

Restoring trust through an Audit and Assurance Policy

Developing an Audit and Assurance Policy - a summary



Trust and confidence are critical to enhancing the business environment. They help make the UK an attractive destination for foreign investment and a world leading capital market. In that context, the increasing volume of information that companies publish matters more now than ever and it is the duty of boards and audit committees to make sure that stakeholders not only have the right information to base their decisions on but that it is reliable.

Stakeholders are more frequently making decisions based on both financial and non-financial information in annual reports. Over the last year there has been unprecedented focus from investors, consumers and wider society on ESG related issues and their importance with respect to an organisation's longer term strategic planning, with users of this information demanding much more transparency and consistency.

Following their consultation on 'Restoring trust in audit and corporate governance' the Government (BEIS) is to introduce a statutory requirement for Public Interest Entities (PIEs) that have 750 or more employees and £750m or more annual turnover to publish an Audit and Assurance Policy every three years, with an annual report on changes.

There are many reasons why we think an Audit and Assurance Policy is important, which we have outlined below. We've also spoken to a number of organisations, audit committees and other stakeholders who see the clear value it would bring to the reliability of their reporting and their governance process. This is a summary of what an Audit and Assurance Policy is, why it is important and the possible steps for developing an Assurance Map as part of the Policy. We have also issued a more detailed guide to developing an Audit and Assurance Policy, which can be found [here](#).

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Why the Audit and Assurance Policy is important

- Not all reported information is based on well developed reporting standards, or subject to the same level of process and controls in relation to data gathering and application of judgement, and so may be less reliable. Having an Audit and Assurance Policy will significantly help boards and audit committees assess the reliability of that information and highlight where more work may be needed.
- It will facilitate enhanced communication and coordination within the company as it brings together different functions with a common goal (such as risk management, sustainability and internal audit) and streamlines audit committee reporting from these functions.
- It will enable richer conversations with stakeholders on the risks the company faces and the mitigations in place. Bringing together broader views on the challenges facing the company and the usefulness and reliability of reported information.
- It will substantially improve trust in the corporate reporting system by forcing companies to assess the effectiveness of their overall risk and assurance model, which will, in turn, deliver more value to the business and greater confidence that its risks are being managed and its reported information is reliable.
- An Audit and Assurance Policy will effectively be the "anchor" for a number of other important areas of reporting and governance including the company's approach to internal controls over financial reporting, resilience and fraud.

An Audit and Assurance Policy

As described above, an Audit and Assurance Policy is a way for a company to set out more clearly how the information it reports has been scrutinised. There are many ways an Audit and Assurance Policy could be structured. We don't yet know exactly what the final requirement will look like, but in their consultation, BEIS said it would include:

- An explanation of what independent assurance the company intends to obtain in the next three years in relation to the annual report and other company disclosures beyond that required by the statutory audit. This would include an explanation of what independent assurance, if any, the company plans to obtain in relation to:
 - The company's Resilience Statement, in whole or part, and other disclosures related to risk; and
 - The effectiveness of the company's internal controls framework.
- A description of the company's internal auditing and assurance processes. This might include how management conclusions and judgements in the annual report and accounts can be challenged and verified internally, and whether, and if so how, the company is proposing to strengthen its internal audit and assurance capabilities over the next three years.
- A description of what policies the company may have in relation to the tendering of external audit services (for example, whether the company is prepared to allow the external company auditor to provide permitted non-audit services).
- An explanation of whether, and if so how, shareholder and employee views have been taken into account in the formulation of the Audit and Assurance Policy.

Whatever the actual structure of an Audit and Assurance Policy, it should be transparent about the company's approach to determining how it has ensured the information it reports is reliable. The BEIS requirement that the Policy includes a description of the approach to assurance specifically over resilience and internal controls highlights the fact that the consequences of inadequate reporting or processes in these areas could be particularly significant for the future of a company.

The role of boards and audit committees

Boards and audit committees have a responsibility for all of the information published to stakeholders and a duty to make it reliable. A key part of this responsibility is the need to ensure that stakeholders are able to assess the relative risk of a company's activities and business model by having robust and relevant reporting, with appropriate processes and controls in place so that this reporting can be trusted.

There will be a number of higher level elements and policy decisions that will be important for boards and audit committees to establish upfront and maintain throughout the Audit and Assurance Policy process. These include:

- Establishing governance and ownership of the Audit and Assurance Policy - most likely the audit committee will own the Policy but others in the organisation will certainly contribute to it.
- Establishing a shared understanding of the purpose of the Audit and Assurance Policy and how it will be used.
- Understanding stakeholder expectations and how they can be factored into the Audit and Assurance Policy, for example, in determining the desired level of assurance over reported information.

The role of assurance

The provision of assurance (whether from internal or external sources) can aid confidence in a company's reported information and wider risk environment – it provides challenge to the reporting process to ensure the information is completely and accurately captured and transparently reported. In some instances, assurance is required by regulation, but in many other areas it can be commissioned at the company's discretion and therefore judgement is required to determine if and where additional assurance may be needed. There is no 'one size fits all' approach; the context of each company is unique and boards should respond accordingly.

Not all reporting requires fully independent assurance; in some cases a review performed by an internal audit function may provide the desired level of confidence.

However, in other instances the importance of the subject matter to shareholders may drive the need for a company to consider obtaining a level of independent assurance that demonstrates a recognition of that significance to stakeholders.



More than simply a disclosure - integrating risk and assurance

An Audit and Assurance Policy is an opportunity for organisations to reconsider the effectiveness of their overall risk and assurance model. For example, while many organisations have strong governance and assurance over their key business risks, new risk areas such as cyber and climate pose different challenges and the assurance approach is therefore less well developed. Taking a more holistic view of risk and assurance activities should deliver more value to the business and greater confidence that its risks are being appropriately managed.

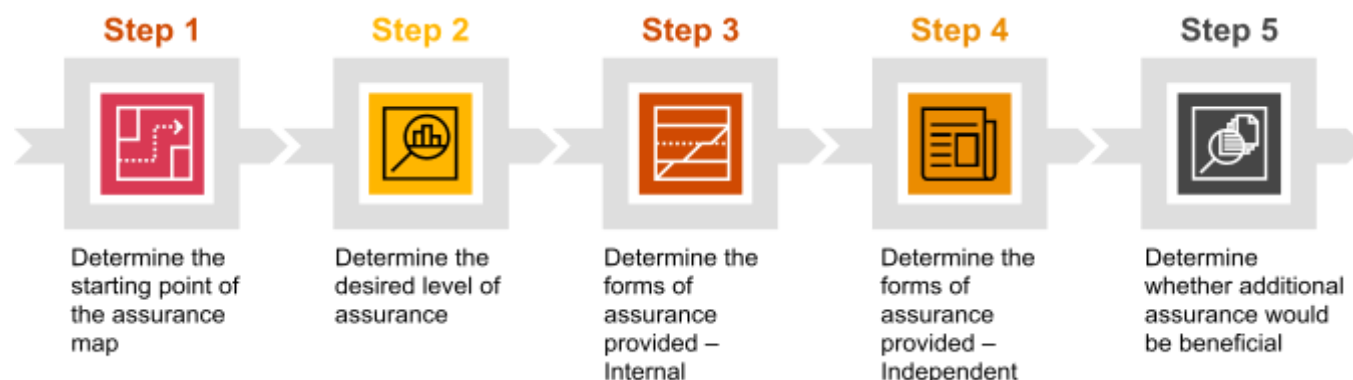
An integrated risk and assurance model helps organisations to ensure that assurance activities are focused on areas of greatest risk; that they are adaptable to the changing risk landscape; and that assurance type, coverage, depth, and quality are all fit-for-purpose with no duplication or gaps. Technology and data have also become important pillars in the provision of effective assurance.

An effective integrated risk and assurance model is underpinned by a robust risk management framework and an understanding of risk appetite and will employ a range of internal and external assurance providers to deliver confidence that controls and other risk mitigation activities are working as expected.

An Assurance Map - A key element of an Audit and Assurance Policy

A key element of an Audit and Assurance Policy is to explain the company's approach to obtaining independent assurance in relation to the annual report and other company disclosures. One way to do this is through an Assurance Map that enables companies to outline their most important reported information and 'map' this to the form of assurance provided over it, either directly or through assuring the controls and process in place to ensure the information is reliable and the risks mitigated.

5 steps to creating an Assurance Map:



In our more detailed guide to developing an Audit and Assurance Policy, available [here](#), we provide more details behind each of these steps, as well as an illustrative example of what the outcome might look like.

Key considerations for each step:

Step 1 - Principal risk disclosures and related KPIs would be a good starting point. Also any information that is important to the company's reputation or of broader interest, e.g. ESG disclosures. Remember also the BEIS consultation requires an explanation of the approach to independent assurance over the internal control reporting and the Resilience Statement.

Step 2 - There are a number of different levels of assurance, with the statutory audit being most well known. Other types of independent assurance include that provided under ISAE 3000 over non-financial information. Internal processes and controls might also contribute to the Assurance Map to the extent they provide comfort over the reported information. The desired level of assurance will come down to judgement, but consideration should be given to how important the information is to stakeholders, how much is it relied upon, what is the risk of misstatement or bias and whether it is subject to estimation or uncertainty.

Step 3 - The Line of Defence model is a way to make sure systems and processes are established to manage risks. It is also a useful way to determine the level of internal assurance provided over reported information.

Step 4 - There is a broad range of possible independent assurance providers and forms of assurance. It will be important to engage with assurance providers to understand the scope, frequency and form of assurance provided.

Step 5 - The final step would be to compare internal and independent assurance provided to the desired level of assurance to see if additional assurance would be beneficial (or indeed if excess assurance is being provided) and to determine the appropriate provider and timeline.



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