

# Audit quality

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# Audit quality

Quality remains our top priority and the firm's governance plays a critical role in supporting the delivery of consistently high quality audits. We are focused on performing audits that meet the needs of investors, the organisations we audit and wider stakeholders.

The Audit LoS strategy and the operational activities of the Audit LoS drive our focus on quality. Our Annual Audit Quality Plan (AQP) sets out our core processes and controls that support audit quality, and flags any areas of significant focus or change each year. Our AQP is aligned to the five pillars of the audit strategy: Quality; Passionate People; Technology and Transformation; Commercials and Responsible Growth. These are underpinned by our audit culture and behaviours which are fundamentally important to achieving high quality.

Our system of quality management (SoQM) is designed, implemented and operates on an ongoing basis to achieve our quality objectives. This process includes monitoring, assessing, evaluating, reporting, and being responsive to changes in quality risks, driven by the firm's internal and external environment.

Internal monitoring is an integral part of the SoQM. This includes our ECR programme, used to assess whether engagements are performed in accordance with relevant standards, and our QMSE programme, where the firm conducts its own review of its compliance with policies and procedures each year, reviewed annually by the firm's regulators, and also by a PwC Network team independent of PwC UK.

PwC UK is subject to monitoring by a number of regulatory authorities. 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.

Measuring and assessing audit quality is fundamentally important. 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: inspection results (both internal and external); the pride our people feel in the quality of our work; and the average score the organisations we audit give to our overall audit quality.

We believe that using Audit Quality Measures (AQMs) and our Audit Quality Indicators (AQIs) together helps stakeholders to understand an audit firm's approach to, and progress with, audit quality. 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.

## Audit Quality Measures

84%

FY23: 85%

The percentage of audit files inspected through Audit Quality Review (AQR), Quality Assurance Department (QAD) and Engagement Compliance Review (ECR) inspection processes that were rated good or limited improvements required (or equivalent rating).

4.6/5

FY23: 4.5/5

The average score audit committees and those charged with governance rated our overall audit quality.

87%

FY23: 86%

The percentage of respondents to our annual audit culture survey who feel proud of the quality of our audit work.

# Our audit methodology

## Audit methodology

PwC UK operates Audit as a separate, standalone Line of Service that delivers audit and non-audit 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.

There are 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. Any 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 themes, 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 and guidance setting out the circumstances under which consultation on accounting, auditing and risk management matters is either mandatory or discretionary. 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, in situations where formal consultation is not required. This consultation culture is supported by the firm's Chief Auditor Network, who field informal consultations and host bitesize sessions based on recurring themes noted.

We use a consultation database within Audit that has been specifically designed to aid the consultation process, ensuring the 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, as set out on [page 41](#).

During the year, 7,438 consultations were completed (FY23: 8,327). There are a number of factors giving rise to the year on year change in the number of consultations including, but not limited to:

- further automation of administrative processes that previously required an engagement team to submit a consultation;
- the continuing maturity of the Chief Auditor Network in answering more straightforward or informal questions; and
- the current year being impacted less by changes to auditing standards. Whilst FY24 did include the implementation of ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220 (Revised), FY23 included the implementation of ISA (UK) 315 (Revised), which had a more significant impact on our audit methodology, leading to a greater number of consultations.

## 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' consistency 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 and have no set criteria. The reviews are flexible but primarily focusing on risk assessment, the resolution of judgemental matters and our reporting to those charged with governance. On occasion this will involve a more in-depth review of detailed audit working papers.

233 hot reviews of financial statements and reports were completed during the year (FY23: 228).

We continue to monitor our processes and controls in regards to hot reviews and amend these processes as deemed appropriate to ensure the hot review process meets its objective of supporting audit engagement teams.

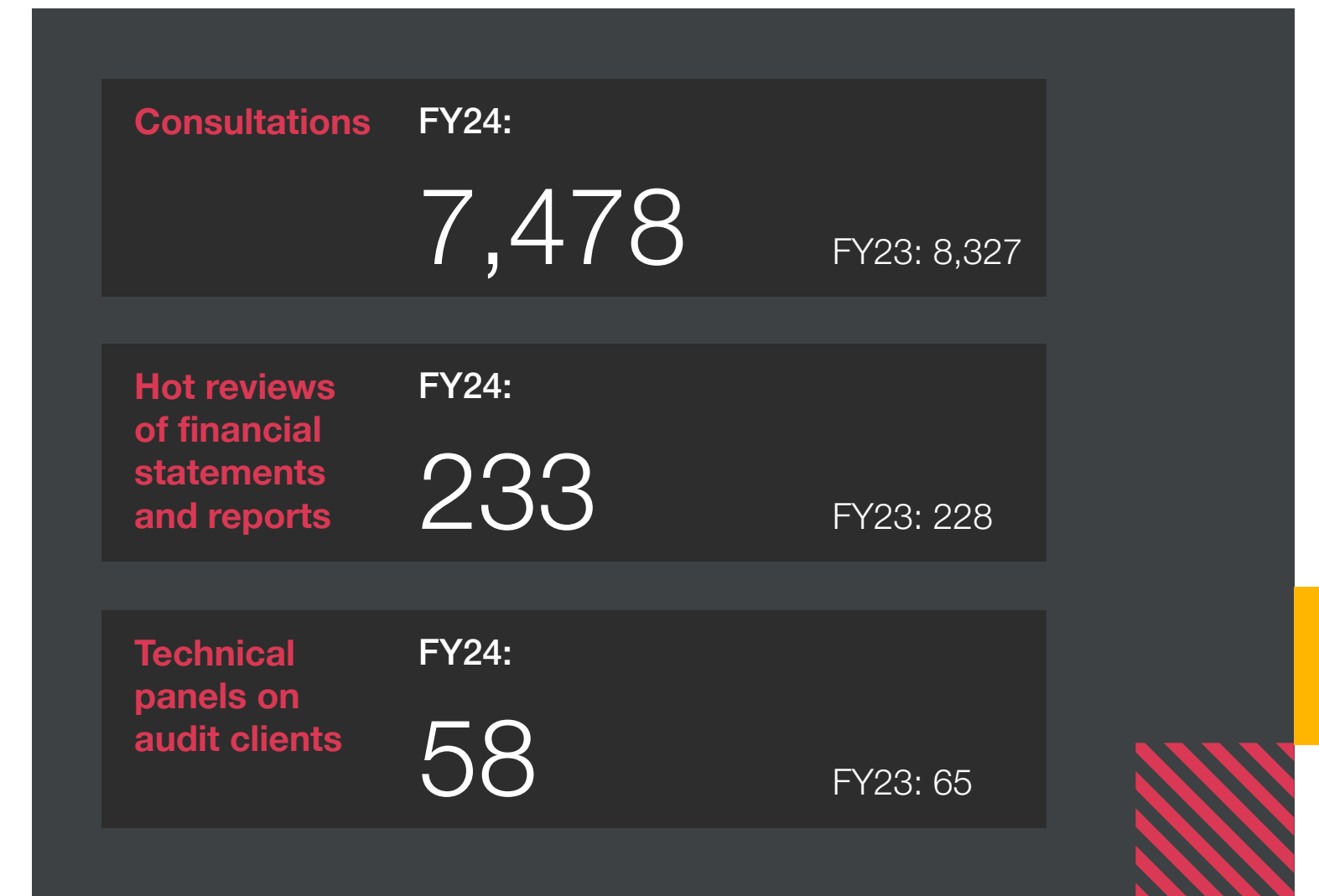


## Technical panels

Engagement leaders may consult a panel of experienced client-facing partners and technical experts where an engagement has particular complexities, risk characteristics or auditing or accounting areas requiring significant judgement. For example, in situations where potential uncertainty exists around an organisation's going concern or impairment assessment, specialists in particular audit or industry areas may be consulted through a technical panel.

During the year ended 30 June 2024, 58 (FY23: 65) 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 potential 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 performed, 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;
- 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;

- driving a cultural mindset that strives for continuous quality improvement by challenging engagement team members to think, analyse, question and be rigorous in their approach. Engagement leaders display, and challenge engagement team members to display, the PwC Audit Behaviours, and they also embody the experiences of our people in how the team delivers the audit and applies professional scepticism;
- 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;
- reporting the findings of the audit to those charged with governance in accordance with relevant standards and requirements;
- 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 displaying and challenging engagement team members to consistently demonstrate 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 of our people 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;
- 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 ongoing basis thereafter.

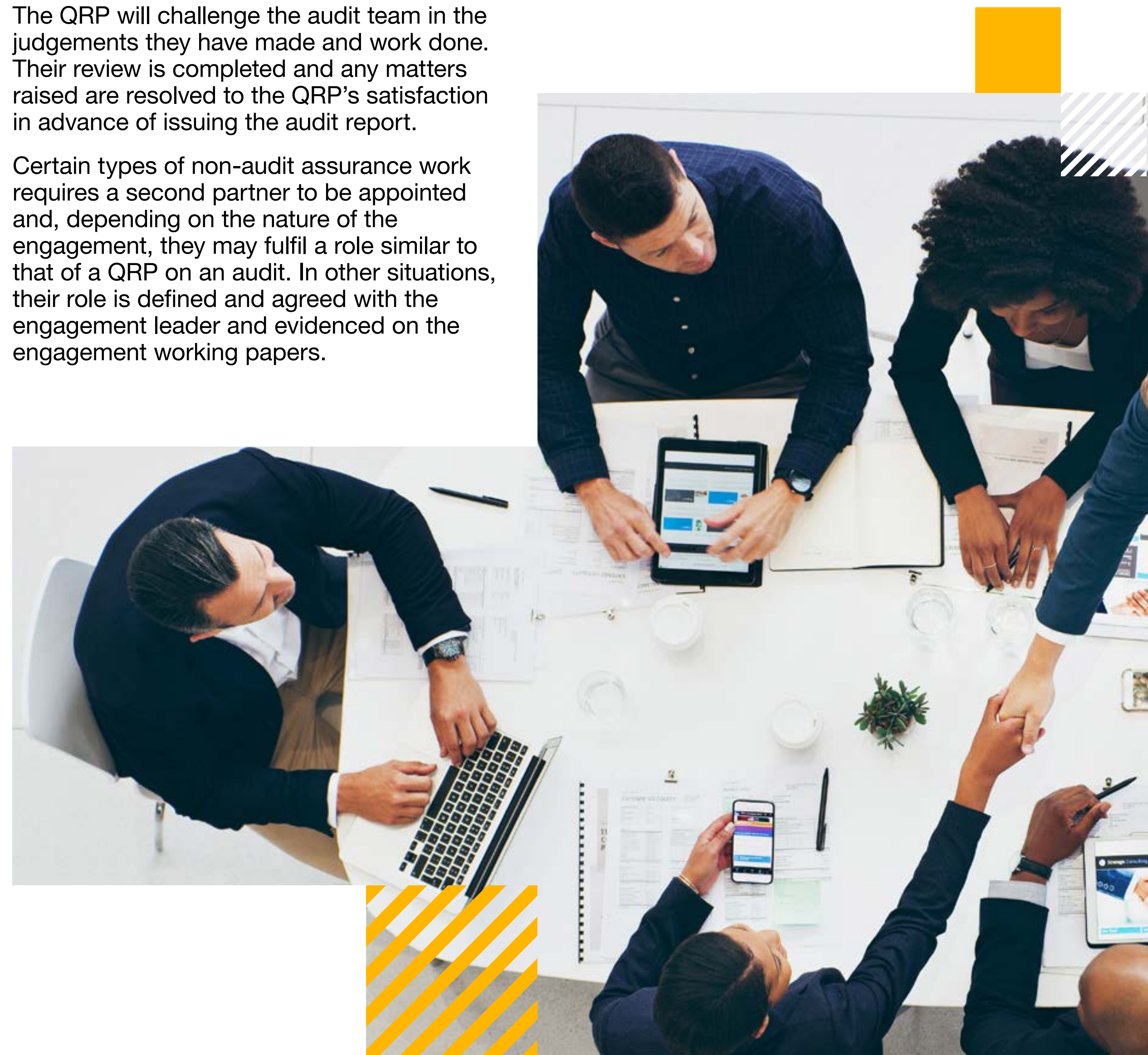
QRPs are appointed to an engagement based on their experience and expertise. The QRP is responsible for reviewing key aspects of the audit including independence, significant risks and responses to these risks, critical auditing and accounting judgements, uncorrected misstatements, documentation of workdone 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. In addition, 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 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.

Certain types of non-audit assurance work requires a second partner to be appointed and, depending on the nature of the engagement, they 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 engagement working papers.



## New standards

We continued to reflect on the lessons learned from the process of implementing ISA (UK) 315 (Revised) and the suite of quality management standards ISQM (UK) 1, ISQM (UK) 2 and ISA (UK) 220 (Revised) in the previous years.

We have invested significant time in the year preparing for the implementation of ISA (UK) 600 (Revised), which is effective for audits of financial statements for periods commencing on or after 15 December 2023. Our work has included revising Aura Platinum workpapers and sections within the PwC Audit Guide to respond to the new Group Audit requirements. Our Chief Auditor Network (CAN) has been upskilled to be able to work in tandem with ARQ to support engagement teams to meet the requirements of ISA (UK) 600 (Revised).

ISA (UK) 600 (Revised) forms a key part of our flagship External Auditor Training programme in 2024, with our people being trained in the classroom on the changes to our methodology as a result of the revised standard. This will be supplemented by e-learns, and planned workshops run out of the CAN.

## 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 twelve years after the balance sheet date where required by applicable law/standards.

## Engagement conversations

PwC UK operates a programme of obtaining direct feedback from the organisations we audit 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.



# Audit Quality Measures (AQMs) and Audit Quality Indicators (AQIs)

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 (AQIs) 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 practice, 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 audit quality management.
- Externally, we use AQIs to provide information to the users of audit services and wider stakeholders to enable a richer discussion about what constitutes both a high quality audit and a high quality audit practice. 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 continued to engage positively with the FRC through 2023/24 in relation to external AQIs and the reporting of a consistent, publicly disclosed set of firm level AQI metrics. We have submitted our first set of AQIs to the FRC in June 2024 as part of the pilot year private reporting process and will continue to work closely with them on any feedback coming out of this submission 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)

#### Inspection results

The percentage of audit files inspected through AQR, QAD and ECR inspection processes that were rated good or limited improvements required (or equivalent rating).

84%

▼ FY23: 85%

#### Audit Committee feedback

The average score audit committees and those charged with governance rated our overall audit quality.

4.6/5

▲ FY23: 4.5/5

#### Our people's view

The percentage of respondents to our annual audit culture survey who feel proud of the quality of our audit work.

87%

▲ FY23: 86%



## Supporting data

In addition to the inspection and audit committee feedback related Audit Quality Measures, we present below further supporting data referenced elsewhere in this report.

|  | FY24       | FY23 | 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="#">67</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> | 98%  | <a href="#">52</a> |



|  | FY24             | FY23      | Page               |
|--|------------------|-----------|--------------------|
| <b>Internal inspections</b>  |                  |           |                    |
| ECR audit file inspections performed*  | <b>151</b>       | 163       | <a href="#">67</a> |
| Percentage of the firm's Responsible Individuals covered by ECR audit file inspections <sup>1*</sup> | <b>42%</b>       | 47%       | <a href="#">67</a> |
| ECR audit file inspections graded 'compliant'*   | <b>84% / 127</b> | 85% / 139 | <a href="#">67</a> |
| ECR audit file inspections graded 'compliant with improvement required'*                             | <b>8% / 12</b>   | 9% / 15   | <a href="#">67</a> |
| No. of ECR audit file inspections graded 'non-compliant'*  | <b>8% / 12</b>   | 6% / 9    | <a href="#">67</a> |
| No. of ECR non-audit file inspections graded 'compliant'   | <b>76% / 25</b>  | 91% / 32  | <a href="#">67</a> |
| No. of ECR non-audit file inspections graded 'compliant with improvement required'                   | <b>15% / 5</b>   | 6% / 2    | <a href="#">67</a> |
| No. of ECR non-audit file inspections graded 'non-compliant'   | <b>9% / 3</b>    | 3% / 1    | <a href="#">67</a> |
| The overall Audit Compliance Measure reviews compliance score for the year                           | <b>94%</b>       | 95%       | <a href="#">51</a> |
| <b>External inspections</b>  |                  |           |                    |
| AQR file inspections graded 'good' or 'limited improvements required'*                               | <b>76% / 13</b>  | 82% / 14  | <a href="#">53</a> |
| AQR file inspections graded 'improvements required'  | <b>24% / 4</b>   | 18% / 3   | <a href="#">53</a> |
| AQR file inspections graded 'significant improvements required'*                                     | <b>0</b>         | 0         | <a href="#">53</a> |
| No. of QAD file inspections graded 'good' or 'generally acceptable'                                  | <b>100% / 10</b> | 90% / 9   | <a href="#">55</a> |
| No. of QAD file inspections graded 'improvement required'  | <b>0</b>         | 0         | <a href="#">55</a> |
| No. of QAD file inspections graded 'significant improvement required'                                | <b>0</b>         | 10%/1     | <a href="#">55</a> |

\* 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.

<sup>1</sup> For FY24 we have updated our methodology and presentation to align with proposed FRC AQL.

## 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 PRG to be disclosed in Transparency Reports.

|  | FY24         | FY23               | Page               |
|--|--------------|--------------------|--------------------|
| <b>Metrics from partner and staff surveys</b>  |              |                    |                    |
| I am encouraged to perform a high quality audit  | <b>93%</b>   | 91%                | <a href="#">74</a> |
| I am/my team is allocated sufficient time and resources to perform quality work* <sup>2</sup>  | <b>73%</b>   | 59%                | -                  |
| I receive enough training and development to enable me to deliver quality audits* <sup>3</sup>   | <b>81%</b>   | 77%                | -                  |
| My team regularly shares problems with each other in order to find effective solutions   | <b>88%</b>   | 87%                | <a href="#">74</a> |
| 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 | <b>82%</b>   | 79%                | -                  |
| I feel confident to challenge others who demonstrate behaviours that put audit quality at risk   | <b>84%</b>   | 87%                | <a href="#">74</a> |
| I understand how the work I do on a day-to-day basis supports the purpose of audit and assurance <sup>4</sup>                                      | <b>94%</b>   | 93%                | <a href="#">74</a> |
| <b>External investigations</b>   |              |                    |                    |
| Decision notices issued against the firm by the Enforcement division of the FRC  | <b>1</b>     | 3                  | <a href="#">57</a> |
| Audit cases found against the firm by the Investigation Committee of the ICAEW   | <b>0</b>     | 0                  | <a href="#">58</a> |
| <b>Resource</b>  |              |                    |                    |
| Number of UK people in Audit   | <b>6,176</b> | 5,924 <sup>5</sup> | -                  |
| People recruited into Audit  | <b>1,314</b> | 1,539              | -                  |
| Number of Responsible Individuals <sup>6</sup>   | <b>352</b>   | 339                | -                  |
| Number of PIE Responsible Individuals <sup>7</sup>   | <b>141</b>   | 137                | -                  |
| Ratio of staff to Partner and Directors in the Audit LoS <sup>8</sup>  | <b>14:1</b>  | 13:1               | -                  |

|  | FY24                        | FY23                 | Page               |
|--|-----------------------------|----------------------|--------------------|
| <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> | <b>90 hours per person</b>  | 102 hours per person | <a href="#">79</a> |
| 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>             | <b>1.6m hours</b>           | 1.6m hours           | <a href="#">79</a> |
| 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>                 | <b>18 hours per person</b>  | 28 hours per person  | <a href="#">79</a> |
| Digital Academy completions during the year <sup>3</sup>   | <b>2,000 (Audit: 1,000)</b> | 2,800 (Audit: 1,000) | <a href="#">79</a> |

\* 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.

<sup>2</sup> Responses in relation to the question 'I am/my team is allocated sufficient time and resources to perform quality work' include both favourable 53% (FY23: 40%) and neutral responses 20% (FY23: 19%).

<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 2023 in this report.

<sup>4</sup> The wording of this question was updated in FY24 to 'audit and assurance' to reflect the range of work performed by our people.

<sup>5</sup> FY23 headcount figures have been restated to align methodology with other people-related data in the Transparency Report and other public reporting.

<sup>6</sup> ICAEW registered at 1 July 2024.

<sup>7</sup> FRC registered at 1 July 2024.

<sup>8</sup> Note 'staff' includes our Distributed Delivery Model (p.83)

|  | FY24         | FY23  | 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 86</a> , with specific reference to our recruitment initiatives on <a href="#">page 81</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>9</sup> . Detailed below is our gender and ethnic minority metrics for the audit partnership, who play a key role in creating a diverse and inclusive culture. |              |       |                    |
| Percentage of individuals in the audit partnership that are Female   | <b>31%</b>   | 30%   | <a href="#">86</a> |
| Percentage of individuals in the audit partnership that are Ethnic Minorities  | <b>11%</b>   | 11%   | <a href="#">86</a> |
| <b>Other quality focused activities</b>  |              |       |                    |
| Consultations completed  | <b>7,478</b> | 8,327 | <a href="#">42</a> |
| Technical panels completed   | <b>58</b>    | 65    | <a href="#">42</a> |
| Hot reviews of financial statements and reports completed  | <b>233</b>   | 228   | <a href="#">42</a> |

<sup>9</sup> Source: <https://www.pwc.co.uk/who-we-are/reporting-hub.html>



# Audit Compliance Measures (ACMs)

The Audit Compliance Measures (ACMs), which assess compliance against quality measures at an engagement level, are set each year to take account of matters arising from regulatory reviews and the previous year's ECR findings. This ensures 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.

The ACM checklist for FY24 contained 12 specific areas, 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. Up to two files for each audit engagement leader are assessed each year and the results are moderated at both a Business Unit and a LoS level. Engagement leaders include the results of ACM reviews in their annual Risk & Quality self-assessment.

The overall metrics for the Audit LoS are reported to the Executive Board. The overall ACM compliance score for the year ended 30 June 2024 was 94.1% (FY23: 94.6%).

These results are analysed by specific questions, as well as by Business Unit, and the results are used to inform the basis of amendments to policies, procedures and training materials.



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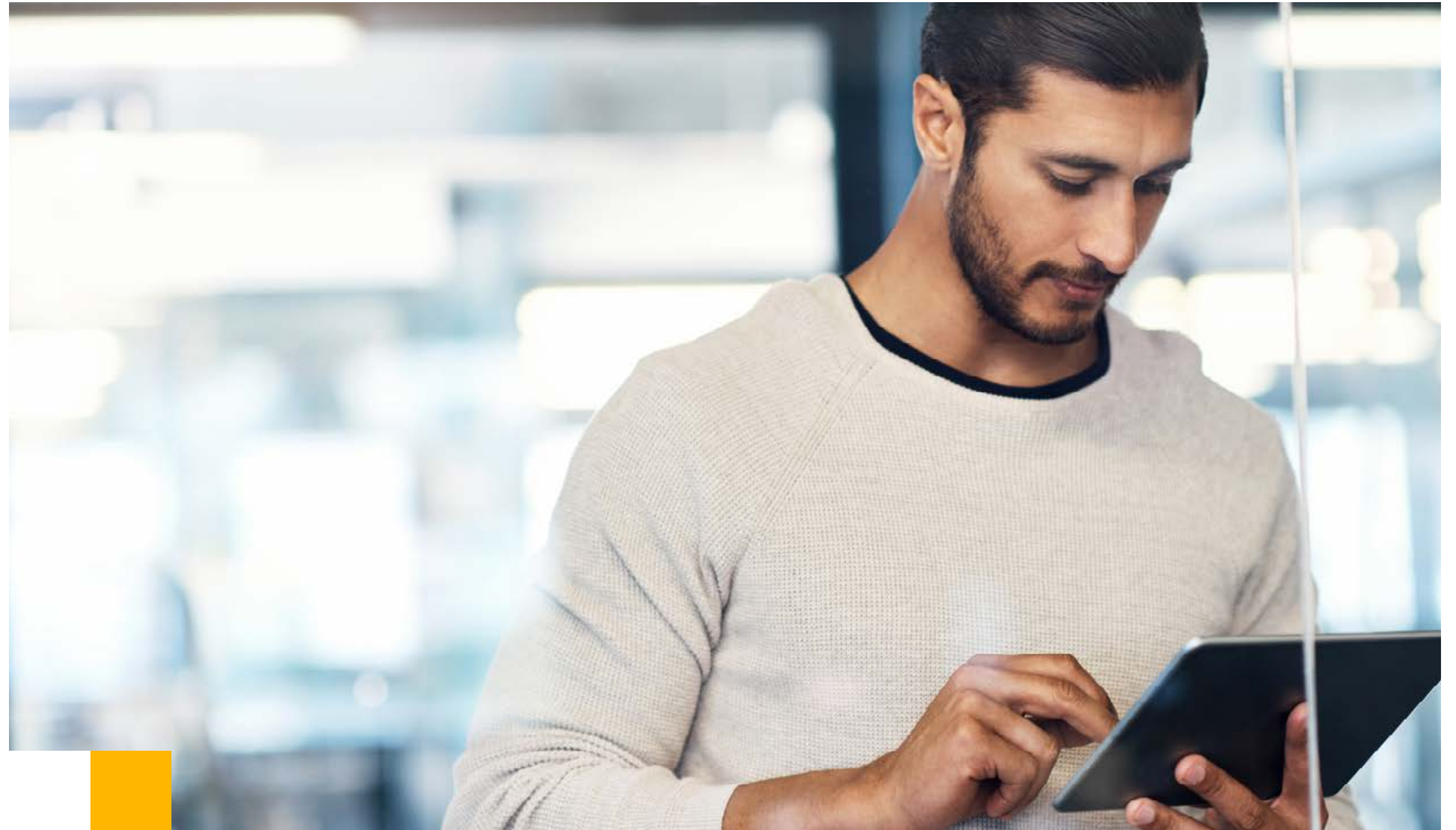
# External inspections

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 Supervision Division team undertakes inspections of the quality of the firm's work as statutory auditors of Public Interest and other entities, and reviews 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-FRC PIE audits.

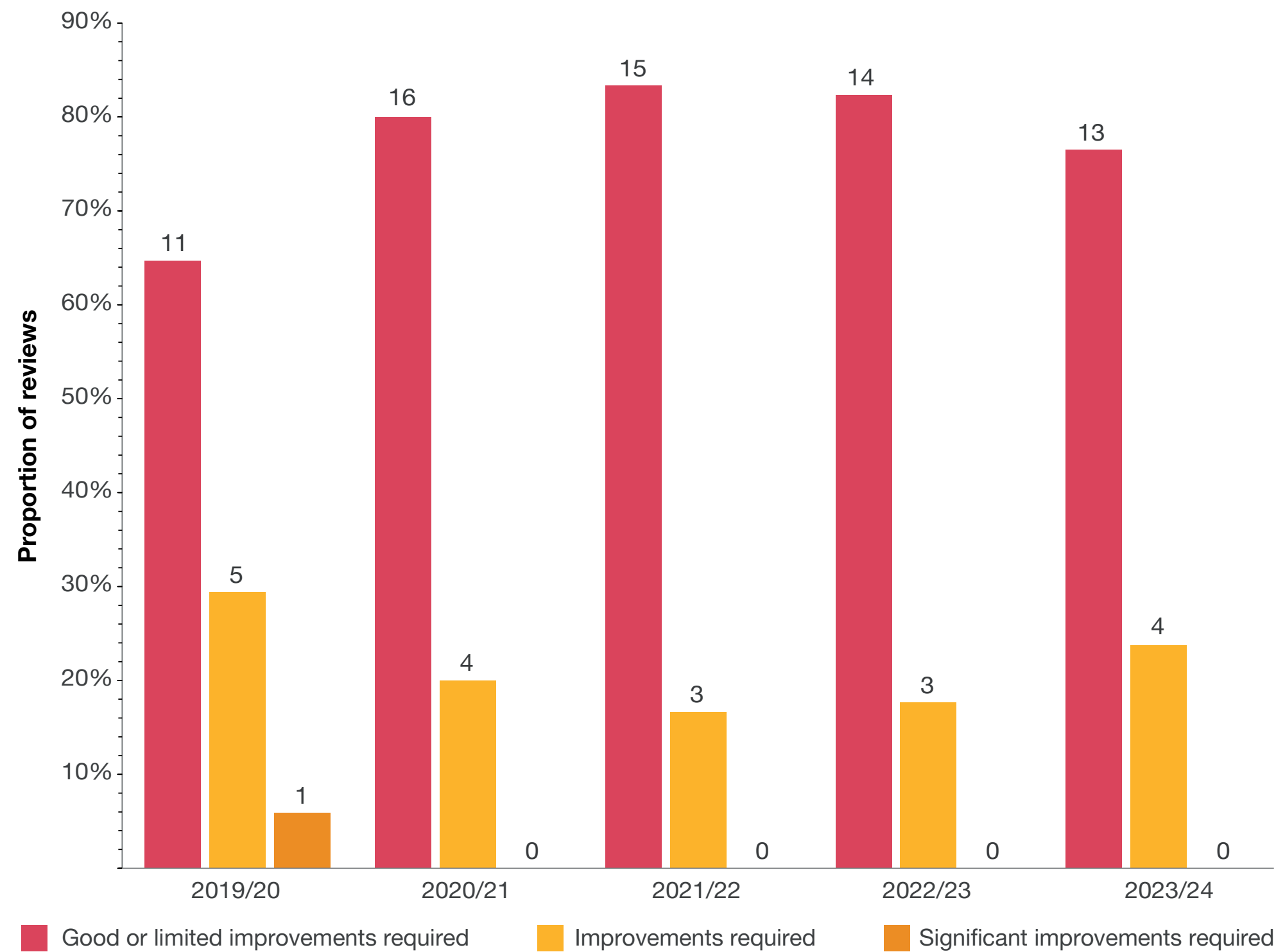
The Audit Registration Committee of the ICAEW (ARC) considers the findings arising from the most recent FRC and QAD inspection reports as part of their annual consideration of the firm's UK audit registration. The ARC also considers the UK firm's registrations as a recognised auditor in Jersey, Guernsey and the Isle of Man.



## FRC – Audit Quality Inspection and Supervision Report

The FRC issued its 2023/24 Audit Quality Inspection and Supervision Report on PwC UK on 30 July 2024. Alongside the results of the FRC Supervision activities, including the Audit Quality Review (AQR) inspection, Audit Market Supervision (AMS) reviews and observations from the Audit Firm Supervision team, the report also included the firm’s own 2023 internal quality monitoring results and those of the 2023 annual QAD inspection.

### FRC Inspection Results 2019/20 – 2023/24 PwC – All reviews



Source: [https://media.frc.org.uk/documents/PricewaterhouseCoopers LLP Audit Quality Inspection and Supervision Report 2024.pdf](https://media.frc.org.uk/documents/PricewaterhouseCoopers%20LLP%20Audit%20Quality%20Inspection%20and%20Supervision%20Report%202024.pdf)

The 2023/24 AQR inspection comprised reviews of 17 (2022/23: 17) individual audit engagements. Of the 17 audits reviewed in the 2023/24 cycle, the AQR assessed that:

- 76% or 13 audits (82% or 14 audits in 2022/23) were graded ‘good or limited improvements required’;
- 24% or four audits (18% or three audits in 2022/23) were graded as ‘improvements required’; and
- no audits (no audits in 2022/23) had ‘significant improvements required’.

We continue to prioritise audit quality and appreciate the insights shared by the FRC during its inspection processes. We are focused on delivering consistently high quality audits that meet the needs of investors, the organisations we audit and wider stakeholders. We are grateful for the continued efforts of our audit teams in seeking to achieve our quality objectives.

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

- improve the audit of inventory;
- improve aspects of the audit of impairment and valuation of non-current assets, in particular relating to forecasts; and
- improve the audit of the carrying value of investments in subsidiary undertakings (parent company).

Whilst our AQR audit inspection outcomes are consistent with the last few years, we recognise some inconsistency remains and more can be done to address specific matters driving lower inspection outcomes and in the areas reported as key findings. We continue to understand and learn from the AQR inspection findings and other reviews through our established RCA process. Responsive actions have been identified and incorporated into our SQP.

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 an area where the AQR have also reported findings. We will continue to utilise these examples within our mandatory training programmes.

The FRC AMS team also reported on their review of the firm’s system of quality management (SoQM) following ISQM (UK) 1 coming into effect on 15 December 2022. The inspection cycle also included transitional inspection activity relating to ISQC (UK) 1.

The FRC AMS team concluded that the firm has invested considerable effort into implementing the new standard, including early adoption of most elements, and has already begun the iterative process of improving and refining it, including in response to FRC feedback.

The following areas were reviewed with key findings and areas of good practice reported where relevant:

**ISQM (UK) 1 – Risk Assessment, Governance and Leadership, Acceptance and Continuance, Monitoring and Remediation and Annual Evaluation:**

The AMS team undertook a focused review of the firm’s implementation of ISQM (UK) 1, focusing on risk assessment, risk completeness, the design and implementation of responses to mitigate quality risks in certain areas, and the monitoring procedures over these responses and the attainment of the firm’s quality objectives. The FRC also reviewed the process, evidence, and outcome for the firm’s annual evaluation of its SoQM. The key findings relating to this review were:

- **Monitoring procedures:** In the small sample reviewed, for the monitoring of the elements of responses with high level of judgement, the firm did not adequately demonstrate how a robust review was performed. The AMS team reported that they had seen this being enhanced in the more recent monitoring process.
- **Assessment of other sources of findings in the annual assessment:** The firm considered other sources of findings including those relating to ethics and independence matters and root causes from audit file inspections on an individual basis.

The firm did not sufficiently justify its conclusion that these individual inputs did not aggregate to a level requiring the identification of additional quality deficiencies or require amendments to risk responses. The AMS team reported that they understood that the firm will further aggregate these inputs in its 2024 annual evaluation.

The AMS team review also identified areas of good practice. These included the evidence of robust design assessments which included mapping responses to specific elements within each risk and clear analysis of relevant design factors; and the granularity of response descriptions which identifies the specific response elements that must operate. This contributed to a structured monitoring approach.

**Compliance with the FRC Revised Ethical Standard 2019:** The AMS team evaluated the firm’s compliance with the Ethical Standard, focusing on non-audit services. The key findings related to the firm’s controls not preventing or detecting the provision of a non-audit service provided to an Other Entity of Public Interest (OEPI) and an overseas component audit team not confirming compliance with the Ethical Standard to the group audit team. The AMS team welcomed the firm’s commitment to trial exception reporting of non-audit service approvals to FRC PIE/OEPIs to identify where the service is not on the permitted service list.

**Training and methodology:** No key findings were identified by the AMS team. The report outlines two areas of good practice: the detailed analysis performed over training pass rates for course assessments, and the audit file technology used to identify updates to standard audit procedures.

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. These actions have also been incorporated into our SQP.

The FRC report also sets out the FRC AMS team’s observations relating to their forward looking supervision activities, including in respect of: the firm’s Single Quality Plan and other quality initiatives; Root Cause Analysis; Continuous engagement and on holding the firm to account; and Emerging risks and trends. The firm was not subject to increased supervisory activities during the year.

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

- continue their inspection of completed audits and how the firm is developing its SoQM, including in response to the inspection findings;
- maintain their review of the SQP using it to monitor the actions taken to improve audit quality, their effectiveness (over the long and short term) and the use of the SQP in complying with ISQM (UK) 1; and

- continue to monitor and assess the firm’s initiatives in relation to audit quality, in particular those in relation to resourcing, culture, conduct and ethics and where plans are refreshed or reinvigorated.

The AMS team also conducted four audit thematic reviews at Tier 1 firms to complement their monitoring of ISQM (UK) 1. These reviews were: Sampling; Hot Reviews; Network Resources and Service Providers; and Root Cause Analysis. Published reviews are available on the [FRC website](#)<sup>1</sup>.

The Audit Firm Supervision team has also considered: the Firm’s Single Quality plan and other quality initiatives; Root Cause Analysis; Continuous Engagement and holding the firm to account; and Emerging risks and trends; and provided the Firm with a number of observations and good practice.

Copies of the FRC Audit Quality Inspection and Supervision report on PwC UK are available on the [FRC website](#)<sup>1</sup>.

<sup>1</sup> Source: <https://www.frc.org.uk/library/supervision/audit-firm-specific-reports/>



## ICAEW – QAD inspection

The QAD audit engagement 2023 inspection results were published within the FRC’s Audit Quality Inspection and Supervision report on the firm on 30 July 2024. They will also be included within the ICAEW’s 2024 Audit Monitoring report, expected to be released in Autumn 2024.

The 2023 QAD inspection comprised standard scope reviews of ten (2022: ten) individual audit engagements, of which:

- Ten audits (nine in 2022) were assessed as ‘good or generally acceptable’;
- No audits (none in 2022) were graded as ‘improvement required’; and
- No audits (one in 2022) was graded as ‘significant improvement required’.

We are pleased that the QAD concluded that overall the work reviewed was of a good standard. All ten files were either good or generally acceptable, with no significant issues arising. The report did not include any key findings. A number of good practice examples were identified in the audit files reviewed. These included examples of: comprehensive documentation including internal consultations, interactions with component auditors and consideration of impairment risks; evidence of challenge of management on accounting matters; and high quality risk assessments informing the audit work undertaken.

## Local Audit monitoring

The AQR did not undertake any Local Audits inspections at PwC as part of the 2023/24 cycle.

## ATOL inspections

As an Air Travel Organisers License (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 2023/24.

## 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, where relevant, audit engagement teams meet with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) on a regular basis. We also have a duty, for example, to report to the PRA and FCA in respect of matters set out in the Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001, and to report to the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for Northern Ireland matters required by applicable charities legislation.

We also engage with the PRA and FCA through other roles including reporting as a skilled person under S166 of the Financial Services and Markets Act 2000 and Client Asset/Client Money reporting, as set out in the FCA’s Supervision Manual. Additionally, PwC LLP is authorised and regulated by the FCA for, inter alia, designated investment business and consumer credit related activity; details of our status can be viewed on the [FRC website](http://www.frc.org.uk/)<sup>1</sup> under firm reference number 221411.

We also work with management of the organisations we audit to enable them to assist the Corporate Reporting Review team of the FRC in their work monitoring public company reporting.

## Canadian Public Accountability Board

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

## The Crown Dependencies

Under arrangements with the relevant regulatory authorities in the Crown Dependencies, the FRC undertakes the review of relevant audits performed by PwC UK of the financial statements of certain entities registered in the Crown Dependencies. In their 2023 inspection of PwC UK, no such audits were reviewed by the FRC.

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



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## Public Company Accounting Oversight Board

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

The PCAOB commenced its most recent triennial inspection of PwC UK in September 2023, in cooperation with the AQR. The inspection covered two FPI engagements and one UK component of a US listed company. The PCAOB has not yet published its final inspection report but we have not been made aware of any inspection comments on the three engagements inspected. We will report the results of the inspection when available.



# Audit investigations

PwC's Office of General Counsel (OGC) manages any Troublesome Practice Matters (TPMs) on behalf of the firm which may arise in relation to completed audits. The Audit Risk & Quality Investigations (ARQI) team assists with resolving any such TPMs, by acting as internal experts who review and assess the quality of audit work under enquiry/ investigation under the instruction of OGC. TPMs may include FRC regulatory enquiries and enforcement actions, investigations by other regulatory agencies, including ICAEW enquiries, as well as at times, overseas agencies, and, in some cases, matters raised by clients and in connection with litigation.

Having an established ARQI 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, including our regulators, to progress matters efficiently and effectively.

Where appropriate, we 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 also accept criticism. We recognise and accept identified shortcomings in our audit work, and acknowledge when our work falls below the professional standards expected of us and that we demand of ourselves. We learn lessons and take remedial actions to address matters raised.

## FRC enforcement 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, many of which are publicly announced. As at 30 June 2024, we have the following FRC investigations which have been publicly announced:

- Babcock International Group plc, for the years ended 31 March 2019 and 31 March 2020; and
- Wyelands Bank plc for the year ended 30 April 2019.

In the year to 30 June 2024, there has been one (2023: three) FRC Final Decision Notice issued against the firm following an investigation by the FRC Enforcement division.

- In May 2024, the FRC published the outcome of its investigation into our audit of London Capital & Finance plc for the financial year ended 30 April 2016. The firm received a financial sanction of £7m, adjusted for admissions and early disposal to £4.9m, and non-financial sanctions which comprised a Severe Reprimand, a declaration that the Audit Report did not satisfy the Relevant Requirements and an order requiring PwC to take specified action, namely to:
  - report to the FRC on the root causes of the breaches, the measures already taken to address the root causes and the effectiveness of those measures, and any further measures that could be taken to prevent a recurrence; and
  - implement and assess the effectiveness of such further measures, as agreed with the FRC.

The Final Decision Notice applicable to this case is available on the [FRC website](#)<sup>1</sup>.

In addition, there was one investigation that was closed without action by the FRC Enforcement division.

- In December 2023, the FRC announced the closure of its investigation in relation to our audits of the consolidated financial statements of Intu Properties plc for the years ended 31 December 2017 and 31 December 2018. The FRC determined that in the circumstances of this case, the relevant person(s) should no longer be liable for Enforcement Action.



<sup>1</sup> Source: <https://www.frc.org.uk/library/enforcement/enforcement-cases/outcomes/>

## FCA investigation

The Financial Conduct Authority (FCA) regulates the financial services industry in the UK and under the Financial Services and Markets Act 2000 (Communications by Auditors) Regulations 2001 (SI 2001/2587) auditors have certain reporting obligations. The FCA investigated PwC's 2016 audit of London Capital & Finance (LCF) and found that the firm failed to report to the regulator the belief that LCF might be involved in fraudulent activity. The firm was fined £15m. The breach was found to not be reckless or deliberate.

The FCA investigation concluded in August 2024 and the Final Notice applicable to this case is available on the [FCA website](#)<sup>1</sup>.

## Case assessment and enquiries

The FRC's 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 FRC Case Examiner may decide to: (i) take no further action; (ii) arrange for Constructive Engagement (see below); or (iii) refer the matter to an FRC committee to determine whether or not it is appropriate to commence an FRC enforcement investigation (see previous page) 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 and the audit firm to agree appropriate remedial actions. These actions have included, for example, issuing additional guidance in the form of the firm's up to the audit practice.

Throughout the year, we have resolved enquiries from the Case Assessment team by promptly responding to enquiries and closing a number without action. We are committed to working with the FRC to constructively resolve our open enquiries, and to proactively take the steps needed to improve audit quality.

Further details of the Case Assessment process, the Accountancy Scheme and Audit Enforcement Procedures can be found on the [FRC's website](#)<sup>1</sup>.

## ICAEW

In the year to 30 June 2024, there were no audit cases (2023: 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. Further details of the ICAEW's disciplinary process can be found on the [ICAEW's website](#)<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: [www.frc.org.uk/library/enforcement/enforcement-overview/](http://www.frc.org.uk/library/enforcement/enforcement-overview/)

<sup>2</sup> Source: [www.icaew.com/regulation/complaints-process](http://www.icaew.com/regulation/complaints-process)

# Our system of quality management

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

In December 2020, the International Auditing and Assurance Standards Board (IAASB), approved and released three new and revised standards that strengthen and modernise a firm's approach to quality management, including ISQM 1. This standard, which became effective 15 December 2022, required all firms to have designed and implemented the requirements of the standard and evaluate their System of Quality Management (SoQM) under the new standard by 15 December 2023. 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).

ISQM (UK) 1 is an objectives-based approach that expects firms to have a SoQM that operates in a continuous and iterative manner taking into consideration the conditions, events, circumstances, actions and inactions that impact a firm.

It enhances the firm's responsibilities around monitoring and remediation, emphasising the need for more proactive, real time monitoring of the SoQM, a more effective, efficient, and timely root cause analysis process, and timely and effective remediation of deficiencies.

ISQM (UK) 1 states that the objective of the firm is to design, implement and operate an SoQM that provides the firm with reasonable assurance that:

- The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements.
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

The standard goes on to say that the public interest is served by the consistent performance of quality engagements and that this is enabled by an effective system of quality management.



## The PwC Network's 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.

The QMSE framework is designed to align with the objectives and requirements of ISQM 1 and provides a model for quality management in PwC Network firms that integrates quality management into business processes and the firm-wide risk management process. In the UK under QMSE, our overall quality objective is supported by a series of underlying quality management objectives and our SoQM is designed and operated so that the overall quality objective, which includes meeting the objectives and requirements of ISQM (UK) 1, is achieved with reasonable assurance.



### 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.

### Integrated and aligned in the right way

ISQM (UK) 1 includes the following components:

- the firm's risk assessment process;
- governance and leadership;
- relevant ethical requirements;
- acceptance and continuance of client relationships and specific engagements;
- engagement performance;
- resources;
- information and communication; and
- the monitoring and remediation process.

Our SoQM includes quality objectives which are aligned to these components as well as any additional objectives the PwC Network has identified in the QMSE framework.

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 our 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.

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 our firm and Audit leadership, business process owners, and partners and staff. This quality management process includes:

- identifying risks to achieving the quality objectives;
- designing and implementing responses to the assessed quality risks;
- monitoring the design and operating effectiveness of the policies and procedures through the use of process-integrated monitoring activities such as real-time assurance as well as appropriate AQIs;
- 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 both set clear expectations of expected quality behaviours and outcomes and reinforce those expectations through consistent and transparent use in appraisals, remuneration, and career progression decisions.

This involves the integrated use of Audit Quality Indicators, Real Time Reviews 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.



## Our firm's system of quality management

Our focus on quality management is 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.

### Our risk assessment process

The past several years have seen unprecedented challenges and our SoQM has helped us navigate and respond to the impact that identified factors had on our ability to achieve the overall audit quality objective – to deliver quality audit engagements. Our SoQM includes the performance of a risk assessment over the quality objectives identified in the QMSE framework. We consider how and the degree to which a condition, event, circumstance, action or inaction may adversely affect the achievement of the quality objectives 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; and/or
- changes to the design of the firm's SoQM, including the risk responses.

A quality risk is one that has a reasonable possibility of occurring and individually, or in combination with other quality risks, could adversely affect the achievement of one or more quality objectives.

In the 2023 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:

### Investment in training

The investment in the development and delivery of high quality training to support our people is an important aspect in maintaining audit quality.

During the QMSE year there was a focus on increasing headcount in the internal training function responsible for developing training materials. There was also an emphasis on ensuring sufficiency of tutors who support the delivery of the training courses.

### Preparation for sustainability reporting and assurance standards

With significant changes in the volume and complexity of sustainability reporting in the near future, this presents additional attention around how we develop skills and guidance to address the implications of changing corporate reporting requirements on ESG.

An additional QMSE risk was added in the year focused on this area of change. Additional risk responses added include the development of training, guidance and governance considerations.

### Training integrity and unethical behaviour

Responding to training integrity and related risks around unethical behaviour and training integrity has remained a continuing area of development in the QMSE year. We expect the market and regulatory focus on training integrity and ethical behaviour in the profession to continue.





## Audit Quality Indicators

We have identified a set of Audit Quality Indicators that support our Audit leadership team in the early identification of potential risks to quality. This quality risk analysis is an essential part of our QMSE, and the AQIs, in addition to other performance measures, also provide a key tool in the ongoing monitoring and continuous improvement of our SoQM. In the section, Audit Quality Measures and Audit Quality Indicators, on [page 46](#), we have described how the firm has implemented and uses our AQIs to measure audit quality.

Throughout this report, we have provided insight into the policies and procedures we have designed, implemented and are operating to reduce the quality risks we have identified to an acceptable level and help us achieve reasonable assurance over the firm's SoQM.

As mentioned above, some of our policies and procedures are provided by the PwC Network which we have assessed to determine that these resources are appropriate for use as part of our SoQM and in the performance of engagements.

## Our monitoring and remediation process

Our firm's monitoring includes:

- Ongoing monitoring: routine activities built into the firm's processes and performed on a real time basis to assess whether the policy, procedure or control is operating as intended.
- Periodic monitoring: this testing is performed annually by a separate team to determine whether the firm's SoQM is designed and operating effectively.

We have designed, implemented and are operating ongoing and periodic monitoring to provide relevant and reliable information about our firm's SoQM. This helps us to identify deficiencies and take appropriate actions so we can remediate those deficiencies effectively and on a timely basis.

To support the timely and effective remediation of identified deficiencies, our firm has designed, implemented and is operating a root cause analysis programme that is described further on [page 70](#).

The information gathered from our monitoring and remediation process along with other sources of information, such as external reviews, is used to help us evaluate our SoQM.

## Statement on the firm's system of quality management

During the year, we completed our evaluation of the firm's system of quality management under ISQM (UK) 1. On behalf of PricewaterhouseCoopers LLP, the Executive Board and Head of Audit evaluated whether our firm's SoQM provides us reasonable assurance that:

- The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Based on the evaluation of the firm's SoQM, as at 31 December 2023, we believe our SoQM provides us with reasonable assurance that the objectives of the SoQM noted above have been achieved.



# Engagement Compliance Reviews (ECR)

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

- a cold review of completed audit engagements of individuals in the firm who are authorised to sign audit reports (known as Responsible Individuals);
- an audit engagement of each Responsible Individual is reviewed at least once every three years as required by the 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 in scope of ISQM 1 (or equivalent national standards). 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 partners, supported by teams of partners, directors and senior managers who are all independent of the Business Unit and engagement leader being reviewed; and
- 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:

- **‘Compliant’** – relevant auditing, assurance, accounting, professional standards and policies 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 or documented.
  - 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, professional standards and policies were not complied with in respect of a material matter.

In addition, we annually assess engagements for our ‘Quality Recognition Award’. These are engagements where 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 bring the Audit Behaviours of Team first, Challenge and be open to challenge and Take pride 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>                         |

In the case of an engagement awarded a ‘Quality Recognition Award’, 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 as soon as practical, the engagement leader will be reviewed again in the subsequent year’s ECR and there are financial implications for the individual engagement leader. Following root cause analysis, consideration is also given as to whether additional support, training and/or monitoring of the engagement leader is required.

The circumstances giving rise to non-compliant findings are also considered in order to assess whether additional work is needed to support the report, if the auditor’s report needs to be withdrawn, or if a correction in the entity’s previously issued financial statements or information is required.

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

The firm undertakes Root Cause Analysis (RCA) for all inspections with non-compliant outcomes and a number of compliant with improvement required and compliant engagements, including engagements awarded a ‘Quality Recognition Award’

The ‘Quality Recognition Award’ analysis helps identify success factors that inform potential actions. Following RCA, a Quality Improvement Plan (QIP) is developed to respond to the drivers of systemic issues and specific matters arising from the ECR and the actions are prioritised and included in the Single Quality Plan (SQP). Responsive actions may be identified at either the engagement delivery and/or Line of Service levels. All quality action plans are monitored by the Audit Risk and Quality leadership, the Audit Executive and the AOB.

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# Internal monitoring

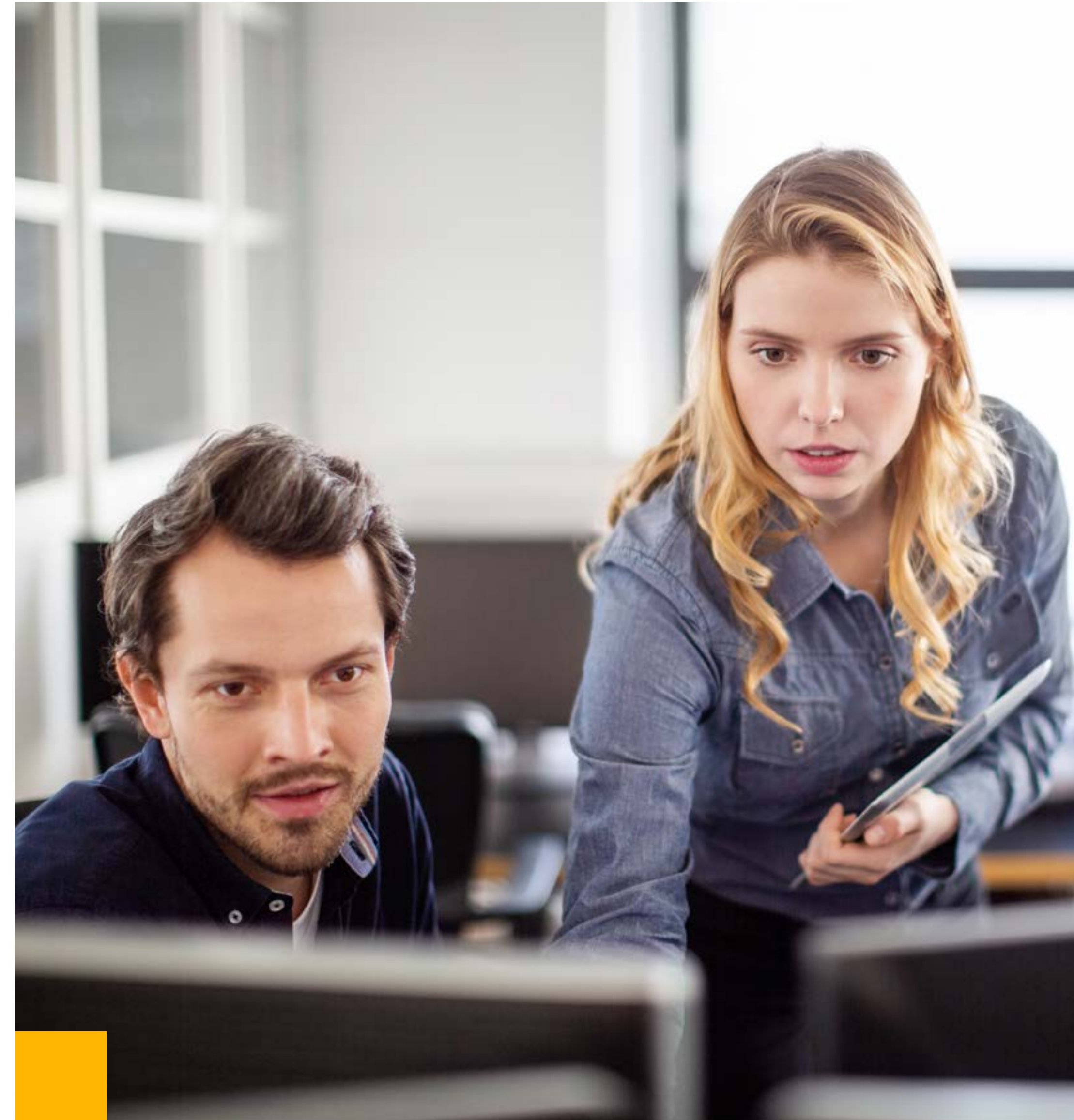
## Internal monitoring

Quality monitoring is an integral part of the firm's continuous improvement activities. 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 awarded a 'Quality Recognition Award' 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 includes the requirement to undertake an annual Audit Compliance Review (ACR).

This monitoring programme comprises of two parts:

1. The ECR programme is used to assess whether engagements are performed in accordance with relevant auditing, assurance, accounting, professional standards and policies. 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 subject to review by the firm's regulators and annually reviewed by a PwC Network team independent of PwC UK as part of the Quality Management Review (QMR) programme. The Global Assurance Quality function informs engagement leaders of our firm who are responsible for group audits involving crossborder 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 Compliance Review (ECR) results

The key features of the annual ECR programme, formerly the Engagement Quality Review programme, are outlined on [page 64](#). The programme is an integral part of the firm’s internal monitoring. Experienced reviewers select a number of focus areas to tailor the review based on risk as appropriate.

Details of the coverage and results of the 2024 ECR are as follows:

- 151 audit engagements (FY23: 163) were reviewed in FY24, covering 42%\* (FY23: 47%\*) of the firm’s Responsible Individuals. 33 non-audit assurance engagements (FY23: 35) were also reviewed.
- 127 audit engagements (FY23: 139), representing 84% (FY23: 85%) of the audit engagements reviewed were classified as ‘compliant’. 12 audit engagements (FY23: 15), representing 8% (FY23: 9%) of the audit engagements reviewed were classified as ‘compliant with improvement required’, and 12 audit engagements (FY23: 9) representing 8% (FY23: 6%) of the audit engagements reviewed, were classified as ‘non-compliant’.
- 25 non-audit assurance engagements (FY23: 32), representing 76% (FY23: 91%) of the 33 non-audit assurance engagements reviewed were classified as ‘compliant’. 5 non-audit assurance engagements (FY23: 2) representing 15% (FY23: 6%) of those reviewed were classified as ‘compliant with improvement required’. 3 non-audit assurance engagements (FY23: 1) representing 9% (FY23: 3%) were classified as ‘non-compliant’.

Responsive actions have been identified and incorporated into our SQP following completion of RCA both in respect of findings and ‘Quality Recognition Award’ outcomes.

\* For FY24 we have updated our methodology and presentation to align with the proposed FRC AQI. FY23 has been restated to provide the relevant comparative. The coverage is the percentage of the firm’s Responsible Individuals that signed an audit opinion during the year.

### Audit ECR results

|             | Compliant | CwIR | Non-compliant | Total |
|-------------|-----------|------|---------------|-------|
| <b>FY24</b> | 127       | 12   | 12            | 151   |
| <b>FY23</b> | 139       | 15   | 9             | 163   |

### Non-audit ECR results

|             | Compliant | CwIR | Non-compliant | Total |
|-------------|-----------|------|---------------|-------|
| <b>FY24</b> | 25        | 5    | 3             | 33    |
| <b>FY23</b> | 32        | 2    | 1             | 35    |



# Audit Quality Plan (AQP) and continuous improvement

Our annual Audit Quality Plan (AQP) sets out our core processes and controls that support audit quality, and flags any areas of significant focus or change each year. Our AQP is aligned to the five pillars of the audit strategy: Quality; Passionate People; Technology and Transformation; Commercials and Responsible Growth. These are underpinned by our audit culture and behaviours which are fundamentally important to achieving high quality.






Our system of quality management (SoQM) is designed, implemented and operates on an ongoing basis to achieve our quality objectives. This process includes monitoring, assessing, evaluating, reporting, and being responsive to changes in quality risks, driven by the firm's internal and external environment.

The Single Quality Plan (SQP) is a detailed action plan which contains all of the actions we are taking to continually enhance audit quality and supports the AQP. This includes high priority focus areas in line with the AQP pillars covering methodology implementation, people initiatives and transformation programmes. 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 enhance 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.



## Audit Quality Plan

**FY24 Audit vision:** We will deliver the highest quality audit, combining passionate people with leading technology to build trust in society.

| Quality    | Passionate people    | Technology and transformation    | Commercials   | Responsible growth    |
|---|---|---|--|--|
| <b>Objective</b>  |   |   |  |  |
| 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.  | We will be an inspiring and inclusive place to work where the best people want to stay and build their careers.   | 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.   | We will achieve a return that allows continual investment in our people and technology with a focus on quality.  | We will balance our portfolio and work with organisations who share our standards, values and commitment to quality and auditing.<br>We will invest in our future through the development of products and services to build trust in our chosen markets. |
| <b>Core activities that drive audit quality</b> (additional focus / significant changes for FY24 in <b>bold</b> )   |   |   |  |  |
| <ul style="list-style-type: none"> <li>• <b>Methodology and Risk Management</b></li> <li>• Consultations and technical panels</li> <li>• Chief Auditor Network</li> <li>• <b>Real Time Review Programme</b></li> <li>• CRS hot reviews</li> <li>• Engagement Compliance Reviews</li> <li>• Audit Compliance Measure reviews</li> <li>• <b>QMSE / QMR</b></li> <li>• Root Cause Analysis and action tracking</li> <li>• <b>Audit Quality Indicators</b></li> <li>• Recognition and Accountability Framework</li> </ul> | <ul style="list-style-type: none"> <li>• Recruitment and onboarding</li> <li>• Technical training</li> <li>• <b>Leadership development, wellbeing and coaching</b></li> <li>• Engagement leadership</li> <li>• <b>Resourcing</b></li> <li>• Performance management</li> <li>• Career progression</li> <li>• Reward and retention</li> <li>• <b>Future Talent Development Model</b></li> </ul> | <ul style="list-style-type: none"> <li>• Aura Platinum</li> <li>• <b>Next Generation Audit</b></li> <li>• <b>Distributed Delivery Model</b></li> <li>• <b>Breaking the audit cycle (Inc Client Contracting)</b></li> <li>• <b>Digitising the audit</b></li> </ul> | <ul style="list-style-type: none"> <li>• Execution of consistent Commercial strategy</li> <li>• Implementation of global pricing policy and Network engagement.</li> <li>• Pricing guidance, including addressing economic cycle specific issues such as inflation; a focus on the cost of delivery</li> <li>• Pricing confirmations and commercial assessments</li> </ul> | <ul style="list-style-type: none"> <li>• Market strategy</li> <li>• BU bid reviews and ATAP</li> <li>• Acceptance and Continuance</li> <li>• Audit client listening programme</li> </ul>   |
| <b>Culture and behaviours</b>   |   |   |  |  |
| <b>Team first</b>   | <b>Challenge and be open to challenge</b>   | <b>Take pride</b>   |  |  |



## 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 are a separate team independent from engagement teams, and they are 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 which impact 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, and conducts 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 either at 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 assesses 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. For each priority area, an effectiveness measurement approach has been developed in order to determine whether actions have been effective and what we expect the quality benefits to be. We track the overall progress toward achieving the benefits as for each priority area as well as whether actions are completed.

The learnings from RCA are shared with the audit practice in a number of different ways, including at learning and development events; in Audit communications, including mandatory webcasts; and through the CAN.