

# 2019 Transparency Report

PricewaterhouseCoopers LLP

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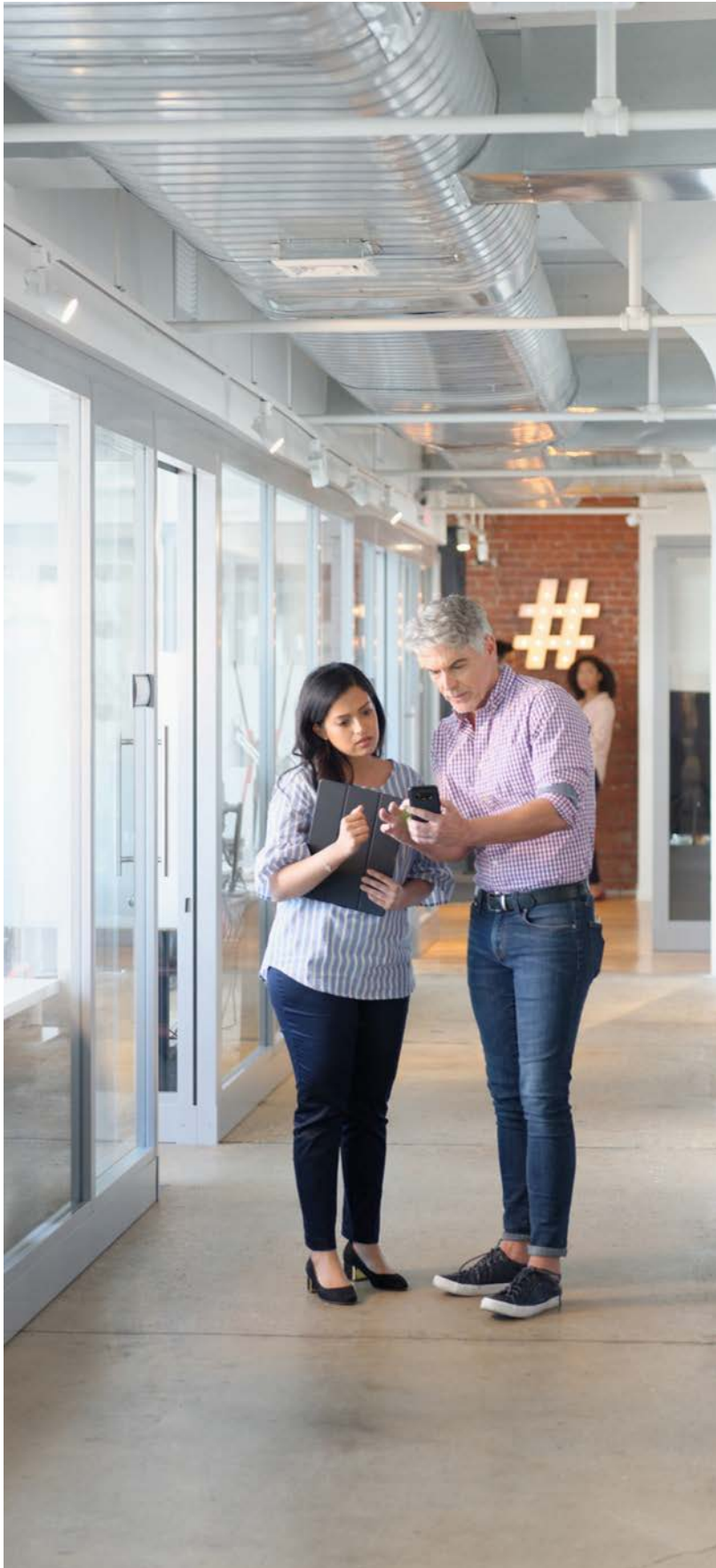
# Introduction

At PwC, our purpose statement is to **build trust in society and solve important problems**. To us, these are not just words. We are a network of firms in 157 countries with more than 276,000 **people** who are committed to delivering quality in assurance, advisory and tax services.

We believe that auditing is a noble profession, underpinned by the need for trust in the capital markets and in the quality of our audits. We approach our profession as “One Firm,” enabling us to use the resources and technologies from our non-audit disciplines to benefit audit quality. Our Advisory and Tax lines support our audits in areas such as information systems, cybersecurity threats, valuations, and complex tax matters. As “One Firm,” we bring our full capabilities and insights to our audits when and where they are needed and appropriate. Please see PwC’s [Our focus on audit quality](#) report for additional details on our approach and practices related to audit quality.

This Transparency Report is published in accordance with the requirement set forth in Article 45 (5)(e) of the European Union’s Directive on Statutory Audit 2006/43/EC for our fiscal year ended June 30, 2019.

Throughout this report, the terms “PwC,” “firm,” “we,” and “our” refer to PricewaterhouseCoopers LLP, the US member firm of PricewaterhouseCoopers International Limited (PwCIL), an English private company limited by guarantee.



# Firm structure

The firm is a limited liability partnership established under the laws of the State of Delaware. All interests in the firm are held by its partners and principals.

## The PwC network

PwC is the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services. Together, these firms form the PwC network. 'PwC' is often used to refer either to individual firms within the PwC network or to several or all of them collectively.

We're a network of firms in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, advisory and tax services.

In many parts of the world, accounting firms are required by law to be locally owned and independent. Although regulatory attitudes on this issue are changing, PwC member firms do not and cannot currently operate as a corporate multinational. The PwC network is not a global partnership, a single firm, or a multinational corporation.

For these reasons, the PwC network consists of firms which are separate legal entities.



## PricewaterhouseCoopers International Limited

The firms that make up the network are committed to working together to provide quality service offerings for clients throughout the world. Firms in the PwC network are members in, or have other connections to PricewaterhouseCoopers International Limited (PwCIL). PwCIL does not practice accountancy or provide services to clients. Rather its purpose is to act as a coordinating entity for member firms in the PwC network. Focusing on key areas such as strategy, brand, and risk and quality, the Network Leadership Team and Board of PwCIL develop and implement policies and initiatives to achieve a common and coordinated approach amongst individual member firms where appropriate.

Member firms of PwCIL can use the PwC name and draw on the resources and methodologies of the PwC network. In addition, member firms may draw upon the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. In return, member firms are bound to abide by certain common policies and to maintain the standards of the PwC network as put forward by PwCIL.

The PwC network is not one international partnership and PwC member firms are not otherwise legal partners with each other. Many of the member firms have legally registered names which contain "PricewaterhouseCoopers", however there is no ownership by PwCIL. A member firm cannot act as an agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm, and is liable only for its own acts or omissions and not those of PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm, cannot obligate any member firm, and is liable only for its own acts or omissions. PwCIL has no right or ability to control member firms' exercise of professional judgement.



The governance bodies of PwCIL are:

### Global Board

The Global Board is responsible for the governance of PwCIL, the oversight of the Network Leadership Team and the approval of network standards. The Board does not have an external role. Board members are elected by partners from all PwC firms around the world every four years.

### Network Leadership Team

The Network Leadership Team is responsible for setting the overall strategy for the PwC network and the standards to which the PwC firms agree to adhere.

### Strategy Council

The Strategy Council is made up of the leaders of the largest PwC firms and regions of the network, agrees on the strategic direction of the network and facilitates alignment for the execution of strategy.

### Global Leadership Team

The Global Leadership Team is appointed by and reports to the Network Leadership Team and the Chairman of the PwC network. Its members are responsible for leading teams drawn from network firms to coordinate activities across all areas of our business.

## Quality across the network

Quality audits across the PwC network are vital to the US firm's brand. We continue to assist PwC network member firms in enhancing their quality-focused infrastructure and processes, which includes providing materials for annual update trainings in certain territories on US accounting and auditing standards. Our US firm leadership also meets periodically with leaders from other member firms to share learnings and best practices on quality.

Each PwC Network member firm is responsible for monitoring its own quality control system, including reviewing the quality of its management-level controls and the audit work it has performed. A PwC network-led team inspects member firms' reviews of their quality control systems. When areas needing improvement are identified in their reviews, the member firm prepares a remediation plan and the PwC network monitors its implementation.

Each PwC network member firm is responsible for completing inspections to assess whether engagements selected for review were performed in compliance with applicable professional standards and policies. The results of these inspections inform the actions taken by the member firm to continue to enhance audit quality. Individual member firms' quality results are considered by US firm partners in planning their audits, where applicable. We continually refine how we use the work of non-US PwC network firms so that all components of our audits meet US standards (when applicable) and satisfy our own quality expectations.

A list of audit firms and statutory auditors within the PwC network from EU or EEA member states can be found on page 23.



# Strategy and leadership

We expect our partners<sup>1</sup> and staff to exhibit the core values underlying our purpose: act with integrity, make a difference, care, work together, and reimagine the possible. Key messages are communicated to our firm by our Senior Partner and our leadership team and are reinforced by engagement partners. These communications focus on what we do well and actions we can take to make enhancements. We track whether our people believe that our leaders' messaging conveys the importance of quality to the success of our firm. Based on this tracking, we are confident our people understand our audit quality objectives.



Our audit quality principles are achieved through our audit quality practices and mean that we:

- ask tough questions;
- stay current on professional standards;
- apply an objective and skeptical mindset;
- have timely, meaningful as with audit committees;
- plan our work and resolve issues in a timely and thorough fashion;
- embrace the supervision and review process as a way to continuously improve;
- recognize our role in the capital markets;
- remain alert for issues that need deeper analysis; and
- act with professionalism.

# Leadership and accountability

## Tone at the top

Our purpose is to build trust in society and solve important problems. We build trust by delivering on our commitment to quality. This means that performing quality audits is job #1 for our Assurance practice. Our focus on quality drives our actions with clients, colleagues, and other stakeholders and guides our decision-making.

## Partner accountability and compensations

Partners are evaluated based on their contributions to people, quality, and profitable growth. Our accountability program holds partners, including quality review partners and other partners in leadership roles, accountable for audits in which they participated that are found by external and internal inspections to have deficiencies. Partner accomplishments are measured based on the partner's relative performance against established goals. Partners receive a share of the firm's profits based on their level of responsibility, the firm's performance, and the partner's performance. Our audit partners are not evaluated or compensated for selling non-audit services to their audit clients.

## Non-partner professionals

Non-partner professionals are assessed against the dimensions of the PwC Professional framework, the firm's career progression model. They participate in a performance bonus plan based, in part, on the achievement of quality goals and objectives.

We reward teams and individuals for quality. In cases that require it, partners and managers are required to implement a responsive action plan to address quality issues. Implementation of the plan is monitored by leaders.

<sup>1</sup> A partner is a certified public accountant (CPA) while a principal is not. Only CPAs may sign an audit opinion or perform any other function reserved by law or by the firm solely to CPAs. Partners and principals are alike in most other aspects of the partnership.

# Ethical requirements

Ethical behavior is the foundation for building trust. We have a code of conduct and supporting policies that describe expected behaviors. We also provide multiple ways for our people to ask questions and obtain policy guidance or voice concerns about possible policy violations, including Ethics HelpLine, through which concerns may be reported anonymously, if preferred.

Protecting client confidentiality and preserving necessary records are key components of our ethics policies. These policies are included as part of our new-hire training and reinforced during mandatory annual independence, ethics, and compliance training and in a required annual compliance confirmation

At PwC, we adhere to the fundamental principles of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants, which are:

## **a. Integrity**

To be straightforward and honest in all professional and business relationships.

## **b. Objectivity**

To not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

## **c. Professional Competence and Due Care**

To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

## **d. Confidentiality**

To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

## **e. Professional Behaviour**

To comply with relevant laws and regulations and avoid any action that discredits the profession.

In addition, our PwC network standards applicable to all PwC network firms cover a variety of areas including ethics and business conduct, independence, anti-money laundering, anti-trust/anti-competition, anti-corruption, information protection, firm's and partner's taxes, sanctions laws, internal audit and insider trading. We take compliance with these ethical requirements seriously and strive to embrace the spirit and not just the letter of those requirements. All partners and staff undertake regular mandatory training and assessments, as well as submitting annual compliance confirmations, as part of the system to support appropriate understanding of the ethical requirements under which we operate. Partners and staff are expected to uphold and comply with the standards developed by the PwC network and leadership in PwC monitors compliance with these obligations.

In addition to the PwC Values (Act with Integrity, Make a difference, Care, Work together, Reimagine the possible) and PwC Purpose, PwC has adopted the PwC network standards which include a Code of Conduct, and related policies that clearly describe the behaviors expected of our partners and other professionals- behaviors that will enable us to earn the trust that we seek. Because of the wide variety of situations that our professionals may face, our standards provide guidance under a broad range of circumstances, but all with a common goal- to do the right thing.

Upon hiring or admittance, all staff and partners of PwC are provided with a copy of the PwC Global Code of Conduct. They are expected to live by the values expressed in the code in the course of their professional careers and have a responsibility to report and express concerns, and to do so fairly, honestly, and professionally when dealing with a difficult situation or when observing behaviors inconsistent with the Code. Each firm in the PwC Network provides a mechanism to report issues. There is also a confidential global reporting option on [pwc.com/codeofconduct](https://pwc.com/codeofconduct). PwC has adopted an accountability framework to facilitate remediation of behaviors that are inconsistent with the Code of Conduct. The PwC Code of Conduct is available on-line for all internal and external stakeholders at [pwc.com/ethics](https://pwc.com/ethics).

# Independence

As auditors, we are required to be independent from our audit clients. Independence, in fact and appearance, sets the foundation for us to exercise professional skepticism and make objective conclusions without being affected by influences that could compromise our professional judgment.

Our independence policy is based on the Code of Ethics for Professional Accountants of the IESBA and is supplemented to comply with the requirements of US standard setters and regulators. We support our people in maintaining independence by providing systems and processes that:

## Independence policies and practices

The PwC Global Independence Policy covers, among others, the following areas:

- Personal and firm independence, including policies and guidance on the holding of financial interests and other financial arrangements, e.g. bank accounts and loans by partners, staff, the firm and its pension schemes;
- Non-audit services and fee arrangements. The policy is supported by Statements of Permitted Services ('SOPS'), which provide practical guidance on the application of the policy in respect of non-audit services to assurance clients; and
- Business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on purchasing of goods and services acquired in the normal course of business.

In addition, there is a Network Risk Management Policy governing the independence requirements related to the rotation of key audit partners.

These policies and processes are designed to help PwC comply with relevant professional and regulatory standards of independence that apply to the provision of assurance services. Policies and supporting guidance are reviewed and revised when changes arise such as updates to laws and regulations or in response to operational matters.

A team of dedicated professionals (16 partners and 193 staff); maintains our independence policies, processes, and systems; develops our independence training; and serves as a resource for our people when questions arise. In FY19, this team engaged in approximately 22,000 independence-related consultations.

We have disciplinary procedures in place to promote compliance with our independence policies.

Independence policies require that we report independence rule exceptions to those charged with governance at our clients so that they can be addressed promptly.

## Independence training and confirmations

PwC provides all partners and staff with annual or on-going training in independence matters. Training typically focuses on milestone training relevant to a change in position or role, changes in policy or external regulation and, as relevant, provision of services. Partners and staff receive computer-based training on PwC's independence policy and related topics. Additionally, face-to-face training is delivered to members of the practice on an as-needed basis.

All partners and practice staff are required to complete an annual compliance confirmation, whereby they confirm their compliance with all aspects of U.S. member firm's independence policy, including their own personal independence. In addition, all partners confirm that all non-audit services and business relationships for which they are responsible comply with policy and that the required processes have been followed in accepting these engagements and relationships. These annual confirmations are supplemented by periodic and ad-hoc engagement level confirmations.

## Partner rotation



Partner rotation strikes a balance between bringing "fresh eyes" to the audit and maintaining a deep understanding of the client's operations, in part, through continuity of other team members. Our practice leaders use systems and processes to manage current and successor partners' portfolios, including understanding their skills and capacity to maintain consistent audit quality. We require public company lead audit partners and quality review partners to rotate off engagements every five years. We also have rotation policies for auxiliary partners and partners on audit engagements not subject to the SEC rotation requirements.



# Human resources

## Our people

Our people strategy focused on being the world's leading developer of talent. We hire candidates who have diverse backgrounds and appropriate skills; have a questioning mindset and intellectual curiosity; and demonstrate courage and integrity.

Our reputation depends on our people. Our hiring standards include a structured interview process with behavior-based questions built from The PwC Professional framework, assessment of academic records, and background checks. In FY19, we hired nearly 2,000 entry-level audit professionals and approximately 1,700 audit interns.

The incremental reduction of audit professionals over the last two years is driven by our talent planning and turnover. The reduction in our US hiring is a result of our Your Tomorrow strategy to tech enable the audit through standardization, tools, and automation. Standardization includes the use of both on and offshore resources at Acceleration Centers (previously referred to as Service Delivery Centers) and Centers of Excellence. Our voluntary turnover fluctuates based on a variety of factors, including market demand for talent.

Our One Firm “Your Tomorrow” strategy is how we are investing to create the PwC of the future; we are responding to the expectations of the market to deliver a different, more digital experience to our clients. We are helping our people develop their potential to harness rapid technological change. In Assurance, our Your Tomorrow strategy centers on tech-enabling our business so we can deliver enhanced quality and value for our clients and give our people the skills they need to thrive in an increasingly digital world. There are three elements to this strategy:

**Digital upskilling**—We provide our people with numerous individualized learning tools to expand the use of digital solutions on their audits and empower them with a mindset of continual improvement and innovation. Our two-day Digital Academies leverage market-leading software and focus primarily on building three core skills: data wrangling, automation, and data visualization. We also offer a variety of engaging learning channels, including podcasts, a real-time trivia game, and learning bursts to help our people build their digital skills on their own terms. These tools enhance the firm's collective digital fluency while providing each individual with a

personalized curriculum to build their digital IQ and earn a Digital Acumen knowledge badge. Our Assurance professionals completed more than 147,000 hours of relevant training during FY19 and more than 9,600 of them earned their Digital Acumen badge. In addition, more than 400 Assurance professionals became Digital Accelerators, receiving more intensive training in priority technology. Our Digital Accelerators are embedded within our engagement teams and are dedicated to applying digital capabilities to each audit, as well as developing new digital solutions for the firm.

**Skills for society**—This is a powerful program to develop our people while making a meaningful difference in our communities. It enables our people to use their skills in an impactful way through participation in Access Your Potential® or volunteering at nonprofit organizations (see [page 10](#) for further discussion).

**Be well, work well**—Given the pace and complexity of change, the firm is putting the power of its resources toward supporting our people's journey to greater well-being. In FY19, the firm continued to support our people's well-being journey; including the use of a digitally-enabled employee Well-Being Rewards program. This is complemented with periodic firmwide events (e.g., PwC on the Move, 50k Random Acts of Kindness, The Big Breathe, Day of Joy/Purpose), which focus on enhancing personal well being.

The PwC Professional is our global leadership development framework, which provides a single set of expectations across our lines of service, geographies, and roles. It provides transparency on the skills our staff need to stay relevant and deliver quality to our clients.

The framework includes assurance quality dimensions to guide our staff in building critical skills and behaviors related to delivering audit quality, such as professional skepticism, review and supervision, auditing skills, issues management, and technical knowledge.

## Professional development

We are committed to putting the right people in the right place at the right time. One way we do this is by using TalentLink, our talent sourcing platform. This tool gives us visibility into our people's experiences and interests so that we can efficiently and appropriately staff client engagements.

Throughout our people's careers, they are presented with career development opportunities, classroom and on-demand learning, and on-the-job real time coaching/development. Our on-demand learning portfolio facilitates personalized learning with access to CPE and non-CPE educational materials, including webcasts, podcasts, articles, videos, and courses.

Achieving a professional credential supports our Firm's commitment to quality through consistent examination and certification standards. Becoming a CPA, an important part of our audit professionals' career progression, is a prerequisite for promotion to audit manager. Our goal is to provide our staff with a more individualized path to promotion and support them in prioritizing and managing their time more effectively when preparing for the exam. Our staff often attain their credential well before they are eligible for promotion to manager. We incentivize staff with an enhanced primary credential bonus and provide them with additional support to get credentialed early



## Retention

Turnover in the public accounting profession is often high because as accounting standards and regulations change, accountants are in demand and the development experience we provide make our staff highly sought after in the external market. Our voluntary turnover rate fluctuates based on many factors, including the overall market demand for talent.

Providing our people with the ability to meet their professional and personal commitments is a critical component of our people experience and retention strategy. Our "Assurance People Experience Plan" emphasizes 5 areas that directly influence staff retention: rewards & recognition, worklife flexibility, career development, Your Tomorrow, and staff connectivity. As an example, we continue to enhance our Your Tomorrow - Be Well Work Well strategy to support our professionals to become and sustain their best selves and encourage our teams to have discussions about what flexibility means to each team member and build flexibility into their team plans. We expect that consistent support and execution of these actions will result in enhanced retention.

We encourage our partners and staff to participate in Access Your Potential®, our commitment to equipping young people from disadvantaged communities with the financial, technology, and career-selection skills they need to change the trajectory of their lives. This includes offering our partners and staff time to volunteer in support of causes that are important to them, such as teaching our financial literacy and technology skills curriculum to students in their community.

These efforts positively impact local communities and support retention of our purpose-driven staff. For example, the turnover rate for our core Assurance staff who participate in corporate responsibility-related activities is seven percentage points lower than for those who do not participate.

We periodically measure the pride, advocacy, commitment, and overall satisfaction of our people. We call this measurement our Engagement Index.

Many internal and external factors have the potential to impact our Engagement Index. The compensation and benefits programs we offer compared to other employers and market demand for talent are two examples that impact the commitment and overall satisfaction of our people. Our Engagement Index serves one tool we use to determine our people initiatives.



## Learning and education

The composition of our audit teams provides our less experienced professionals the opportunity to work with more seasoned professionals, which promotes meaningful on-the-job training.

Judgment is honed by witnessing how seasoned auditors approach issue identification, management, and resolution.

Learning that occurs through on-the-job supervision, review, and mentoring is supplemented through participation in classroom and on-demand training programs. Our National Assurance Learning Team is dedicated to developing course content and updating our training curriculum based on feedback obtained from our:

- Our National Office on new accounting and auditing standards and financial reporting developments;
- Internal inspections process and other inputs that monitor quality;
- Observations from PCAOB and peer reviews; and
- Surveys, focus groups, and post-course learning assessments.

Our National Assurance Learning Team collaborates closely with firm leadership so that training is responsive to changes in the Assurance practice. We require our audit professionals to attend training courses that integrate auditing and accounting concepts and we use simulation-based elements for a more effective learning experience. Our managers and partners also receive industry-specific training, including related to new accounting standards, when applicable. All mandated auditing and accounting training courses include a learning assessment, which requires the participant to earn a passing score to be granted credit for course completion. In addition, we offer our professionals non-technical training on topics such as project management, issues management, and business communications.

Completion of mandated auditing, accounting, and new-hire and annual independence, ethics, and compliance trainings are included in this individual performance component. Failure to complete mandated training or to achieve the minimum number of auditing, accounting, and ethics training hours for licensure can impact an audit professional's performance evaluation and compensation.

The number of hours of auditing and accounting training mandated annually can increase or decrease from year to year based on a variety of factors, including the issuance of new accounting and auditing standards, the frequency and timing of leadership conferences, and the impact of our ongoing course redesign, which includes the use of digital tools to deliver training more efficiently.





# Acceptance and continuance

## Considerations in undertaking an audit engagement

We have approval processes for the acceptance of new audit clients and annual continuance of existing audit clients. For the acceptance of new audit clients, our process requires approvals by risk management partners and market leadership. For existing client continuance assessments, the extent and level of approvals depend on the nature of the client and results of a required risk assessment.

Key to making these approval decisions is whether we have people with the right skills, experience, and capacity to perform a quality audit. We also consider if the audit fees are commensurate with the level of effort needed to perform a quality audit. We only accept and continue to perform audit engagements when we believe our audit procedures can satisfactorily address the risk of material financial statement misstatement. Our client acceptance and continuance procedures consider whether:

- The engagement is allowable under professional and regulatory standards and is within our professional competence and capabilities;
- Key management, board members, and significant shareholders are people of integrity and good repute;
- The entity's operations are governed by acceptable standards of behaviour;
- There are any unresolved issues involving independence, conflicts of interest, or relationships with other entities that may have a bearing on whether, and on what conditions, we undertake an audit engagement; and
- There are any unreasonable timing or resource constraints that would affect our ability to comply with applicable standards.

# Engagement performance

## Our approach

Performing audits in accordance with professional standards is an important way that we fulfill our purpose to build trust in society and solve important problems.

Each year we issue audit reports regarding thousands of public and private companies. Before PwC issues its opinion, we conduct an audit following applicable auditing standards in order to obtain reasonable assurance regarding whether the financial statements are presented fairly, in all material respects. Although reasonable assurance is a high level of assurance, it is not a guarantee.

An audit involves examining the underlying audit evidence, including information and reports provided by the company, on a test basis. We also test, rely and, for many public registrants, opine on a company's internal control over financial reporting, which due to its inherent limitations may not prevent or detect misstatements. We are proud of the important role that audit opinions play in the capital markets, and how they help us to fulfill our broader purpose as a firm.

As a member of the PwC Network, PwC 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.



## Audit methodology and processes

We innovate our audit process by standardizing, simplifying, and automating our work to promote doing the right work at the right time. This supports consistency in the execution of our procedures, promotes adherence to professional auditing standards, and improves the experience for our clients through earlier identification and resolution of potential issues.

Foundational to our audit methodology is the assessment of the risk of material misstatement in the financial statements. We consider materiality level for the financial statements as a whole in planning the nature, timing, and extent of audit procedures. Our risk assessment procedures establish our understanding of business processes, inform our assessment of risks inherent in the financial statements, influence the controls we select for testing, and guide our substantive audit response. Our risk assessment begins in the planning phase of the audit and continues through the issuance of our report. The timely involvement of audit partners and managers during planning and risk assessment facilitates the appropriate consideration of audit risk and the planned response based on the client's circumstances.

When we audit the financial statements of a company with operations in multiple locations or business units (i.e., components), our audit approach, including the nature, timing, and extent of our involvement in the work of component auditors, is influenced by our understanding of and reliance on the component auditors, the significance of the component, and identified significant risks of material misstatement to the group financial statements. We continually refine how we use the work of component auditors and the level of our

involvement in their work so that all components of our audits meet US standards and satisfy our own quality expectations.

In the interest of continuous improvement, over the past year we have:

- Expanded use of Halo data auditing tools
- Reinforced documentation and supervision/review requirements for use of new audit technology
- Introduced new performance and documentation tool for audit planning and completion
- Enhanced content, templates, and technology for our audit committee reporting
- Increased leverage of our Acceleration Centers
- Expanded use of our 10 Centers of Excellence in specific areas to standardize audit processes by leveraging our tech-enabled audit solutions
- Enhanced methodology, training, tools, and templates in response to new leases and credit loss accounting standards
- Refined approach to applying PCAOB's new auditor reporting model: developing new policies, guidance, and templates; provided consultation support as teams worked with clients to prepare for adoption of new requirements related to Critical Audit Matters
- Enhanced industry-specific guidance for certain engagement types, such as carve-out audits and brokers/dealers
- Implemented additional Chief Auditor Reviews in areas such as controls over revenue
- Enhanced tools in areas of significant judgment adding illustrative examples on nature and extent of evidence necessary to effectively audit



## Audit committee communications

The oversight of auditors by audit committees (or equivalent parties charged with such oversight) is another key element of audit quality. Through timely, meaningful exchanges, we obtain the audit committee's perspectives and fulfill our professional responsibilities to communicate certain items to them. For public company audits, our communications occur at least quarterly.

Examples of topics we may discuss include perspectives on:

- our independence, including, when appropriate, the potential effects of proposed non-audit services;
- our role and the roles of management and the audit committee;
- our audit approach, including our risk assessment process, consideration of fraud risks and results;
- our client service team, including specialists;
- management's accounting policies and practices, including adoption of new accounting standards; and significant transactions;
- relevant trending topics, including economic developments and new laws and regulations affecting the company;
- our planned use of the work of others;
- the quality of the company's financial reporting;
- audit fees;
- audit results, including areas of significant estimates and judgments; and
- firm PCAOB inspection results.

We also encourage audit committees to ask us candid questions and engage in an open dialogue to help foster an environment of accountability.

## Resource management

We continue to enhance the quality and efficiency of our audits by leveraging our Acceleration Centers to perform standardized audit and administrative procedures. Acceleration staff receive relevant training and are subject to independence policies. Supervision and reviews of Acceleration staff work are comparable to supervision and review of the work of our practice staff.

We're also continuing to drive quality through innovation in the end-to-end audit process beyond just the use of Acceleration Centers. Specifically, we're further streamlining, standardizing, automating, and centralizing portions of the audit in Centers of Excellence (COEs). COEs perform work, in coordination with our audit teams, following standardized processes and leveraging technology to drive increased quality and efficiency through scale and automation. COEs perform detailed testing and review of specific audit areas on a centralized basis. COE partners and managers are responsible for the supervision and review of COE staff activities. COEs are staffed with specialized, trained, and skilled professionals performing specific audit activities across a broad range of clients. This enables them to develop unique perspectives to bring insights and value to our engagement teams and clients, while driving consistency and quality in the execution of the work.

## Consultation process and use of specialists

As part of our collaborative culture, engagement teams utilize firm specialists from our multiple lines of service (e.g., valuation, tax, information technology) to support various accounting and auditing areas and never have to go it alone.

Engagements teams also have access to the firm's quality support network. This network includes our National Office, Chief Auditor Network, and Assurance Quality Management.

## National office

Our National Office is comprised of technical accounting, auditing, and financial reporting specialists. These specialists play a vital role in keeping our policies and guidance in these areas current. Our policies identify matters that require National Office consultation. Additionally, partners and staff can voluntarily consult on any matter and are encouraged to do so when engagement-specific facts and circumstances warrant a consultation. In the event an audit partner initially has a different viewpoint than our National Office, a resolution process provides guidance for elevating the discussion until agreement can be reached.

Through presentations, client interactions, publications, podcasts, videos, and webcasts, the National Office also keeps our audit teams, clients, and other stakeholders informed of standard-setting activity and regulatory matters. Please see [cfodirect.com](https://cfodirect.com) for our publicly-available National Office content.

Our ratio of partners serving in technical support roles to the total number of audit partners fluctuates based on our periodic evaluation of our technical support resource needs and leverage model, which includes the use of managing directors, to ensure sufficient, high-quality technical resources are available for our audit teams. For example, the ratio may change based on the resources needed to prepare guidance, policies, and publications as a result of new accounting and auditing standards.

## Assurance quality management

Our Assurance Quality Management network includes experienced audit partners who serve in national, regional, and local roles. Quality Management professionals are responsible for the design, development, and implementation of our assurance quality management policies.

Quality Management partners support audit teams in assessing risks (such as whether to undertake or continue an audit engagement) and applying the firm's quality management policies. Audit teams are required to consult with a Quality Management partner on specific issues (e.g., principal auditor considerations, going concern matters, and misstatement evaluations). In addition to required consultations, audit teams are encouraged to consult with Quality Management whenever they believe they could benefit from their insights.

## Chief auditor network

Our Chief Auditor Network comprises partners and professionals who help audit teams design effective and efficient audit approaches and reinforce key learning points from audit training and guidance. Our chief auditors contribute to market and industry group meetings focused on audit quality topics and serve as instructors for many of our audit-related training courses. Chief auditors also provide advice on auditing matters through review of certain aspects of selected audit engagements before those audits are completed. Through these activities, the Chief Auditor Network is able to provide leaders with insights on overall audit quality trends.

## Quality review partner

Quality Review Partners (QRPs) and QRP assistants are a component of our quality control system. Individuals serving in these roles must have the requisite technical knowledge, training, experience, and time to perform the role effectively. All QRPs and QRP assistants are required to take training before assuming their role.

QRPs and QRP assistants are involved in the most important aspects of the audit, including reviewing the audit plan, considering the firm's independence, discussing the significant risks of material misstatement in the financial statements and our responses to those risks, and reviewing certain accounting, auditing, and financial reporting and disclosure matters.





# Monitoring of assurance quality

## Continuous improvement cycle

Our continuous improvement process is designed to timely identify opportunities for enhancement and quickly respond. We identify opportunities through monitoring the results of pre-issuance reviews and internal and external inspections.

### Pre-issuance reviews

- a. One way we monitor quality is to review audit work on certain audit engagements prior to the issuance of their respective audit report. Each year we reassess the scope and areas of focus of these reviews, taking into consideration recent inspection results and knowledge gained by our Chief Auditors in supporting engagement teams.
- b. Our pre-issuance reviews provide engagement teams with timely feedback, which can be incorporated into their audit prior to the completion of fieldwork. These reviews primarily focus on the implementation of new standards and policies, audit methodology enhancements, and matters noted during inspections cycles.
- c. In FY19, our Inspections Group and Chief Auditor Network combined performed over 175 pre-issuance reviews.

## Summary of the Firm's Quality Management Systems and Risk Processes Standards

The PwC network has issued Quality Management Systems and Risk Processes Standards applicable to all PwC member firms. The objective of the Quality Management Systems and Risk Processes Standards is for all member firms to establish business processes that promote and facilitate the delivery of quality services.

This is done through their Line of Service (LOS) quality and risk management functions and enable the firm and its personnel to meet applicable professional standards, regulations and legal requirements, as well as PwC network standards and policies. Supporting this key element, the Assurance-specific requirement states that Assurance leadership must have implemented and maintained a quality control system as required by the International Standard on Quality Control 1 (ISQC1).

### ISQC1

ISQC1 sets forth the elements of a system of quality control. It states that a system of quality control consists of policies designed to provide a firm with reasonable assurance that the following objectives are met:

The firm and its personnel comply with professional standards and applicable legal and regulatory requirements and

Reports issued by the firm or engagement partners are appropriate in the circumstances.

Policies and procedures shall be established to address the following elements:

- Leadership
- Ethical requirements (including independence)
- Acceptance and continuance
- Human resources (including learning and education)
- Engagement performance (including Quality Review Partner)
- Monitoring

ISQC 1 requires us to establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element within its system of quality control. In addition, we are responsible for the creation of procedures necessary to implement and monitor compliance with those policies.



## Internal inspections

Our internal inspections program assesses audit engagements' compliance with firm policies, procedures, and applicable professional and regulatory standards.

Under the firm's internal inspections program, audit engagement partners are generally selected for inspection at least once every four years.

Overall, the engagement selection process results in a sample of audit engagements that is representative of our audit practice (e.g., sector, geography, size) and meets or exceeds the requirements set forth in the applicable quality control professional standards.

Our Inspections Group oversees all aspects of the internal inspections program, including its design and execution. The group monitors audit quality, drives consistency in our inspections process, and delivers insights into areas for continued focus. This group, along with support from Assurance personnel with relevant industry or technical expertise (e.g., tax, valuation, actuarial), executes the annual inspections. Approximately 800 partners and professional staff will participate as reviewers in the 2019 internal inspections of 2018 audit engagements.

The Inspections Group communicates inspections observations and results to the audit practice. Further, the Inspections Group works with other groups in the National Office, the National Assurance Learning Team and firm leadership to identify actions we could take to continue to enhance quality. For example, additional guidance or training, audit methodology modifications, or targeted messaging from leadership are ways we can sustain and enhance audit quality.

Based on our 2018 inspection results, we continue to focus on the auditing of internal controls, supervision and review activities, and, for example, specific aspects of:

- The auditing of business combinations and other estimates;
- The evaluation of the design and operating effectiveness of controls over revenue; and
- Compliance with independence pre-approval and documentation processes and report issuance policies.

A detailed analysis of our 2019 inspections is currently in progress and is expected to be completed in September.

The Inspections Group annually evaluates the firm's system of quality control over our audit practice. Our system of quality control identifies risks and includes controls in the following areas:

- Organizational structure, including tone at the top and leadership's responsibility related to quality
- Practice environment, including assessment of internal and external risks
- Acceptance and continuance of clients and engagements
- Independence, integrity and objectivity
- Personnel management, including training, assignment and evaluation
- Engagement partner assignments, including QRPs
- Engagement performance, including review and supervision
- Participation by network firms
- Monitoring, including internal inspections and root cause analyses of findings
- Administration, including design and maintenance of quality control policies and procedures

Our system of quality control is also subject to annual review by professionals from the PwC Network. Our most recent annual evaluation confirmed that our system of quality control over our audit practice is designed appropriately and functioning effectively.

## External inspections

PCAOB inspections of our public company audit practice provide a data point for audit quality and represent an important check on our internal monitoring and assessment processes.

As the PCAOB has stated publicly, the audits they select and the portions of those audits they review are not done to identify a representative sample statistic that can be extrapolated accurately to a portfolio of audits. As a result, the findings cannot be used to draw conclusions about the frequency or nature of any deficiencies throughout the portfolio. The PCAOB's approach is designed to target items of interest to their regulatory purposes, such as audit areas relating to recently issued standards. There are inherent differences in the purposes and methods used by the PCAOB to select audits for inspection compared to that used for our internal inspections.

The most recent inspection report on our audit practice is dated February 28, 2019 (the "2017 Inspection Report") and describes the results of the PCAOB's 2017 inspection of 55 (or approximately 3%) of our 2016 public company audits.

### Part I of the PCAOB

Part I, which is the public portion of the PCAOB inspection report, contains an overview of the inspection procedures and observations on the engagements inspected. Partly in response to that report, we continue to focus on the following areas.

- Auditing internal control over financial reporting, specifically identifying and testing controls to address risks related to revenue and testing the design and operating effectiveness of controls with a review element in areas related to management estimates.
- The sufficiency of evaluation and corroboration of management's key assumptions, including key data points used in developing the assumption.

### Part II of the PCAOB

Part II of the inspection report reflects observations identified during the PCAOB's review of certain practices, policies, and processes related to our system of quality control, including observations developed from the engagement-specific findings reported in Part I. The Sarbanes-Oxley Act mandates that Part II not be made public if a firm addresses the quality control observations to the PCAOB's satisfaction within 12 months of the date of the inspection report. The PCAOB has not notified us of their determination of how we addressed observations contained in Part II of our 2016 inspection report (which covered our 2015 year-end audits).] The 12-month period for us to address the comments made in Part II of our 2017 Inspection Report expires on February 27, 2020

## Analyses of quality drivers

We perform analyses of audits with and without deficiencies identified through internal and external inspections. A team of reviewers that is independent from the engagement team identifies and considers factors relevant to technical knowledge, supervision and review, professional skepticism, engagement resources, and training, among others. These potential causal factors are identified by evaluating engagement information, performing interviews, and reviewing audit working papers.

We compare and contrast the data for audits with and without deficiencies to identify whether certain factors appear to correlate to audit quality. Examples of this data include the hours incurred on the audit, whether key engagement team members are in the same geography as the client, the number of years that key engagement team members have been on the engagement, the number of other audits the engagement partners are involved in, whether the engagement was subject to a pre-issuance review, and the timing of when the audit work was planned and performed.

Our goal is to understand how quality audits may differ from those with deficiencies, and to use those observations to identify enhancements that may be useful to implement across the practice.



# Governance and structure

The firm's Senior Partner serves as Chairman and Chief Executive Officer and manages the firm pursuant to the powers delegated to him by the firm's partners. To assist in discharging his responsibilities, the Senior Partner has appointed a Leadership Team to work with him to manage the firm. The responsibilities of the Senior Partner and the Leadership Team include establishing and determining the effectiveness of the firm's system of internal control, including controls relating to the quality

of the firm's audit services. Changes to the Leadership Team are determined by the Senior Partner. The Senior Partner is elected by a partner vote for a four-year term. The Senior Partner may be re-elected for a second and a third term, unless limited by age according to the partnership agreement and, with respect to any third term, subject to the Board of Partners and Principals approving the individual's nomination

## Members of the Leadership Team as of June 30, 2019

<b>Tim Ryan</b> US Chairman and Senior Partner	<b>Mike Fenlon</b> Chief People Officer	<b>Reggie Walker</b> Chief Commercial Officer
<b>Joe Atkinson</b> Chief Digital Officer	<b>Jim Flanagan</b> Vice Chairman and US Managing Partner	<b>Roy Weathers</b> Vice Chairman & US Tax Leader
<b>Roz Brooks</b> US Public Policy Leader	<b>Mohamed Kande</b> Vice Chairman PwC US, US and Global Advisory Leader	<b>Mauricio Hurtado</b> Mexico Country Senior Partner
<b>Caroline Cheng</b> General Counsel	<b>Christine Lattanzio</b> Communications and Change Leader	<b>James Shira</b> US/Global Chief Information & Technology Officer
<b>Martyn Curragh</b> Chief Financial Officer	<b>Mark Mendola</b> Vice Chairman and US Managing Partner	<b>Shannon Schuyler</b> Chief Purpose and Inclusion Officer
<b>Wes Bricker</b> Vice Chair – US and Mexico Assurance Leader	<b>Amity Millhiser</b> Vice Chair and Chief Clients Officer	<b>Farhad Zaman</b> Chief Network Officer
<b>Vicki Huff Eckert</b> US and Global New Ventures & Innovation Leader	<b>Gary Price</b> Partner Affairs Leader and Chief Administrative Officer	

# Board of partners and principals

## Authority

The Board is responsible for overseeing the overall strategic direction of the firm. It oversees long-range strategies and business plans and approves major transactions that could significantly affect the firm's business. Its authority also includes the approval of the firm's capital policies, the manner in which partners participate in firm profits, and the admission of new partners.

It approves the compensation of the Senior Partner and members of the Leadership Team as a group, after review and recommendation by a committee of the Board. All candidates proposed by the Senior Partner Nominating Committee to stand for election as Senior Partner must also be approved by the Board.

## Composition

The Board consists of partners and principals of the firm who have been elected for staggered terms of approximately four years, as well as two external directors, each of whom also has a term of approximately four years. Our external directors meet the applicable independence requirements to protect our reputation, objectivity, and integrity. They bring additional insights, expertise, and objective perspectives into our governance process as we consider the firm's strategy, growth, and service offerings.

The Board is chaired by a Lead Director, who is elected by the members of the Board other than the Senior Partner. As of July 2019, there are 21 members of the Board in addition to the firm's Senior Partner:

## Members of the Board of Partners and Principals as of June 30, 2019

Timothy Ryan  
US Chairman and Senior Partner

Michael Quinlan  
Lead Director

Jane Allen

Donald Christian

Leonard Combs

Tyson Cornell

Brendan Dougher

Carrie Duarte

Scott Gehsmann

Bernadette Geis

Timothy Grady

Carlos Gutierrez  
External Director

J. David Hoffman

Jennifer Kennedy

James Kolar

Paula Loop

Brian Meighan

Carol Pottenger  
External Director

Lisa Sawicki

Jose Ignacio Toussaint

Ellen Walsh





## Committees

The Board is assisted by various committees that help to carry out its role. The Risk and Quality (R&Q) Committee provides oversight and monitors the appropriate policies, processes, and procedures for managing and minimizing risks of the firm. The R&Q Committee also comprises the Accounting and Auditing Practice Committee, which provides oversight of the accounting and audit practice of the firm. The R&Q Committee regularly engages with Assurance business and risk leadership to discuss matters potentially impacting audit quality and execution, including updates on internal and external quality inspection results, as well as the firm's progress in tech-enabling the audit.

As requested by the Board, the R&Q Committee reviews regulatory matters that affect the firm and, as appropriate, other parts of the PwC network. Such matters may include accounting licensing and professional standards issues, and global regulatory trends.

Other committees of the Board include without limitation the Finance Committee, Partner Affairs Committee, and the Technology & People Committee.

## Board member selection process

The partner vote for selecting Board members who are partners of the firm is on a headcount basis.

Partners and principals vote by ranking the candidates for the Board. The candidates with the most votes are elected. Board elections are supervised by an independent election teller.

External Directors are elected to the Board by the affirmative vote of two-thirds of the members of the Board voting thereon.



# List of public interest entities

A list of the EU/EEA Public Interest Entities (defined as those incorporated outside of the EU/EEA that have transferable securities listed on a EU/EEA regulated market) for which we carried out a statutory audit during the year ended June 30, 2019 can be found below:

Bank of America Corporation

Carnival Corporation

Caterpillar, Inc

Ford Motor Company

International Business Machines Corporation

International Flavors & Fragrances, Inc.

JP Morgan Chase & Co

Merck & Co., Inc.

Mondelez International, Inc.

Schlumberger Limited

SPDR Dow Jones Industrial Average ETF Trust

The Goldman Sachs Group, Inc.

Toyota Motor Credit Corporation

TechnipFMC plc

# Financial information

Revenue disclosures required by Article 13 Item 2(k) are as follows:

US Firm Gross Revenue for year ended June 30, 2019	Total (in millions)
Audit Revenues earned by EU/EEA Public Interest Entity audit clients	339
Audit Revenues earned by all other audit clients	4,089
Non-Audit Services Revenues earned by EU/EEA Public Interest Entity audit clients	184
Non-Audit Services Revenues earned by all other clients	12,761
<b>Gross Revenue</b>	<b>17,373</b>



## US Gross Revenue Mix – By Practice Area:

Assurance	36%
Tax	27%
Advisory	37%

# EU EEA Member firms

The table below is a list of audit firms and statutory auditors within the network i.e. from EU or EEA Member States as of June 30, 2019.

Country and Name of firm/statutory auditor		
<b>Austria</b>	Expertise et Audit Lafarge	<b>Netherlands</b>
PwC Wirtschaftsprüfung GmbH, Wien	M. Philippe Aerts	PricewaterhouseCoopers Accountants N.V.
PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH, Linz	M. Pierre Blanquart	Coöperatie PricewaterhouseCoopers Nederland U.A.
PwC Kärnten Wirtschaftsprüfung und Steuerberatung GmbH, Klagenfurt	M. Jean-François Bourrin	<b>Norway</b>
PwC Steiermark Wirtschaftsprüfung und Steuerberatung GmbH, Graz	M. Jean-Laurent Bracieux	PricewaterhouseCoopers AS
PwC Salzburg Wirtschaftsprüfung und Steuerberatung GmbH, Salzburg	M. Didier Brun	<b>Poland</b>
PwC Österreich GmbH, Wien	Mme Elisabeth L'Hermite	PricewaterhouseCoopers Polska sp. z o.o.
<b>Belgium</b>	M. François Miane	PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k.
PwC Bedrijfsrevisoren bcvba/Reviseurs d'entreprises scrl	M. Yves Moutou	PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością sp. k.
PwC Audit Services SPRL	M. Claude Palméro	<b>Portugal</b>
<b>Bulgaria</b>	M. Pierre Pégaz-Fiornet	PricewaterhouseCoopers & Associados-Sociedade de Revisores Oficiais do Contas Lda
PricewaterhouseCoopers Audit OOD	M. Antoine Priollaud	<b>Romania</b>
<b>Croatia</b>	<b>Germany</b>	PricewaterhouseCoopers Audit S.R.L.
PricewaterhouseCoopers d.o.o	PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft	<b>Slovakia (Slovak Republic)</b>
<b>Cyprus</b>	Wibera WPG AG	PricewaterhouseCoopers Slovensko, s.r.o.
PricewaterhouseCoopers Limited	<b>Greece</b>	<b>Slovenia</b>
<b>Czech Republic</b>	PricewaterhouseCoopers Auditing Company SA	PricewaterhouseCoopers d.o.o.
PricewaterhouseCoopers Audit s.r.o	<b>Hungary</b>	<b>Spain</b>
<b>Denmark</b>	PricewaterhouseCoopers Könyvvizsgáló Kft.	PricewaterhouseCoopers Auditores, S.L.
PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab	<b>Iceland</b>	<b>Sweden</b>
<b>Estonia</b>	PricewaterhouseCoopers ehf	PricewaterhouseCoopers AB
AS PricewaterhouseCoopers	<b>Ireland</b>	Öhrlings PricewaterhouseCoopers AB
<b>Finland</b>	PricewaterhouseCoopers	<b>UK</b>
PricewaterhouseCoopers Oy	<b>Italy</b>	PricewaterhouseCoopers LLP
<b>France</b>	PricewaterhouseCoopers Spa	James Chalmers
PricewaterhouseCoopers Audit	<b>Latvia</b>	Katharine Finn
PricewaterhouseCoopers Entreprises	PricewaterhouseCoopers SIA	
PricewaterhouseCoopers France	<b>Liechtenstein</b>	
PricewaterhouseCoopers Services France	PricewaterhouseCoopers GmbH, Vaduz	
PwC Entrepreneurs CAC	<b>Lithuania</b>	
PwC Entrepreneurs Commissariat aux Comptes	PricewaterhouseCoopers UAB	
PwC Entrepreneurs Audit	<b>Luxembourg</b>	
PwC Entrepreneurs Audit France	PricewaterhouseCoopers, Société coopérative	
PwC Entrepreneurs CAC France	<b>Malta</b>	
PwC Entrepreneurs Commissariat aux Comptes France	PricewaterhouseCoopers	
PwC Entrepreneurs France		
PwC Entrepreneurs Services		

# Thank you

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