

Our focus on audit quality

2014



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To capital market stakeholders



Bob Moritz
US Senior Partner



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US Assurance Leader

We are pleased to provide you with PwC's 2014 audit quality report. As we share our ongoing efforts to enhance audit quality, we are particularly pleased to frame this discussion in the context of the foundational questions that drive not only our audit practice, but our entire firm: What is the role of our partners and our professionals in society? And how do we best serve these roles — now and into the future?

In the context of our role as auditors, reliable financial reporting that establishes trust is critical, and we know that this can only be accomplished through an unwavering commitment to provide the type of high quality audits that are expected by all capital market participants, including corporate audit committees, investors, regulators and ourselves. We are also keenly aware that it is much easier to articulate the aspiration of building trust than it is to fulfill it. One of the goals of this report is to be transparent about our journey — about our efforts to continually improve the quality of our audits, and how these efforts are intricately linked to what we believe is our broader role in the capital markets and, ultimately, in society.

We are proud of the quality of our audits, and of our continuing contributions to strengthening the audit profession and its role within the capital markets. One of these contributions is our voluntary disclosure of certain data points, which we first included in our 2013 report on audit quality. These data points (referred to as "Transparency Data Points" or "TDPs") provide additional information about our audit practice and our investments in and focus on quality. (You can find our TDPs by looking for the magnifying glass symbol  throughout the report.) Audit quality can mean different things to different people, depending on the lens through

which it is viewed, and not all of the TDPs we include in this report may be individually directly relevant to audit quality. However, we believe the suite of TDPs included in this report provides useful information that — particularly when combined with additional context or discussion — offers valuable insight to our stakeholders. Further, we support the larger public debate that is being led by the Public Company Accounting Oversight Board (PCAOB) about audit quality metrics (referred to by the PCAOB as "Audit Quality Indicators" or "AQIs"). We are actively participating in the Center for Audit Quality's "field testing" of certain metrics that are applicable to individual audit engagements, and some of the TDPs included in this report reflect ongoing dialogue from that project. We hope that this suite of TDPs advances the public discourse around this subject, while also providing greater transparency into our audit practice.

Unless otherwise indicated, this report describes our activities during the fiscal year ended June 30, 2014. Although this report relates specifically to the US firm of PwC, because the companies whose financial statements we audit are increasingly doing business globally we also include information about audit quality across the PwC global network. The strength of this network of firms facilitates our ability to meet the needs of the US capital markets.

We know that the need for high quality, independent audits has never been greater; investor confidence in the integrity of our capital markets demands nothing less. The purpose of this report is to provide transparency about how we continuously strive to improve the quality of our audits, and we hope that it provides the information necessary for you to assess our efforts.

Our culture and values

Percentage of audit staff who report receiving consistent messages about the importance of audit quality from both local and firm leadership

FY13 **98%**

FY14 **99%**

Percentage of our people reporting that they understand the practice's objectives regarding audit quality

FY13 **97%**

FY14 **97%**



1



2

Tone at the top

At PwC quality is, and always will be, our highest priority. Our continuous investment in the right people, the right methodology, and the right tools make us confident that we are performing quality audits. Our strategic priorities, as articulated in communications to our partners and staff, make this objective clear:

No matter what the environment, quality — the foundation of our profession — is our primary objective. We are committed to being the highest quality firm and to being viewed as such by all stakeholders and by any measure.

FY14 and beyond; Executive Summary; Assurance strategic priorities

In executing on this strategic priority, there is an expectation at PwC that each of our professionals fully embrace the concepts of integrity, objectivity, independence, professional skepticism and accountability in every audit engagement. Moreover, while this expectation — or “tone at the top” — starts with our Senior Partner, it continues throughout our senior leadership, our partners and our staff, not only in the US but across our global network.

We believe that leadership communication plays an important role in reinforcing organizational priorities. For this reason, leaders at all levels — including our US Leadership Team, Assurance Leadership Team, and Regional, Local and Sector Leaders — regularly include three key quality-focused messages in their communications: (1) what we are doing well, (2) where we need to improve, and (3) specific actions to improve.

These messages are conveyed through a variety of venues, including face-to-face town hall meetings, periodic emails, webcasts, internal social media, and individual coaching. We also use confidential surveys to receive periodical feedback from our partners and staff about the impact and consistency of these communications. 1

But a strong culture needs leadership action that supports the words. As is more fully described throughout this report, the quest for audit quality permeates each of the components of our system of quality control, including our ethics and independence programs, human capital strategies, learning and development, audit methodology, and resource management. Again, confidential surveys help us monitor whether the combination of our actions and words are effectively conveying the importance of quality to the success of both our firm and each of our professionals. 2

Lastly, we also believe that earning trust requires a commitment to transparency. That commitment is the driving force behind this report.

We have learned that our staff relies heavily on communications from local leaders. So we work hard to make sure that our leaders give consistent information.

Accountability

Trust and accountability go hand-in-hand. It follows then that personal accountability is a key behavioral component of audit quality. At PwC, all of our professionals involved in the audit process are held accountable for their part in achieving audit quality. And so that our professionals completely understand their responsibilities for providing quality audits—including internal accountability for them—we provide our professionals with guidance on the firm's expectations.

Leadership responsibilities

Our Assurance leadership includes partners who oversee parts of our audit practice in various regions, markets, industry groups and business units. Their responsibilities include implementing and monitoring our audit quality initiatives and overseeing our system of quality control. They also are responsible for assessing whether our people have achieved our quality and other objectives. Depending on their roles, examples of our Assurance leaders' key responsibilities for audit quality might also include assisting audit partners in making key decisions that have quality implications, reviewing and monitoring partner assignments, and monitoring attendance at required training courses.

Partner accountability and compensation

Each of our partners receive a share of the Firm's profits based on his or her agreed level of responsibility within the firm, the firm's performance, and the partner's performance. Each partner evaluates his or her own performance in consultation with other partners in four areas: quality, people, partnership and teamwork, and profitable growth. Individual partner accomplishments are measured based on the partner's relative performance against established goals. Our objective is to develop a balanced view of a partner's contributions during the year. The annual process emphasizes our top priority of sustained audit quality, relative to other performance criteria. Consistent with professional standards, our audit partners are not compensated for selling non-audit services to companies whose financial statements they audit.

Quality and other aspects of the partner's performance are carefully considered in determining distribution of profits. Quality related matters can impact (positively or negatively) the profit distribution to partners, including partners who act as quality reviewers for the audit, as well as those providing specialists' support (e.g., in the areas of tax, valuation, actuarial, technology). Findings of inconsistent audit quality may also result in reduced responsibilities. In addition, in order to immediately address quality concerns, the Firm's partners have agreed to implement a responsive action plan once a quality issue is identified with an agreed upon procedure to monitor the implementation and effectiveness of that plan.

Non-partner professionals

As with our partner's annual assessments, our process for evaluating the performance of our non-partner professionals likewise incorporates the firm's quality objectives. In addition, in an effort to emphasize and reinforce the importance of an individual's "professional skepticism," that annual assessment process includes a separate category for evaluating this critical skill as well. Our non-partner professionals also similarly participate in a performance bonus plan that is based, in part, on the achievement of quality goals and objectives.

When our audit quality objectives are not fully met by non-partner professionals at the manager level or above, they (like our partners) must develop a responsive action plan that is reviewed by a leader who has oversight of the individual. Over the course of the fiscal year, progress is monitored by the individual's managing partner. These instances are also considered when determining the individual's annual performance rating and future assignments.

A professional who violates our code of conduct or other firm policies is subject to disciplinary action, which may include dismissal.

Ethics, independence & objectivity

Ethics

We recognize that ethics is the foundation for trust, and have established a code of conduct and supporting 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. This guidance is further supported by providing our people with multiple ways to ask questions or voice concerns, including an anonymous ethics and compliance hotline and a confidential e-mail process.

Protecting client confidentiality and preserving necessary records are also key components of our ethics policies. We have strict written policies prohibiting the misuse of confidential client information, and use various safeguards to protect confidential information from all sources (including, for example, information concerning non-public deals or other inside or privileged information). These policies are included in training for all new hires, are reinforced as part of required annual training, and are included in annual compliance confirmations required of all partners and employees.

Independence and objectivity

One of the key characteristics that distinguish the auditor from nearly all other professionals is the requirement that we are independent from those whose financial statements we audit. It is this independence that facilitates our exercise of professional skepticism and enables us to objectively arrive at conclusions without being affected by influences that could compromise our professional judgment. And it is this independence that supports society's trust in the accuracy of the audited financial statements — trust that is critical to the efficient functioning of our capital markets.

The firm's independence policy is based on the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants, and is supplemented, as necessary, to comply with the requirements of US standard setters and regulators (e.g., the Public Company Accounting Oversight Board [PCAOB] and the US Securities and Exchange Commission [SEC]). We provide various technology-based tools to support our auditors in maintaining their independence, including systems that:

- Identify the entities requiring independence (including, for example, the affiliates, subsidiaries, and related-entities of audit clients to which the independence rules also apply)
- Document the permissibility of proposed non-audit services
- Assess and monitor joint business relationships
- Initiate independence consultations with in-house experts

- Restrict, pre-approve, and monitor personal investments by partners and managers (as well as their spouses, spouse equivalents and others to whom the independence rules also apply)

- Document our professionals' annual confirmation of compliance with these independence policies and other compliance topics

A team of dedicated experienced partners (approximately 16) and staff (approximately 200) help our audit professionals achieve and maintain independence. This team assures that our independence policies and guidance are current, develops our annual independence training, develops and administers our compliance systems and procedures, and serves as a resource for our people facing real-time situations. In fiscal year 2014, this team engaged in approximately 19,000 consultations with firm professionals around independence issues.

Questions involving compliance are generally either self-identified or identified through the firm's audits of individuals' personal independence compliance. Once such a matter arises, we address and resolve it promptly, including discussing the matter with the audit committees for which SEC and PCAOB independence requirements apply. In fiscal year 2014, we concluded — and the respective audit committees agreed — that none of the noncompliance matters we identified for our current clients involving SEC and PCAOB independence requirements compromised our objectivity. Accordingly, none of those instances were of a nature that required us to resign (or caused the audit committee to ask us to resign) as the auditor.

Our system currently identifies over 285,000 entities (based both within and outside the US) for which our independence restrictions apply.

PwC has established protocols and processes that are followed for any acquisition the firm makes. Included as a component of these processes are steps related to independence, including the review of client contracts for scope of services, joint business relationships, procurement, personal independence and firm independence. As a result of the addition of Booz & Company to our network¹, PwC and the audit committee of one SEC registered audit client agreed to have PwC resign prior to the closing of the acquisition in order to prevent a future independence issue. In addition, in certain instances, there were prospective audit clients we did not accept due to independence concerns, and several instances where consulting engagements were not undertaken or where the scope of services was limited to ensure continued compliance with the independence rules as the independent auditor.

Partner rotation

Periodically rotating the partners who work on our audits provides a balance between bringing “fresh eyes” to the audit (which further facilitates our objectivity), and maintaining a deep understanding of the client and its operations (which further enhances audit quality). The SEC and PCAOB require that both lead audit partners and quality review partners on a public company audit rotate off their engagements every five years. We also have rotation policies for partners on non-public company audit engagements. Our partner rotation system enables our practice leaders to manage partner rotations, helping to timely identify and transition responsibilities to a new partner who has the skills necessary to maintain consistent audit quality.

Considerations in undertaking an audit engagement

Our priority in serving the companies whose financial statements we audit is the quality and objectivity of our audit work, which we believe goes hand-in-hand with building trust. Our principles for determining whether to accept a new client or continue serving an existing client are fundamental to delivering quality and objectivity. We will not sacrifice audit quality for any reason. So, while we seek to grow our assurance practice, we remain judicious in accepting new audit engagements and renewing existing ones.

Our procedures for assessing whether to accept a new audit client or continue to serve an existing client are designed to identify potential areas of risk and focus on a number of matters, including whether:

- The entity’s operations are governed by acceptable standards of behavior
- The entity’s management, board, significant shareholders, and principal owners are people of integrity and good repute
- The engagement is allowable under professional and regulatory standards and is within our professional competence and capabilities
- There are any unresolved issues involving relationships with other entities, conflicts of interest, or independence

Each partner’s compliance with the firm’s personal independence requirements is generally audited every four years, while members of firm leadership are audited every two years. Non-partner professionals are subject to audit periodically.

- There are any unreasonable timing or resource constraints that would affect our ability to comply with applicable standards

Key to making our decision to accept or continue an audit engagement is whether we have the resources with the right skills, experience, industry knowledge, and capacity to perform a high-quality audit. We accept only audit engagements for which we believe our audit procedures can satisfactorily address the risk of material financial statement misstatement, whether due to error or fraud, and that align with our strategies for growing our practice.

1 In April 2014, Booz & Company joined the PwC network as a separate international firm and is now known as Strategy&. This transaction is also discussed on page 8 below.

Investing in our future

Increasingly complex financial structures, technological advances, and our ongoing efforts to improve audit quality require continuous investments in our Assurance practice. During FY2014, we laid the groundwork for a series of transformation projects that will represent a significant focus in FY2015 and beyond. These projects will leverage technology consistently and effectively across our Assurance practice, providing tangible benefits to our audit engagements: deeper insights for our audit professionals, enhanced response to audit risks, and increased efficiencies. “Data auditing” will encompass the use of techniques and tools, including data extraction, analytics and visualization to enable the auditor to analyze large volumes of data and focus on higher risk transactions.

We are also investing in our non-audit lines of services, and are excited about the addition of Strategy& to

the PwC network. We understand that some may question whether the growth of consulting practices across the auditing profession may, over time, divert attention from audit quality. In response to that concern, we are pleased to share our own views and philosophy about this subject.

Our Assurance practice is the foundation of PwC, not only from a brand perspective but also from a revenue perspective. We understand that jeopardizing our credibility as high quality auditors would harm both this practice (and its revenue) and the value and impact of the PwC brand. All of our decisions — from investing in resources to acquiring new businesses — are premised on protecting the quality and integrity of our audit practice.

Neither our acquisitions nor the general growth of our advisory line of service are driven by a goal of leveraging our audit clients. Our audit clients are our

audit clients, and we only perform non-audit services for them when (1) it is permitted by professional independence rules, *and* (2) the audit committee agrees — *before* any services are provided — that these other services will not impair our independence. Today’s audit committees are very careful about approving non-audit services; they are keenly aware of investor concerns in this area, and generally only give their approval when they strongly believe that doing so is in the best interests of their shareholders. Less than 7% of the revenues of our advisory line of service are derived from services provided to audit clients, and most of this comes from providing services related to our audit clients’ mergers and acquisitions activity.

We believe that a strong and leading-edge consulting practice (that is in full compliance with independence rules) makes us smarter — not only smarter as consultants, but also more knowledgeable as an overall firm regarding risks and challenges that affect our clients — audit and non-audit alike. These risks and challenges can include, among many others, new and different revenue models based on emerging technology and business models; cybersecurity threats and the impact of these threats to internal controls; valuations; forensic investigations; income taxes; and information technology innovations. These are complex issues that require deep understanding and technical knowledge, and continuing to invest in our non-audit practices — in the people as well as the expertise they offer — helps keep us at the forefront of the learning curve.



Our skills

Human capital strategies

Our ability to achieve the expertise we seek depends on the hiring, development and retention of outstanding professionals. Our sustained commitment to creating an environment in which we are able to attract and retain the best and brightest in our profession is critical to our success as a firm. And while we have been recognized by a number of different organizations in a variety of categories as a “best place to work,” we cannot stop there. How we continue to recruit and deploy talent, how we track skills and monitor progress, and how we provide coaching and feedback in order to develop our professionals are all essential to our ability to deliver quality services to our stakeholders.

In 2014, 12 of the 55 individuals recognized by the AICPA for achieving exceptional results on the CPA exam were from PwC. As in 2013, this is the highest number of recognized individuals from any of the accounting firms.

Recruiting

Starting with a vigorous recruiting program is an important first step in our human capital strategies. This program is designed to bring in highly qualified candidates who have diverse backgrounds, skills and

Additionally, as part of our talent strategy, we are developing a workforce to better meet the needs of our changing business. PwC's Flexibility Talent Network (FTN) is an internal pool of PwC employees who work with us a few months of the year, allowing us to

We have been recognized as one of Fortune's “100 Best Companies to Work For” for ten consecutive years.

cultures; possess personal attributes consistent with our firm's culture and commensurate with high standards of professional competence; have a questioning mindset and intellectual curiosity; and demonstrate courage and integrity. This past year, we expanded the skills that we are seeking to include more candidates with science, technology, engineering and mathematics capabilities, as we view these as important skills for the future.

Our stringent hiring standards for entry-level and experienced professionals, which include assessing academic records and conducting background and reference checks, assure that our newly hired professionals are well suited to meet the firm's quality expectations. Our reputation depends on hiring the most talented professionals available and, in turn, our reputation for quality enables us to attract the best. In FY2014 we hired nearly 2,500 new graduates (65% of whom were former interns) and about 2,300 interns. We also hired over 1,500 experienced professionals, nearly twice the number of experienced hires the previous year.

source our own network of qualified talent during workload peaks. This unique arrangement provides us with access to qualified (and often diverse) employees who may otherwise completely leave the workforce (due to e.g., family responsibilities). Feedback has been positive on both performance of the FTN members and the way these employees further enhance our ability to meet staffing needs during periods of peak demand.

Professional development

Throughout their tenure with the firm we provide our professionals with increasingly challenging experiences and career opportunities. Professional development occurs not only through formal learning, but also through coaching and experiences our professionals receive on the job. Our partners help the members of their teams—and each other—define career aspirations, and then identify development opportunities that will enable them to reach their goals. Opportunities for learning may include tours with various practices within the firm or in different offices around the world.

We also recognize our non-partner professionals for career milestone successes and achieving the CPA or other relevant credentials. Becoming a CPA is an important part of our audit professionals' career progression as it demonstrates a mastery of core auditing and accounting knowledge. Passing the CPA exam — a significant step toward obtaining the CPA credential — is a prerequisite for advancement to the audit senior associate level.

Retention

Retention is critical to achieving sustained audit quality. Our strategies for hiring and developing the best and the brightest in the profession become irrelevant if our professionals choose to leave the firm. We recognize that part of the appeal of a career in public accounting — and, in particular, working with PwC — is the significant opportunities available to individuals on our staff. Because of this, turnover rates in the public accounting profession are typically higher than turnover rates for accountants outside of public accounting. Keeping these highly talented individuals within our own organization is, therefore, a priority.  3

Our voluntary turnover rates have increased over the past two years. As is discussed in more depth below, we seek to address the factors that we believe are contributing to increased turnover by continually improving the day-to-day experience of our staff and enhancing our efforts around recognition and development.

Providing our people with flexibility in meeting both their professional and personal obligations has become an important component of our retention strategy. As professionals, our people work the hours it takes to meet their responsibilities. At PwC, we have implemented processes that are designed to help our people properly manage their workloads, especially during peak periods when significantly more hours may be incurred. While continuing to provide formal flexibility options (such as reduced schedules and telecommuting arrangements), we are also focused on shifting our culture around flexibility. For example, we encourage teams to develop “flexibility plans” at the onset of an engagement and identify “flexibility champions” within each team to keep them on track, particularly during peak periods

when significantly more hours may be required. This energizes their passion for and commitment to delivering quality, creates a more rewarding experience for them, and increases their desire to remain with the firm longer. Reducing our professionals' hours worked over 40 hours per week has been a PwC goal for the past few years, and our success in this effort is reflected by reduced average annual hours at all levels.  4

We are also augmenting the number and skillsets of our professionals by expanding our campus hiring to include talent with degrees in science, technology, engineering and mathematics. This contributes to creating the best possible environment for professional development — a place where valued young professionals will want to grow their careers.



3

Average annual voluntary turnover rate

FY14 **17.5%** | FY13 **16.1%** | FY12 **14.2%**



4

Average annual hours worked over 40 hours per week (2,088 annually)

	FY14	FY13 ²	FY12
Partner	475	495	494
Senior Manager/Manager	378	401	410
Senior Associate	347	356	364
Associate	311	312	334

² Note that in our 2013 Quality Report, we used 2,080 hours as the benchmark for calculating these average extra hours. This difference reflects a difference in the number of working days in each of these years.

Learning and development

Auditing is a complex and challenging profession. While the foundation of accounting knowledge is acquired through a formal educational program, and substantiated by passing the CPA exam, the acumen required to become a trusted and effective auditor only comes with experience. This makes the auditing profession, by necessity, an apprenticeship. Skills are developed over time by our less experienced staff shadowing our more senior professionals. Judgment is honed by witnessing — on a real-time basis — how these seasoned auditors approach issue identification and resolution. Over the course of their career at PwC, our audit professionals are mentored to develop a unique ability to understand the issues and apply the necessary level of professional skepticism to determine the amount of work that needs to be done to support our audit opinion in accordance with professional standards. In fact, professional skepticism (along with accounting knowledge, auditing skills, issues management and review and supervision) is a technical capability that every audit professional is required to continuously develop as part of his/her career progression.

In general, how we perform our audits, the composition of our audit teams, and the opportunities we provide our younger partners and staff to work with more senior professionals all combine to promote meaningful on-the-job training. Typically, junior staff members learn from their managers and partners, while managers primarily learn from their partners (both in direct coaching as well as simply learning by example). We believe that lower staffing ratios provide greater opportunities for our less experienced staff to learn from seasoned professionals. 

The significant amount of learning that occurs through on-the-job review, supervision and mentoring is supplemented through participation in firm-developed learning programs. Our training courses include a primary focus on auditing and accounting skills, as well as business and industry developments, and are tailored to the experience level of our professionals. With feedback obtained through our monitoring efforts — whether through our own internal inspections process or through analysis of observations from our regulator, the PCAOB — we continually update and redesign our training curriculum so that the more complex and critical audit areas are specifically addressed. We also incorporate observations from our Chief Auditor Network³ as well as results of surveys, focus groups and post-course learning assessments when updating our courses.

The development of our assurance training courses is led by an audit partner with the support of approximately 25 other experienced audit and education professionals. The audit professionals comprise a group in our National Quality Organization that work extensively with our auditing and accounting experts in the National office. The combined auditing and accounting knowledge of these experienced audit professionals along with the course design and delivery expertise of our education professionals assure the creation of effective training courses for our assurance practice.

PwC requires all of its professionals (including non-CPAs) to receive at least 120 hours of continuing education over a three-year period. In addition, PwC audit professionals must comply with annual continuing professional education requirements mandated by the AICPA, applicable licensing state authorities, and the National Association of State Boards of Accountancy. Professionals carrying out audit or assurance work in certain specialized industries may be subject to additional requirements. The firm monitors compliance with these requirements through an annual process administered by our Ethics and Compliance office.

We require our audit professionals, from first-year staff to partners, to attend various training courses that often combine accounting and auditing concepts for a more effective learning experience. Required attendance at training courses is an important component of an individual's performance assessment, and is monitored by the assurance partners who lead our various market teams. 

In addition, all required training courses are followed by learning assessments that help extend the learning experience by testing knowledge gained during the course. CPE credits are only awarded after the successful completion of the learning assessments. The results of these tests also provide participants with a better understanding of where they could improve their technical knowledge and auditing skills.

³ Please see page 17 for a description of our Chief Auditor Network.

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Ratio of audit-related hours for audit team members

5

	FY14	FY13	FY12
Partner to manager	1 to 3.7	1 to 3.6	1 to 3.5
Manager to staff	1 to 4.1	1 to 4.2	1 to 4.2
Partner to staff	1 to 19.2	1 to 18.7	1 to 18.4

Number of hours of auditing training required annually for each professional level

6

	FY14	FY13
Partners	24 to 32	25 to 33
Managing Directors – Managers	24 to 29	26 to 27
Senior Associates	56 to 76	54 to 70
Associates	40 to 80	42 to 85

Our infrastructure

Audit methodology and processes

Methodology, tools, and processes

An important component of providing audit quality is accomplished through our audit methodology. This methodology offers our professionals a baseline for applying consistent judgments and procedures in all our audit engagements. With an emphasis on applying appropriate professional skepticism, the identification and evaluation of audit risks are the central features of our audit methodology. In determining the nature, timing and extent of audit procedures required, in accordance with our methodology, our initial risk assessments are reevaluated as appropriate during the course of the audit in order to confirm that we have to identify any additional procedures necessary for us to gain sufficient audit evidence to reach appropriate conclusions. Throughout this risk assessment process, not only do we seek insights into financial reporting and audit risks, but we also seek to gain an understanding of the business and the risks inherent in that business. The knowledge we gain about the company through these procedures also enables us to more effectively communicate with audit committees and management, which further enhances our audit quality.

Our audit methodology is deployed through the use of audit software, tools and related guidance specifically developed to meet the needs and requirements of the engagement teams in delivering quality audits. We believe that standardization, where appropriate, promotes audit quality, but it must not be a substitute for auditor judgment. Thus, our efforts focus on embedding best practices in

our processes, tools, and templates. Furthermore, enhancements to the audit methodology are made regularly as a result of new standards, emerging auditing issues, implementation experiences, and the results of external and internal inspection. For example, we recently increased our focus on evaluating the design and testing the operating effectiveness of review controls in integrated audits; auditing estimates; completing audit planning earlier in the audit cycle; and augmenting processes used in the supervision, review, and documentation of reviews by the audit partner, quality review partner, and other experienced professionals. This also included enhancing templates and tools used by our engagement teams, issuing guidance targeted at these areas (including numerous practice examples), and required training.

In addition, we believe that it is important to make clear to our audit partners and staff what we, as a firm, mean by “audit quality.” We do that through the dissemination of our Audit Quality Principles. At PwC, a quality audit means consistently:

- Complying with accounting and auditing standards;
- Applying a deep and broad understanding of our client’s business and the financial environment in which they operate;
- Using our expertise to raise and resolve issues early; and
- Exercising professional skepticism in all aspects of our work.

Our expectations for audit quality are further explained by providing our engagement teams with guidance on how to achieve our Audit Quality Principles through our Audit Quality Practices. These practices include the following:

- We ask tough questions.
- We stay current on professional standards.
- We apply an objective and skeptical mindset.
- We aspire to be the audit committee’s independent “eyes and ears.”
- We plan our work.
- We embrace the review and supervision process as a way to continuously improve.
- We remember that real people depend on us.
- We are alert for issues that need deeper analysis and we speak up.
- We take personal responsibility.
- We don’t just do it — we understand it.

Finally, audit documentation is critical in demonstrating that our engagement teams complied with PwC audit methodology and professional standards, and identified and completed the procedures necessary for us to gain sufficient audit evidence to reach appropriate conclusions. The use of documentation tools provides a consistent framework for documenting audit evidence, and we continue to clarify, simplify, and eliminate duplication in our standardized procedures.

We also continue to leverage our Global Assurance Delivery Model, under which certain audit activities are performed by audit team members who are located in one of three centralized service centers, two of which are outside of the United States. This promotes more consistent execution and provides our locally based audit teams with additional time to focus on other aspects of our audits. In fiscal year 2014, our service centers performed nearly 1.2 million hours of audit activities, approximating 5.4% of audit hours.

Audit committee communications

One of the keys to promoting greater audit quality is audit committee oversight of auditors. Not only do we as auditors benefit from timely, meaningful, and direct exchanges of information with the audit committee, but the audit committee benefits as well because this information flow enables them to more effectively execute their oversight role. Our dialogues with audit committees may include obtaining their views on financial reporting risks and areas that warrant audit attention, discussing the audit resources to be allocated to the audit, and considering whether the audit fee fairly reflects the audit work to be performed.

Our audit teams are committed to robust and regular communications on at least a quarterly basis with audit committees of public companies. Required communications include semi-annual discussions about our independence and a discussion of our role and the roles of management and the audit committee. In addition, the audit committee approves our audit engagement and related audit fee and, when applicable, non-audit engagements and related fees. The nature and extent of other communications varies based on



the facts and circumstances, and is driven by professional standards, including but not limited to:

- Auditor independence matters, such as:
 - Any relationships between PwC (and its affiliates) and the audit client (and those people in a financial reporting oversight role) that may reasonably be thought to bear on auditor independence, as well as the potential effects of those relationships on auditor independence
 - Fees we have charged for and a description of all professional services provided to the company, identifying any that may reasonably be thought to bear on our independence
- Significant issues discussed with management, if any, before we were retained as the independent auditor
- Terms of the audit engagement
- Summary of the audit strategy, including subsequent significant changes and difficulties encountered in completing the audit
- Our perspectives on fraud risks, including inquiries of the audit committee on its oversight and knowledge of any fraud
- Critical accounting policies and practices
- Critical accounting estimates, including significant assumptions with a high degree of subjectivity, significant changes made to associated processes, and significant unusual transactions
- Other material written communications with management in the course of the audit



- The quality of the company's financial reporting, including differences between management estimates and estimates best supported by audit evidence that suggest bias on the part of management, and alternative accounting treatments permissible under generally accepted accounting principles
- Significant risks and exposures
- Significant deficiencies, material weaknesses and identified misstatements
- Material uncertainties related to events and conditions that may cast doubt on the company's ability to continue as a going concern
- Potential known fraud and illegal acts
- Quality control matters related to our firm arising from internal or external inspections
- Our responsibility with respect to other information that we have identified in documents containing audited financial statements and material inconsistencies that management has refused to correct
- Disagreements with management, whether or not satisfactorily resolved, that are individually or in the aggregate significant to the company's financial statements or our audit report
- Any management consultations with other accountants of which we are aware that concerned significant auditing and accounting matters

Because of the importance of the audit committee to audit quality, we are committed to discussing with the audit committee the results of the PCAOB's inspection of our audits of the company's financial statements and trends from other inspections that may have a bearing on future audits. In addition, in response to the PCAOB's initiative on audit quality indicators and in coordination with the Center for Audit Quality (CAQ) and its project on audit quality indicators, during fiscal year 2014 we began a pilot program to voluntarily discuss potential engagement-specific metrics with certain audit committees in order to obtain feedback on the overall usefulness of this information in fulfilling their audit oversight responsibilities. We are currently evaluating feedback from this program and are sharing insights with the CAQ staff.



FY14 1 to 7.5

FY13 1 to 6.5

FY12 1 to 7.2



FY13 11.2%

FY14 10%

Consultation process and use of specialists

At PwC, no audit engagement team is expected to “go it alone.” To the contrary, our strong collaborative culture emphasizes reaching out to others when complex accounting, auditing, or financial reporting matters arise. To help our audit teams in this context, we have dedicated a number of experienced partners and other professionals to technical support roles.  Our engagement teams also have access to specialists, whose specific knowledge includes such complex areas as tax reporting and accounting; fair value determination and reporting; acquisition and valuation accounting; fraud and forensic auditing techniques; information technology and cyber security risks; and actuarial sciences.  The number of specialists’ hours that are required for individual audits depends on the nature and extent of these matters in the context of the company’s specific financial reporting.

In addition to the above, the firm’s infrastructure includes risk management partners, quality review partners, and market and industry group leaders. In reaching conclusions, especially on some of the most difficult aspects of an audit, the audit partner and individuals from other relevant groups are provided with an opportunity to align their views before decisions are conveyed to the audit committee and management.

Partners and other professionals who provide consultation support also assist audit teams in reviewing the assessments performed by management and audit committees when potential errors are identified in previously issued financial statements. While relatively rare, such assessments may result in a conclusion to restate those financial statements. 

Number of annual restatements as percentage of issuer audit clients (For purposes of this report, “issuer” audit clients comprise SEC registrants and mutual funds)

FY14

1.19%
(22 out of 1,839)

FY13

1.15%
(21 out of 1,825)

FY12

0.80%
(15 out of 1,870)

National office

Our National office embodies PwC's strong culture of collaboration. Accounting, auditing, and SEC technical professionals regularly advise audit teams on significant, unusual and complex matters within these areas. The National office is also responsible for keeping firm policies and guidance current with evolving regulations, and assists audit teams in keeping company executives informed of standard-setting and other regulatory activity relevant to the company's financial reporting.

Our written consultation protocol identifies specific matters for which National office consultation is required. For example, National office consultation is required when an audit team intends to rely on a single control that covers all likely sources of material misstatement relevant to a significant risk related to a business combination, impairment assessment or tax estimates. Audit teams are encouraged to consult on other matters as warranted by facts and circumstances. In the event an audit partner disagrees with the advice provided by our National office, a resolution process provides guidance for elevating the discussion until the matter is satisfactorily agreed upon and resolved collectively.

Risk management

Our risk management infrastructure includes experienced audit partners who comprise a network with whom engagement teams can discuss potential risks as well as how these risks might be mitigated. These partners serve in national, regional and local roles and devote part or all of their time to risk management activities. As with the National office, audit teams are required to consult with a risk management partner on specific issues (such as errors evaluation and resolution, principal auditor questions, and going concern matters), and are encouraged to do so whenever in need of insight on risk matters. Risk management partners

help audit teams assess risks in the context of audit execution, application of the firm's risk management policies, and whether to undertake or continue an audit engagement.

Chief auditor network

The primary purpose of our Chief Auditor Network is to provide direct and immediate support to our audit teams on a local basis. With a strong connection to our auditing experts within our National office and with each other, the partners and other professionals appointed to our Chief Auditor Network help our audit teams to identify where specific audit attention is warranted, design effective and efficient audit procedures, and exercise professional skepticism. Using their deep understanding of auditing standards, firm policy, and audit methodology, our Chief Auditors may also provide auditing advice by reviewing certain aspects of an audit engagement before the audit is completed. Through these various activities, the Chief Auditor Network is also able to provide both local and national leaders with insights on overall audit quality trends and progress.

To further leverage their expertise, the professionals in our Chief Auditor roles participate in market and industry group meetings, sharing important insights gained through their work with engagement teams, as well as information about frequently asked questions and areas that merit additional focus. Using their acquired knowledge of the current issues facing our audit teams, they also contribute to the development of course content for our required audit training, and serve as instructors for many of the courses.

Quality review partner

Engagement quality review represents a critical component of our quality control system, and partners serving in these roles must have both the requisite technical knowledge and experience and sufficient time to

perform effectively. Quality review partners (QRPs) are members of the audit team who are involved in the most important aspects of the audit, including reviewing the audit plan, considering the firm's independence, and discussing the significant risks identified by the audit team and responses to those risks. Pursuant to professional standards, QRPs are also involved in specific accounting, auditing, and financial reporting and disclosure matters. As with other key members of the audit team, QRPs are held accountable for their performance, and when quality expectations are not met their compensation may be impacted. (Please see our Accountability discussion, on page 8 above.) And as with lead engagement partners, QRPs must also rotate off of their SEC audit clients every five years.

Beginning with our calendar 2014 year-end audits, we took several steps designed to enhance the effectiveness of our engagement quality reviews. First, we created new roles — QRP assistants — and developed policies and guidance regarding the use of those assistants. QRP assistants are generally partners with one to five years of experience as a partner (and may also be senior managers, when circumstances warrant). QRP assistants bring greater capacity to the execution of engagement quality reviews, and provide important experience to our younger partners that can be leveraged in future years as they lead the execution of engagement quality reviews. Second, we issued expanded guidance to clarify and enhance QRPs' understanding of their responsibilities under Auditing Standard No. 7 and the Firm's policies. Last, we adopted new training requirements for both QRPs and QRP assistants beginning with the 2014 calendar year-end audit cycle. We are confident that these program enhancements will improve the effectiveness of our current QRPs, as well as strengthen our pipeline of future QRPs.

**As a member of the PwC global network,
we are able to serve companies across borders
and regions, including in emerging markets
around the world.**

Global network

PwC is a member of PricewaterhouseCoopers International Limited (PwCIL), a UK private company limited by guarantee. Each of the more than 150 member firms of PwCIL is a separate legal entity and together they form the PwC network.⁴ As a member of the PwC network, we are able to work with our fellow member firms to serve companies across borders and regions, including in emerging markets around the world. By virtue of PwC's membership in the network, audit teams have access to important resources in member firms across the world; these resources involve both audit methodology and processes, as well as individual audits.

Quality across the network

During the 2014 fiscal year we — working with other member firms — dedicated significant effort to enhancing the audit resources available across the network. These efforts included:

- Revising the PwC network's global audit methodology to facilitate more consistent execution, particularly in those areas identified through internal and external inspections as at greater risk of audit deficiencies
- Expanding the audit tools that support high-quality performance. For example, the PwC network has created planning and documentation templates to drive greater standardization in the documentation of work performed by engagement teams. Global Assurance Standards have also been developed for service

delivery centers that perform certain audit work for member firms, and these centers are now reviewed as part of the PwC network's global quality review program.

- Enhancing the global core audit training programs in several ways. First, the programs were modularized so that member firms have greater flexibility over matching the training content to the needs of their individual practices. Second, the content of these programs was revised to strengthen audit teams' understanding their clients' business and business processes. Last, Assurance Leaders in member firms across the network required that their audit professionals participate in certain training program areas, including with regard to subsequent events, related parties, auditing IT general controls, planning inventory counts and group audits.
- Redesigning the training curriculum for non-US teams performing work on US SEC registrants required to meet the standards set out by the US PCAOB.
- Introducing "smart guidance," a series of short videos on particular auditing topics that assurance professionals across the network can access on a real time basis as needed.
- Assisting member firms in enhancing their quality-focused infrastructure, including developing appropriate processes for identifying potential causes of quality issues.

- Continuing the foreign assignment program, through which experienced audit professionals are transferred on a secondment basis between member firms; by participating in this program, PwC is able to both share our US experiences with and learn from audit teams in other member firms.

These efforts were designed to facilitate and develop consistently high quality audit performance by all member firms, whether those audits are performed within or outside the US, for US issuer clients or otherwise. Each 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 network team monitors member firms' review of their quality control systems; when areas needing improvement are identified in these reviews, the member firm prepares a remediation plan and the network monitors its implementation.

One of the benefits of membership in a global network is that when a US audit client has multinational operations, we can work with other member firms which can apply their knowledge of local laws and customs in a way that both enhances audit quality and is cost-effective. We are continually refining how we use the work of these non-US auditors (including considering the inspection findings from other member firms with whom we are working), to assure that all components of the audit meet US standards and satisfy our own quality expectations.

⁴ Please see www.pwc.com/structure for further details.

Our execution

In-process reviews

During the past few years, one of the ways we have monitored and confirmed quality is by reviewing certain audit engagements prior to the issuance of our audit reports. Throughout fiscal year 2014, professionals in our Chief Auditor Network selected a sample of our engagements to review while the audit planning was in process, focusing on specific elements of the audit plans.

For a subset of those engagements, our inspections group additionally performed targeted quality assessments of the implementation of the audit plan and the performance of the audit work prior to the issuance of our audit reports. During these reviews, our inspections group considered various execution topics such as how recently issued policies, training and audit methodology enhancements were being applied. This information not only informed our inspectors about the quality of the work being performed, but also provided insight into ways to further improve the consistency of implementation of our firm's methodology. These reviews also provided individual engagement teams with valuable feedback, which they were able to incorporate into their audit work prior to the completion of fieldwork.

We have valued our in-process reviews and are continually striving to increase their effectiveness. During fiscal year 2014, we narrowed the number of our in-process reviews to allow us to focus to a greater extent on specific aspects of our work in each review related to management review controls and estimates.  10

Internal inspections

A key source of significant input regarding our success in delivering audit quality is our internal inspections program. This program is staffed with a core group of experienced audit professionals who are committed full time to monitoring audit quality, and ensuring consistency and quality in our internal inspections process. With a primary goal of determining whether professional auditing standards and our internal audit quality objectives were sufficiently achieved, engagements are selected for inspections in order to review a broad representation of our audit practice.

During the inspections process, the inspections group evaluates the appropriateness of the judgments made by the audit teams and looks for instances where professional auditing standards or our internal audit quality objectives were not adequately evidenced in the working papers. As individual inspections are performed, the core inspections group is supplemented as needed with other experienced audit partners and senior audit professionals throughout the firm, specifically considering individuals with relevant industry or technical expertise.

When audit quality concerns relating to professional auditing standards or our internal audit objectives are identified, the inspections group considers what additional procedures or documentation may be necessary to adequately meet such standards and objectives. Further, the inspections group works with our Chief Auditor Network, Audit Methodology group, Learning and Development group, and firm leadership to determine whether additional guidance or training,



Approximate number of in-process audits reviewed

FY14 210

FY13 300

FY12 280



Number of issuer audit clients subject to internal inspections

FY14 189

FY13 199

FY12 173

modifications to our audit methodology, or additional targeted messaging from leadership are needed to enhance the consistency of our audit quality.  11

In addition to assessing the quality of individual engagements, our inspections group annually evaluates the firm's system of quality control over our audit practice. Our quality control system addresses (i) leadership's responsibility in their roles for quality, (ii) relevant ethical requirements, (iii) considerations in undertaking an audit engagement, (iv) human capital needs, (v) engagement performance, and (vi) our process for monitoring the effectiveness of our quality control policies and procedures. Our system is also subject

to annual review by professionals from the PwC global network. The most recently completed annual evaluation confirmed that our system of quality control is functioning effectively.

The preliminary results of our 2014 internal inspections of 2013 audits indicate favorable trends in terms of our compliance with professional auditing standards and our internal audit quality objectives as compared to the results of the 2013 internal inspections of 2012 audits. Based on our 2013 internal inspections on 2012 audits the following areas warranted our continued focus:

- Sufficiently documenting our planned audit approach, understanding and testing for:
 - journal entries
 - inventory cycle counts and physical observations
 - accounting estimates
 - revenue
- Sufficiently testing internal control over financial reporting specific to certain cycles including:
 - understanding the company's business processes "end to end"
 - identifying likely sources of potential misstatement
 - determining the nature, timing and extent of controls testing including review controls
 - evaluating any uncorrected misstatements or deficiencies identified

- Independence, including:
 - maintenance of independence confirmations
 - independence discussions and assessments about new business acquisitions made by clients and authorization for new services

Because auditing is a complex and judgmental process, the inspections group identifies areas for improvement and then participates with the other PwC groups described above to develop appropriate changes to guidance, training and/or methodology. In keeping with this concept, our preliminary 2014 internal inspections results show that we need to improve the consistency of our performance in certain specific areas including the following: internal controls and process understanding, evaluation of significant assumptions within accounting estimates, audit documentation over independence procedures, and testing procedures over inventory and journal entries.

In accordance with the Sarbanes-Oxley Act of 2002 (the Act), the PCAOB's inspection report includes both a public and a nonpublic portion. The public portion of the inspection report contains an overview of the inspections procedures and observations concerning the engagements inspected. The nonpublic portion of the inspection report contains PCAOB's observations about the firm's audit performance and system of quality control, which the Act mandates will not be made public by the PCAOB if the firm addresses those quality control observations to the PCAOB's satisfaction within 12 months of the date of the inspection report. The most recent inspection report on our audit practice is dated June 10, 2014⁵, and describes the results of the PCAOB inspection of 59 of our 2013 audits of financial statements for 2012; this number represents 3% of our public company audits.  12

External inspections

PCAOB inspections of our public company audit practice provide additional feedback on our success in delivering audit quality, and represent an important check on our internal monitoring and assessment processes. Our regulator, the PCAOB, reviews a relatively small percentage of our issuer audit clients annually, using a largely risk-based approach. This risk-based approach is designed to target particularly complex audit areas, industry segments and clients.

Number of PCAOB-inspected audits included in Part I

	Audits inspected	Audits included in Part I
2013	59	19
2012	54	21
2011	63	26
2010	75	28

⁵ For ease of reference, we refer to this report as "our 2013 inspection report."

Part I of the PCAOB report

Part I of our 2013 inspection report covers inspections of selected 2012 year-end audits. In response to that report, we continue to focus our improvement efforts on the PCAOB's observations which primarily relate to the following:

- Auditing internal controls over financial reporting and testing those controls in a financial statement audit, including evaluating the design and testing the operation of controls involving management reviews;
- Testing management's process and significant data inputs and assumptions supporting estimates and fair value measures such as acquired intangible assets, goodwill impairment assessments, income tax contingencies, and inventory valuation reserves; and
- Performing audit procedures to identify or adequately respond to omitted or inaccurate financial statement disclosures.

Part II of the PCAOB report

Part II of our 2013 inspection report is nonpublic and reflects criticisms identified during the PCAOB's review of certain practices, policies, and processes related to our system of quality control, including audit quality observations developed from the engagement-specific findings reported in Part I. Comments in Part II generally focus on:

- Management structure and processes, including the tone at the top;
- Practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions;
- Policies and procedures for considering and addressing the risks involved in accepting and retaining clients, including the application of a firm's risk-rating system;
- Processes related to a firm's use of audit work that its foreign affiliates perform on the foreign operations of a firm's US issuer audit clients; and
- Processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to weaknesses in quality control.

As previously noted, if a firm has addressed the quality control matters described in Part II to the PCAOB's satisfaction within twelve months after the report is issued, then no portion of Part II is made public by the PCAOB. During the 2014 fiscal year, the PCAOB informed us that it is satisfied with the actions we took to address observations contained in Part II of our 2010 inspection report (which covered our 2009 year-end audits). Recently, the PCAOB informed us that it is also satisfied with the actions we took to address observations contained in Part II of our 2011 inspection report (which covered 2010 year-end audits). The PCAOB has not yet made a determination as to the sufficiency of our actions in response to the non-public portions of our 2012 inspection report.

Other reviews

An inspection of our private company audit practice through a peer review process is performed every three years. Grant Thornton LLP completed our latest peer review in December 2012, after inspecting a total of 83 engagements. The system of quality control for our assurance practice was also evaluated. Firms can receive a rating of pass; pass with deficiencies; or fail. We received a rating of "pass." Our employee benefit plan audit practice was also inspected in 2012 by the US Department of Labor and that inspection produced similarly positive results.



Continuous improvement

When an issue related to audit quality concern is identified — whether through our own internal inspections process, the work of the PCAOB, peer reviews, or restatements — we recognize the critical need to determine the factors that may have contributed to it so that we can take steps to reduce the risk of reoccurrence. One of our primary objectives when conducting such an analysis is to identify how the firm can provide the best possible environment for our engagement teams to deliver a quality audit. Our goal is to understand how quality audits differ from those with deficiencies, and to use this learning to continuously improve all of our audits. We believe that this significantly contributes to the continuing effectiveness of our quality controls.

Specifically, a team of reviewers that is independent from the engagement team determines potential factors contributing to the quality concern by evaluating engagement data using both qualitative and quantitative approaches. We look at audits both with and without deficiencies, to help identify possible distinctions and learning opportunities.

We then evaluate the results of the engagement level analyses to identify enhancements that may be useful to implement across the practice. This helps us to take steps that will improve audit quality across the firm, typically related to training, guidance, auditing tools, engagement staffing, and/or client acceptance policies. We also consider factors relevant to technical knowledge, review and supervision, professional skepticism, engagement resources and training, among others. The results of these analyses also help to inform our partner quality assessment process, including an evaluation of the execution of leadership responsibilities and the development of responsive action plans.

Our role in society

At PwC, we take seriously our unique opportunity to play a significant role in both our national and global communities. By virtue of the services that we provide as auditors or consultants to a wide range of public and private corporations, banks, investment firms, mutual funds and other business organizations, we see the big trends and issues that are emerging — often before others who may be more focused on a single enterprise. And with these observations comes the ability to influence outcomes, not only for ourselves, but also and perhaps more importantly, for the world in which we live.

This year, we have embraced this distinctive vantage point with renewed vigor. We are committed to sharing what we see — the opportunities, challenges, potential risks, gaps and redundancies — with as diverse an audience as possible. We are also redoubling our support of individual partner and employee investments in important philanthropic causes that seek to address critical societal issues.

On a firm-wide basis, our commitment takes several forms, including:

- Through our *Earn Your Future* campaign, we are committing \$160 million (60 million in cash and 1 million service hours) over five years to address two critical needs in the US education system: financial literacy among young people, and financial training opportunities for educators.⁵ In fiscal year 2014, we delivered over 192,000 hours of pro bono hours to youth education efforts. Our Southern California market set the Guinness World Records® title for “The Largest Simultaneous Financial Literacy Lesson in Multiple Locations.”
- With over 39,000 partners and employees, we are one of the largest employers of college graduates in the US. On average, our total US firm employs 12,000 new hires each year. These people — our most valuable resource — deserve the highest level of professional development to enable them to serve their own important roles in society, today and in the future. They work in 80 offices across the country (occupying over 5 million square feet of office space), live in countless communities, and use the services of over 6,500 suppliers. In short, looking only at our own footprint, PwC represents an important component of our national economy.
- We encourage and facilitate our people in giving back to their local communities. In addition to our commitment to youth education, in fiscal year 2014 PwC partners and staff delivered nearly 19,000 pro bono service hours to other causes, and personally made over \$10 million in charitable contributions. PwC's Charitable Foundation contributed another \$10.5 million.
- We are also committed to reducing the environmental impact of our very large footprint. Between fiscal years 2012 and 2013, we reduced our Greenhouse Gas Emissions (GHG) per full time employee equivalent from 7.0 to 4.9. We are only one of 14 companies (and the only one of the Big 4) to be named as a 2014 Green Lease Leader by the US Department of Energy.
- We are also sharing our expertise to wide and diverse audiences. For example, tapping into the experiences of our professionals across the PwC network, we have observed that many of the largest global companies have organized their long-term strategies around five megatrends: accelerating urbanization, climate change and resource scarcity, demographic shifts, shifts in global economic power, and technological breakthroughs. We are broadly sharing these observations in order to enable others to better understand and potentially benefit from including them in their own strategies (e.g., we have tailored megatrends materials for both corporate directors and investors, raising relevant issues for their own considerations).

To learn more about our Center for Board Governance, please visit www.pwc.com/us/CenterforBoardGovernance

⁶ Please see <http://www.pwc.com/us/en/about-us/corporate-responsibility/commitment-to-youth-education> for more details about this program, as well as our other youth education efforts.

**To learn more about PwC's
Investor Resource Institute, please visit
www.pwc.com/us/InvestorResourceInstitute**

In addition to these firm-wide activities, we have focused on contributing to society in the context of our audit practice in various ways, as discussed below.

Audit committees

Through our Center for Board Governance, we contribute to increased audit and financial reporting quality for the benefit of all capital market participants. We do this in part by assisting corporate directors to more effectively meet the challenges of their oversight roles. Among other things, we provide directors with training that is specific to actively overseeing the work of the independent auditor, including critically assessing the audit plan and evaluating auditor performance, independence and objectivity.

helps us to detect trends, areas where additional guidance from regulators or educators may be important, and opportunities for us to continually improve the quality of our work.

Professional and regulatory

The audit profession as a whole has an important role in building trust in society. Investor confidence in the integrity of the markets — confidence that is essential to provide businesses with the capital to fund future growth — depends on the accuracy and fairness of financial reporting. While companies are responsible for their own financial statements, the independent audit represents an additional layer of protection by confirming that these statements are in accordance with applicable accounting standards in all material respects.

And as these rules continually evolve, we remain active in explaining their application to — and listening to the unique insights of — a broad array of stakeholders, including corporate directors, financial executives, independent auditors, and investors.

Investment community

It is the confidence of the investment community — that is, those who invest for their own families' education, retirement and health security, or those professionals who invest as fiduciaries for them — that most needs to have trust and confidence in financial reporting and the financial system. PwC's Investor Resource Institute (PIRI) was established in early 2013 as a means for us to share with, listen to, and learn from investors of all types and sizes. Its mission is to add value to investors' decision-making processes by sharing PwC's insights and educational materials regarding markets, industries and corporate governance.

But as important as audit opinions are, we do not believe that it is sufficient for us to limit our voice to issuing these reports. We also play an active role in legislative, regulatory and standard-setting debates about further improving the rules that govern auditing and financial reporting — debates that are taking place across the globe. We often collaborate with other members of the profession, including by working with the Center for Audit Quality (CAQ), to recommend new or revised rules. Currently, our own Chairman and Senior Partner, Bob Moritz, serves as the chair of the CAQ's governing board, and in that capacity helps to lead the profession during these public debates. In all respects, our views are guided by certain fundamental questions: Will it improve the quality of the information available to investors? Will it improve the quality of the audit?

During fiscal year 2014, PIRI matched PwC experts on a wide range of issues (including accounting, auditing, sustainability, cybersecurity, systemic risk, governance and macroeconomic megatrends) with investors who care about those issues. These conversations occurred during one-on-one-meetings, roundtables, webcasts, thought-leadership pieces, and conferences. We also conducted numerous surveys of investor views on many of these same issues, and shared what we learned both externally and internally. Collectively, our interaction has been with investors who in the aggregate manage over \$14 trillion, and includes asset managers, pension funds, mutual funds, and hedge funds.

**To learn more about our
perspectives on financial
reporting issues, please
visit www.cfodirect.com**

We also provide information and our own perspectives to corporate directors on significant corporate issues and financial reporting developments. We do this through our publications, webcasts, seminars, roundtables, and one-on-one meetings. Beginning in 2013, we broadened our governance program to include real-time insights into proxy voting trends, helping directors to better understand how investors view various governance issues. Just as importantly, we learn from our interaction with corporate directors — listening to these directors

Appendix: Legal and governance structure

Member of the Leadership Team as of the date this report was issued

Chairman and Senior Partner	Robert Moritz, CPA
Markets, Strategy and Stakeholders	Tim Ryan, CPA
Leader and Vice Chair	
Services Leader and Vice Chair	Dana McIlwain, CPA
Assurance Leader and Vice Chair	Vincent Colman, CPA
Tax Leader and Vice Chair	Mark Mendola, CPA
Advisory Leader and Vice Chair	Miles Everson, CPA
Network Alignment and Vice Chair	Mitchell Cohen, CPA
Markets and Sectors Leader and Vice Chair	William Cobourn, Jr., CPA
Network and US Transformation Leader and Vice Chair	Michael Burwell, CPA
Chief Financial Officer and Vice Chair	Carol Sawdye, CPA
Human Capital Leader and Vice Chair	Tom Codd, CPA
Chief Diversity Officer	Maria Castaños Moats, CPA
General Counsel and Chief Risk Officer	Diana Weiss
Marketing and Sales Leader and Vice Chair	Robert Gittings, CPA
Regulatory Affairs and Public Policy Leader	Laura Cox-Kaplan
Chief Administrative Officer and Partner Affairs Leader	Gary Price, CPA

Legal structure and ownership of the firm

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 principals⁷, all of whom are individuals.

Governance structure of the firm

The firm's Senior Partner serves as Chairman and Chief Executive Officer, and as such manages the firm. The Senior Partner may appoint persons and committees to assist with firm management, and provides the Board of Partners and Principals (which is PwC's governing body, see below) with initiatives regarding the firm's philosophy, policies, and direction.

To assist in discharging his responsibilities, the Senior Partner has appointed a Leadership Team, which works with him in managing 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 those relating to the quality of the firm's audit services. All of the members of the Leadership Team are partners or principals. 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 that can be renewed once.

⁷ A partner is a certified public accountant (CPA) whereas a principal is not. Only CPAs may sign an audit opinion. Partners and principals are alike in most other aspects of the partnership, such as sharing in profits/losses, managing risk, developing our staff, investing in client relationships and performing services for clients. For purposes of this Appendix, "partner" refers to both partners and principals.

Board of Partners and Principals

Authority

The Board is responsible for approving the overall strategic direction of the firm. It approves long-range strategies and business plans, and 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

Members of the Board are partners of the firm and are elected for staggered terms of four years that can be renewed once. The Board is chaired by a Lead Director, who is elected by the members of the Board other than the Senior Partner. The Board has at least 12 and not more than 18 members in addition to the firm's Senior Partner.

Committees

The Board is assisted by various committees that help to carry out its role. Two committees that assist the Board with its responsibilities related to audit quality are the Accounting & Auditing Practice (A&AP) committee and the Risk Management, Ethics & Compliance (RME&C) committee. The A&AP committee's scope of responsibility includes regulatory

matters that affect our assurance practice and, as appropriate, other parts of the PwC global network, and accountancy licensing and professional standards issues. As part of its oversight of our assurance practice, it evaluates and oversees the progress of our audit quality initiatives, including the status of actions taken in response to PCAOB inspection reports.

The RME&C committee assists the Board in its oversight of the firm's management of key risks as well as the guidelines, policies, and processes for monitoring and mitigating such risks in all practice areas of the firm.

Board member selection process

The partner vote for selecting Board members is on a headcount basis. Partners vote by ranking the candidates for the Board, and the candidates with the most votes are elected. The Board election is typically supervised by an independent election teller.

Members of the Board of Partners and Principals as of the date this report was issued

Robert Moritz, CPA

Chairman and Senior Partner

Brian Cullinan, CPA

Lead Director

James Kolar, CPA

Thomas Archer, CPA

John Livingstone

Brendan Dougher, CPA

Karen Lohnes

John Farina, CPA

John Maxwell, CPA

Saverio Fato, CPA

John McCaffrey, CPA

Julie Harmon, CPA

Jacqueline Olynyk, CPA

Linda Ianieri, CPA

Alan Page, CPA

James Kaiser, CPA

Michael Quinlan, CPA

Paul Kepple, CPA

Michael Swanick, CPA

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