

# *Quality and risk management*

Annual Report 2015

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# Introduction

***Managing risk is a clear strategic priority for the Executive Board and senior management of the firm.***

We have a clear business strategy. In implementing this strategy it is vital that we also manage the risks associated with it. As a result we have a defined process for assessing, monitoring and controlling risk.

The Executive Board takes overall responsibility for establishing systems of internal control and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these systems and for ongoing monitoring of risk and the effectiveness of controls rests with senior management.

The systems, which have been in place throughout the financial year and up to the date of approval of these financial statements, include the following:

- The Risk Council, an Executive Board subcommittee, is responsible for making sure that the controls are in place to identify, evaluate and manage risk.
- Our lines of service and our internal firm services, which document risks and the responses to them, carry out risk assessments annually and report to the Risk Council on how effectively they have managed risk during the year.

- Periodic reviews of performance and quality are carried out independently by the PwC network.

- Our internal audit team reviews the effectiveness of the financial and operational systems and controls throughout the Group and reports to the Executive Board and the Audit and Risk Committee.

- Our risk and quality functions oversee our professional services risk management systems and report to the Executive Board.

We take client acceptance procedures extremely seriously and we do not automatically take on new client engagements or new work for existing clients. Understanding properly both who we are working with and the nature of the work requested is central to protecting our reputation for quality.

We have procedures to assess the risks associated with new clients. We seek to serve only those clients we are competent to serve, who value our service and who meet appropriate standards of legitimacy and integrity. We also establish up front whether we are able to comply with independence requirements and to address any potential conflicts of interest. In addition, we conduct annual risk reviews of all audit clients.

# Our principal risks

The key risks faced by our business and the management response, are summarised below:

Risk	Response
<b>Quality</b> Significant quality failure in the UK firm or the PwC network due to either engaging with an inappropriate client or inadequate delivery of services leading to a potential service failing, litigation and/or regulatory action.	Our internal quality management systems, which are designed to maintain and enhance quality, include: <ul style="list-style-type: none"><li>• Recruitment standards and staff development procedures</li><li>• Client engagement and acceptance processes</li><li>• Client engagement standards supported by methodologies and tools</li><li>• Quality reviews of PwC network firms, including the UK firm</li><li>• Monitoring and review of key performance indicators by the Executive Board</li></ul>
<b>People and talent</b> Failure to engage fully with our people, impacting our ability to attract, develop and retain the best talent and provide quality services.	<ul style="list-style-type: none"><li>• Regular reviews of the market for student and experienced talent to understand the firm's relative competitive position</li><li>• Embedding the PwC Professional global leadership framework to support the career progression of our people</li><li>• The deal to support staff engagement</li><li>• Use of various communication and discussion channels to engage with our people</li><li>• Monitoring and review of key performance indicators by the Executive Board, including staff surveys, external Brand Health Index and regular client feedback</li></ul>
<b>Public perception and reputation</b> Failure to respond in a transparent manner to issues raised by the public interest debates	<ul style="list-style-type: none"><li>• Embedding a culture of doing the right thing for our people, our clients and our communities, as a matter of strategic intent</li><li>• Open and active engagement in serious debate with relevant stakeholder groups on trust-related and public interest issues to inspire change</li><li>• Sharing of knowledge and insights on trust to sustain, widen and enrich the discussion</li></ul>
<b>Independence and regulatory requirements</b> Failure to comply with relevant independence, legal, ethical, regulatory or professional requirements.	Established compliance and independence management systems including: <ul style="list-style-type: none"><li>• Clear policies, procedures and guidance</li><li>• Mandatory annual training for all partners and staff</li><li>• Client and engagement acceptance procedures</li><li>• Annual independence and compliance submissions for all partners and staff enforced by penalties for non-compliance</li><li>• Regular monitoring and reporting to the Executive Board</li></ul>
<b>Data compromise</b> Failure to safeguard confidential information.	<ul style="list-style-type: none"><li>• Information Protection Governance Group, chaired by a member of the Executive Board, which provides overall strategic direction, framework and policies for information security</li><li>• The firm operates an ISO/IEC 27001:2013 certified information security management system which includes:<ul style="list-style-type: none"><li>– Governance and policies for client data and other information</li><li>– Physical, technical and human resource controls</li><li>– Incident response capability</li><li>– Regular monitoring and independent review systems</li></ul></li></ul>

Risk	Response
<p><b>Regulatory change</b> Failure to manage effectively the impact of changes in the multiple regulatory regimes, both UK and non-UK, under which the UK firm operates.</p>	<ul style="list-style-type: none"> <li>• Regulatory affairs team which leads the firm's efforts to track all changes in applicable regulatory regimes, of whatever origin, under which the UK firm operates</li> <li>• Regular updating of firm processes and procedures to ensure compliance by all our people, on all our clients, with all applicable regulations</li> <li>• Regular direct interaction, where possible, with applicable regulators to understand detailed provisions of changes and the implications for our businesses</li> <li>• Regular/continuous monitoring of the cumulative impact of changes in the regulatory environment on the firm's ability to provide services to Audit clients</li> </ul>
<p><b>Client assets</b> Failure to appropriately manage client assets, including major client administrations.</p>	<p>Well-established procedures for dealing with client assets and related matters including:</p> <ul style="list-style-type: none"> <li>• Portfolio diversification policy</li> <li>• Daily monitoring of credit and related ratings and maturities</li> <li>• Internal controls and procedures</li> <li>• Monitoring and independent review</li> <li>• A Treasury committee which receives regular updates on the above</li> </ul>
<p><b>New business</b> Failure to manage risks created by new business and other innovations in service delivery.</p>	<p>Firmwide process for reviewing new business so that relevant risks are identified promptly and addressed</p>
<p><b>Acquisitions</b> Failure to integrate newly acquired business, non-realisation of expected synergies and inadequate on-boarding of new partners and staff.</p>	<ul style="list-style-type: none"> <li>• Regular reviews of commercial and risk management lessons learnt from recent acquisition experience</li> <li>• Clear objective-led management of the integration process for all acquisitions</li> <li>• On-boarding processes designed to handle the large number of lateral hires created by acquisitions</li> </ul>
<p><b>Digital disruption</b> Failure to use advanced technology to underpin new business models and cost structures for existing services.</p>	<ul style="list-style-type: none"> <li>• Significant investment in new and innovative technology solutions for existing services</li> <li>• Commitment to new platforms to allow delivery of quality services at a highly competitive pricing point</li> </ul>
<p><b>Physical Security</b> Failure to safeguard the physical security of all our people wherever deployed on the firm's business including within our own premises in the UK.</p>	<ul style="list-style-type: none"> <li>• Firmwide travel policy and processes for all our people, incorporating 24/7 tracking and, where appropriate, consultation with a dedicated security team</li> <li>• Comprehensive security infrastructure covering all our premises</li> <li>• Continuous monitoring of threat levels and issues in overseas travel destinations, and potential threats to our premises.</li> </ul>

### **Internal control assessment**

Our internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives or, in the case of financial controls, the risk of material misstatement in our financial statements. Accordingly, they provide reasonable but not absolute assurance against such failure or material misstatement.

The Executive Board has reviewed the systems of internal control in operation during the year and is satisfied with their effectiveness.

