 inspection of PwC UK, no such audits were reviewed by the FRC.



## 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 and supported to improve performance. In addition, under our Recognition and 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.

PwC UK's monitoring programme is designed to meet the requirements of ISQM (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 EQR 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.

2. Whole firm review of policies and procedures adopted by PwC UK in respect of audit quality and ISQM (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 the 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.

## Engagement Quality Review (EQR)

Within the '[Our system of quality management](#)' section of the report on [page 59](#), the key features of the annual EQR programme, formerly the Engagement Compliance Review (ECR) programme, were outlined. The programme is an integral part of the firm's internal monitoring. Experienced reviewers select areas of key audit matter that enable a focused review to take place.

Details of the coverage and results of the 2023 EQR are as follows:

- 163 audit engagements (FY22: 156) were reviewed in FY23, covering 46%\* (FY22: 44%) of the firm's Responsible Individuals. 35 non-audit assurance engagements (FY22: 39) were also reviewed.
- 139 audit engagements (FY22: 135), representing 85% (FY22: 87%) of the audit engagements reviewed were classified as 'compliant'. 15 audit engagements (FY22: ten), representing 9% (FY22: 6%) of the audit engagements reviewed were classified as 'compliant with improvement required', and nine (FY22: eleven) were classified as 'non-compliant'.
- 32 non-audit assurance engagements (FY22: 35), representing 91% (FY22: 90%) of the 35 non-audit assurance engagements reviewed were classified as 'compliant'. Two non-audit assurance engagements (FY22: three) representing 6% (FY22: 8%) of those reviewed were classified as 'compliant with improvement required'. One non-audit assurance engagement (FY22: one) was classified as 'non-compliant'.

### Audit EQR results

	Compliant	CwIR	Non-compliant	Total
<b>FY23</b>	139	15	9	163
<b>FY22</b>	135	10	11	156

### Non-audit EQR results

	Compliant	CwIR	Non-compliant	Total
<b>FY23</b>	32	2	1	35
<b>FY22</b>	35	3	1	39

EQR results are subject to a RCA in order to assess findings, identify potential causal factors and implement remedial actions.

\* The coverage is 47% if we consider only the firm's Responsible Individuals that signed an audit opinion during the year.



## 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 EQR 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 2023, 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 LoS level.

The overall metrics for the Audit LoS are reported to the Executive Board. The overall ACM compliance score for the year ended 30 June 2023 was 94.6% (FY22: 94.3%).

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.

## Audit Risk & Quality Investigations (ARQI)

The Audit Risk & Quality Investigations (ARQI) 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, investigations by other regulatory agencies – including ICAEW enquiries, overseas agencies, and, in some cases, matters raised by clients and litigation. The ARQI 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 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 audits under the UK Audit Regulation and Audit Directive. The FRC is responsible for cases that may 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 FRC investigations which are in the public domain as at 30 June 2023:

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

In the year to 30 June 2023, there have been three (FY22: two) FRC Final Decision Notices issued against the firm following investigations by the FRC Enforcement division.

- 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 £2.5m adjusted for admissions/early disposal to £1.75m and non-financial sanctions which comprised a Severe Reprimand and a declaration that the Audit Report did not satisfy the relevant requirements. There were no additional non-financial sanctions.
- In March 2023 the FRC published the outcome of its investigations into our audit of Babcock International Group plc (Babcock) consolidated financial statements for the year ended 31 March 2017 and 31 March 2018 and Devonport Royal Dockyard Limited (DRDL) financial statements for the year ended 31 March 2018. The firm was fined £7.5m, adjusted for aggravating/mitigating factors and admissions/early disposal to £5.625m. The firm received a Severe Reprimand and non-financial sanctions were also imposed. These require PwC to:
  - ensure that the correcting action in relation to the audit of long term contracts previously agreed in a non-financial sanction imposed in June 2022 arising from a separate FRC investigation is broadened to cover the matters arising in the Babcock/DRDL investigation.
- In June 2023 the FRC published the outcome of its investigation into our audit of Eddie Stobart Logistics plc. The firm was fined £3.5 million, adjusted for aggravating/mitigating factors (in particular reflecting an exceptional level of cooperation) by a reduction of 12.5% and further discounted for admissions/early disposal by 25% to £1.99m. The firm received a Severe Reprimand. In addition a non-financial sanction was imposed requiring PwC to report to the FRC on (i) its monitoring of its audit teams' compliance with its policies regarding consultations; and (ii) its training in this area of new audit partners.

The Final Decision Notices applicable to these cases are available on the [FRC website](https://www.frc.org.uk)<sup>1</sup>.

<sup>1</sup> Source: <https://www.frc.org.uk>

## Case examination and enquiries

The FRC's Case Examiner and the Case Assessment team makes enquiries to determine whether there is a question as to whether the firm or a Statutory Auditor has breached a relevant requirement. Following their assessment, the Case Examiner may decide to: take no further action; arrange for constructive engagement (see below); or refer the matter on to determine whether or not it is appropriate for an FRC enforcement investigation (see above) or to another regulator for investigation.

The FRC may seek to resolve cases through constructive engagement. This may be used where 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 is for the FRC to agree appropriate remedial actions with the audit firm.

Throughout the year, we have successfully resolved enquiries from the Case Examiner by responding promptly 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 and issuing additional guidance in the form of the firm's 'In brief' technical updates to the audit practice. As part of resolving enquiries, we often provide evidence to the FRC that the actions have been completed.

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

Further details of the Case Examination and Enquiries process, the Accountancy Scheme and Audit Enforcement Procedures can be found on the [FRC's website](https://www.frc.org.uk)<sup>1</sup>.

## ICAEW

In the year to 30 June 2023 there were no audit cases (2022: nil) 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 to resolve with the ICAEW. Further details of the ICAEW's disciplinary process can be found on the [ICAEW's website](https://www.icaew.com)<sup>2</sup>.

## Complaints and allegations

If the organisations we audit 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 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 ICAEW or the institute of which the individual PwC UK partner or member of staff is a member, may also be contacted directly.

<sup>1</sup> Source: <https://www.frc.org.uk>

<sup>2</sup> Source: <https://www.icaew.com>



# Audit Quality Measures and Audit Quality Indicators

Measuring and assessing audit quality is fundamentally important. Using measures and indicators to do this 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 the key elements of a high quality audit practice.

Audit Quality Indicators are complex and the term 'AQI' can often mean different things to different stakeholders. AQIs can be considered at both a firmwide and at an engagement level; and they can also be used internally or externally by audit firms. PwC's use of AQIs includes the following:

- Internally, we monitor AQIs and other management information for our Audit LoS, and Audit Business Units to identify thematic insights, whilst also using engagement level AQIs within our root cause analysis process. These areas of work combine qualitative insights with quantitative analysis to provide robust conclusions into how we can continuously improve our system of quality management.
- Externally, we use AQIs to provide information to the users of audit services and to wider stakeholders to enable a richer discussion about what constitutes both a high quality audit and a high quality audit practice. 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 with external stakeholders at both a firmwide and engagement level.

We have engaged with the FRC on two main projects through 2022/23 concerning external level AQIs as follows.

The first of these was the conclusion of the FRC's engagement level AQI pilot and our own extended engagement level AQI pilot. Through this we learnt a great deal about the information audit committee chairs are interested in. The non-prescriptive approach to this pilot promoted innovation and allowed for continuous improvement in the use of AQIs. Our observations from this project included:

- AQIs provide the most value and insight for users of audit services at an engagement level as opposed to firm level; with AQIs at this level leading to a richer discussion about audit quality;
- AQIs cannot cover all aspects important to audit quality, they require context and there are practical challenges to using them; a 'one size fits all' approach is not necessarily the best;
- where AQIs are used with an Audit Committee, we believe they should be focused in areas key to a high quality audit, including those relating to the resources allocated to the engagement, the project management of the audit, and the quality and timeliness of management deliverables.

Secondly, we have engaged in the FRC's consultation and proposal on the use of a consistent, publicly disclosed set of firm level AQIs. We will continue to work with the FRC on this proposal in the pilot year to June 2024, through to the first set of public reporting in June 2025.



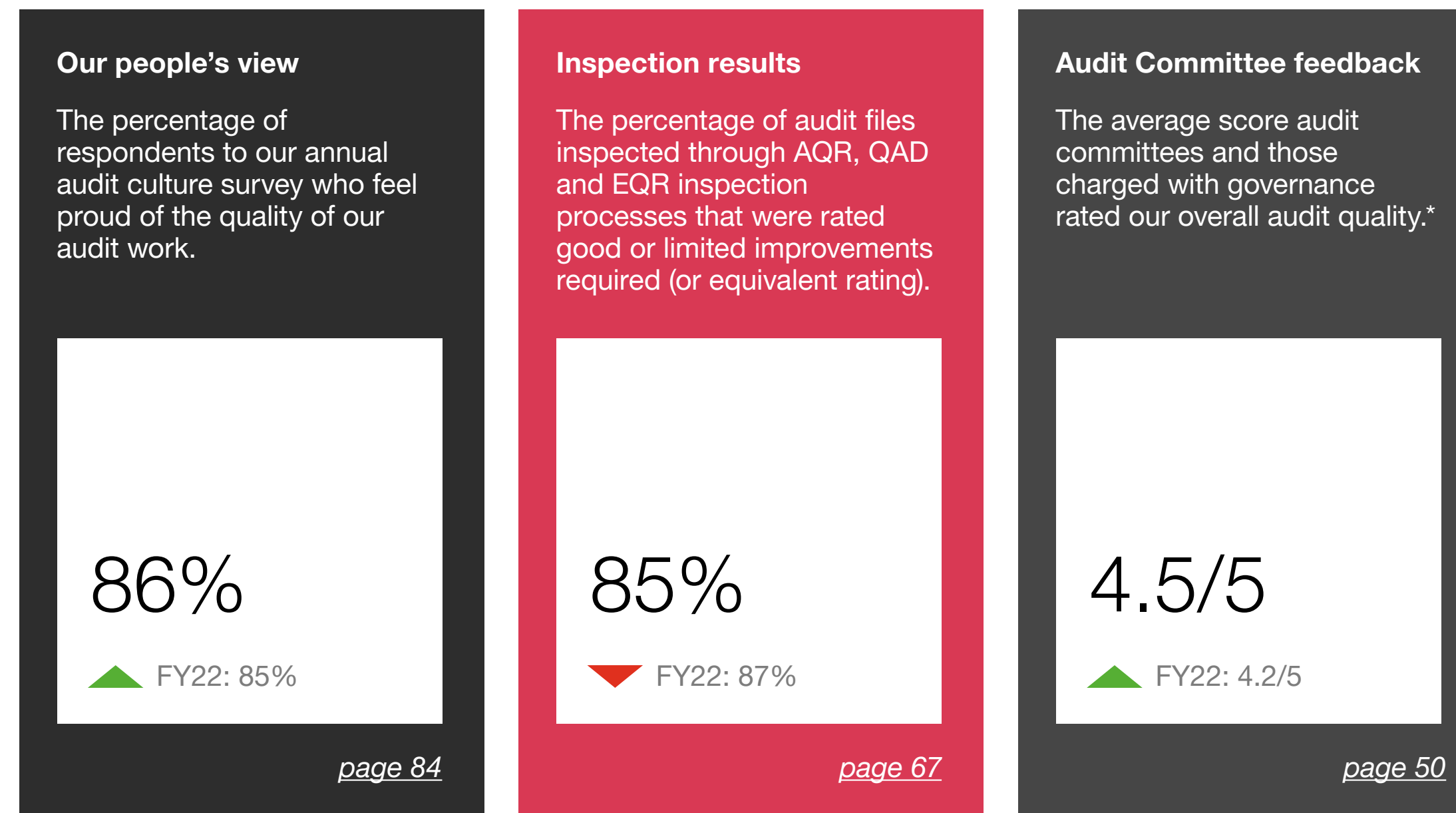
## AQIs and measuring audit quality

It is important to understand that AQIs are only indicators of risk to quality rather than actual measures of audit quality. This is because it is still possible to have a high quality audit when particular AQIs might be of concern, because the risks to quality can still be mitigated through controls or other interventions.

There is no single definition or measure of audit quality. The most public measure in the UK is the AQR inspection results, although these are based on a limited, risk based sample of files inspected. We have developed our own Audit Quality Measurement framework with three key measures of audit quality to provide a more comprehensive view of the quality of our audits. These measures are included in the internal firmwide balanced scorecard that is reported to our Executive Board each quarter.

Our Audit Quality Measures and supporting data, along with our AQIs are set out in their respective sections below.

### Audit Quality Measures (AQMs)



During FY23 we refreshed our AQMs with the following updates.

- Previously we had reported how the organisations we audit scored us when asked whether our teams challenged them during the audit. We have now replaced this with the score Audit Committees and those charged with governance give our overall audit quality. We did this so the measure reflects a more holistic view of audit quality. The challenge score is now reported for further context in the supporting data table.
- The 'Audit Inspection restatements (Percentage of files inspected which required a restatement)' measure which had previously been an AQM is now added as context to the overall Audit Inspection measures rather than as a standalone headline AQM. This metric is now included in the supporting data table.

\* In FY23 Audit quality scoring has moved from a ten point scoring system to a five point scale. The FY22 score has been halved from 8.4 to generate a comparative.

## Supporting data

We present below the supporting data referenced elsewhere in this report which provides further context in relation to the inspection and audit committee feedback related Audit Quality Measures.

	FY23	FY22	Page
<b>Audit Committee feedback – challenge</b>			
How the organisations we audit score us when asked whether our teams challenged them during the audit (out of 5)*	<b>4.3</b>	4.3	<a href="#">50</a>
<b>All audit file inspections</b>			
Percentage of the audits inspected that did not require a restatement of the financial statements or for the audit opinion to be withdrawn	<b>98%</b>	99%	<a href="#">67</a>



	FY23	FY22	Page
<b>Internal inspections</b>			
EQR audit file inspections performed**	<b>163</b>	156	<a href="#">73</a>
Percentage of the firm's Responsible Individuals covered by EQR audit file inspections**	<b>46%</b>	44%	<a href="#">73</a>
EQR audit file inspections graded 'compliant'***	<b>85% / 139</b>	87% / 135	<a href="#">73</a>
EQR audit file inspections graded 'compliant with improvement required'***	<b>9% / 15</b>	6% / 10	<a href="#">73</a>
No. of EQR audit file inspections graded 'non-compliant'***	<b>9</b>	11	<a href="#">73</a>
No. of EQR non-audit file inspections graded 'compliant'	<b>32</b>	35	<a href="#">73</a>
No. of EQR non-audit file inspections graded 'compliant with improvement required'	<b>2</b>	3	<a href="#">73</a>
No. of EQR non-audit file inspections graded 'non-compliant'	<b>1</b>	1	<a href="#">73</a>
The overall Audit Compliance Measure reviews compliance score for the year	<b>95%</b>	94%	<a href="#">74</a>
<b>External inspections</b>			
AQR file inspections graded 'good' or 'limited improvements required'**	<b>82% / 14</b>	83% / 15	<a href="#">68</a>
AQR file inspections graded 'improvements required'	<b>18% / 3</b>	17% / 3	<a href="#">68</a>
AQR file inspections graded 'significant improvements required'***	<b>0</b>	0	<a href="#">68</a>
No. of QAD file inspections graded 'good' or 'generally acceptable'	<b>90% / 9</b>	100% / 10	<a href="#">71</a>
No. of QAD file inspections graded 'improvement required'	<b>0</b>	0	<a href="#">71</a>
No. of QAD file inspections graded 'significant improvement required'	<b>10% / 1</b>	0	<a href="#">71</a>

\* In FY23 Audit Quality scoring has moved from a ten point scoring system to a five point scale. The FY22 score has been halved from 8.5 to generate a comparative.

\*\* These metrics are those which have been mutually agreed with the Policy and Reputation Group (PRG) to be disclosed in Transparency Reports. The PRG is a group made up of representatives from the seven largest UK Audit Firms that develop an understanding of evolving public interest issues and how these might be addressed to help maintain confidence in the profession to support the UK economy, and to participate constructively in shaping public policy.

## Audit Quality Indicators (AQIs)

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.

	FY23	FY22	Page
<b>Metrics from partner and staff surveys</b>			
I am encouraged to perform a high quality audit*	91%	92%	84
The teams I work with have sufficient resources to enable them to deliver quality services* <sup>1</sup>	66%	63%	-
I receive enough training and development to enable me to deliver quality audits*	77%	80%	11
My team regularly shares problems with each other in order to find effective solutions	87%	86%	84
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	79%	83%	84
I feel confident to challenge others who demonstrate behaviours that put audit quality at risk	87%	86%	11
I understand how the work I do on a day-to-day basis supports the purpose of audit	93%	93%	11
<b>External investigations</b>			
Decision notices issued against the firm by the Enforcement division of the FRC	3	2	75
Audit cases found against the firm by the Investigation Committee of the ICAEW	0	0	76

	FY23	FY22	Page
<b>Resource</b>			
Number of UK people in Audit	5,750	5,400	10
People recruited into Audit	1,539	1,355	10
Number of Responsible Individuals	339	337	10
Number of PIE Responsible Individuals <sup>2</sup>	137	N/A	-
Responsible Individual to total number of UK Audit staff ratio	5.9%	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 <sup>3</sup>	102 hours per person	95 hours per person	91
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 <sup>3</sup>	1.6m hours	1.4m hours	91
The minimum structured training hours provided to qualified audit partners and staff within the annual mandatory audit, accounting and compliance update programme* <sup>3</sup>	28 hours per person	30 hours per person	91
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) <sup>3</sup>	28-270 hours per person	30-270 hours per person	91
Digital Academy completions during the year	2,800 (Audit: 1,000)	4,900 (Audit: 1,300)	11

<sup>1</sup> Responses in relation to the question 'The teams I work with have sufficient resources to enable them to deliver quality services' include both favourable (47%) and neutral responses (19%).

<sup>2</sup> New metric this year as a result of The Public Interest Entity (PIE) Audit Registration Regulations, which took effect on 5 December 2022. The figure presented is as at 1 July 2023.

<sup>3</sup> Our training cycles follow the calendar and not the financial year, hence we have presented training metrics for the calendar year to 31 December 2022 in this report.

\* These metrics are those which have been mutually agreed with the Policy and Reputation Group (PRG) to be disclosed in Transparency Reports. The PRG is a group made up of representatives from the seven largest UK Audit Firms that develop an understanding of evolving public interest issues and how these might be addressed to help maintain confidence in the profession to support the UK economy, and to participate constructively in shaping public policy.

	FY23	FY22	Page
<b>Inclusion and diversity</b>			
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 <a href="#">page 85</a> , with specific reference to our recruitment initiatives on <a href="#">page 94</a> . We also report diversity metrics for both gender and ethnic minority, at a firmwide level, on our <a href="#">Integrated Reporting Hub</a> <sup>1</sup> .			
<b>Other quality focused activities</b>			
Consultations completed	8,327	9,588	<a href="#">62</a>
Technical panels completed	65	54	<a href="#">62</a>
Hot reviews of financial statements and reports completed	228	247	<a href="#">62</a>



<sup>1</sup> Source: <https://www.pwc.co.uk/who-we-are/reporting-hub.html>