Our approach to delivering quality services across all our operations and network

Focus on Quality...

The quality of our work is at the heart of our organisation and we invest significant and increasing resources in its continuous enhancement across all of our businesses. This investment is targeted into many different areas, including training (technical, ethical and behavioural), methodologies, adding resources in key areas and exploring new ways of delivering our work. Each investment reflects a common determination to understand the factors that drive quality and identify opportunities for enhancement.

We are also investing heavily in new technology to drive continuous improvement in the capabilities and effectiveness of all of our services.

We are proud to have been the first of the global professional services networks to have published its internal audit quality inspection results. It is very important that we are transparent about both the efforts that we are making to enhance quality, and also the results and the impact that these efforts are having. The publication of this data over the last few years, along with public discourse on the subject of the audit, has quite rightly put an increasing focus on the issue of audit quality, which we discuss in detail below.
... right across all our businesses

The quality of our work across the full range of our services, including Tax and Advisory, is equally important and it has been a key focus for us internally both in terms of how best to test, measure and enhance quality, but also the levels of investment we need to make to ensure our quality is at the level we and our stakeholders expect.

Some examples of how we are looking at quality across our Tax and Advisory business include:

- More than 30 of our largest firms across the PwC network have established tax policy panels. A Tax Policy Panel comprised of senior partners and subject matter experts who determine whether a potential tax project or advice position fits with our brand values and our Global Tax Code of Conduct.

- To continue to enhance the quality of our large-scale Advisory projects, we undertake ‘in flight’ reviews to check on progress against objectives and successful and timely delivery so that we may make any necessary changes and adjustments. In FY19, over 200 in flight reviews were undertaken on projects carried out by our 21 largest firms around the world.
Definition and culture

At PwC, we define quality service as one that consistently meets the expectations of our stakeholders and which complies with all applicable standards and policies.

An important part of delivering against this quality definition is building a culture across a network of 276,000 people that emphasises that quality is the responsibility of everyone. Continuing to enhance this culture of quality is a significant area of focus for our global and local leadership teams and one which plays a key part in the measurement of their performance.

Measurement and transparency

For all our businesses, each PwC firm – as part of the agreement by which they are members of the PwC network – is required to have in place a rigorous quality management system (QMS); to annually complete a QMS performance assessment; and to communicate the results of these assessments to global leadership. These results are then discussed in detail with the leadership of each local firm and if they are not at the level expected, a remediation plan is agreed with local leadership taking personal responsibility for its successful implementation.

As our services change and develop, and the needs and expectations of our stakeholders also change, we are continually reviewing and updating the scale, scope and operations of our quality management systems and investing in programmes to enhance the quality of the services that we provide. For example, we have recently renewed our focus on ‘tone at the top’ of our organisation and are creating the right culture for high performance and high quality. Knowing how important tone at the top is, we are implementing an enhanced and consistent measurement of leadership effectiveness and quality right across our network.

Specific focus on audit quality

Delivering quality audits is core to our purpose. To that end, our member firms are committed to providing a quality audit. However, where our work falls below the standards that we set for ourselves and are set by the regulators, we are disappointed and also criticised. We take each of these instances very seriously and work hard to learn lessons and to enhance the quality of audits that we undertake in the future.

The right objectives and capabilities...

To help our member firms put this strategy into effect, the PwC network has established clear objectives around audit quality and provides support to help those firms meet these objectives. Our member firms can only deliver quality audit services if they have access to the necessary capabilities – both in terms of people and technology. That's why our quality objectives focus on having the right capabilities – both at a member firm level and across our network – and on using these capabilities to meet our own standards and the professional requirements. These capabilities can only be developed under the right leadership and quality culture, promoting the right values.
Enabled by technology

New technologies will transform the way audits are performed in the future, resulting in a step-change in quality, insight and experience for audit professionals and clients. Aura – our enterprise resource planning system for the audit – is at the heart of how we build and execute the audit plan, and drives global quality and consistency. Our latest release – Aura Platinum – is cloud-based and lays the foundation for future digitisation and automation.

We are already trialling GL.ai globally, our ground-breaking bot that detects anomalies in a company’s general ledger using advanced artificial intelligence (AI) technology. Innovations such as these are the foundations for a future where AI and automation will enable people and technology to collaborate in new ways to create the next generation audit – with unparalleled speed and accuracy; where technology eliminates human bias and error and augments human judgment; and where vast volumes of data can be analysed and interpreted in seconds using advanced analytics and visualisation.

Integrated and aligned in the right way

The quality objectives focus on having the right people supported by effective methodologies, processes, and technology appropriately directed and supervised. These represent the capabilities that we believe are relevant to achieving and sustaining audit quality. To help our member firms achieve these objectives, we also have a number of dedicated functions at a network level that develop practical tools, guidance and systems to support and monitor audit quality across our network. We’ve integrated and aligned these elements to create a comprehensive, holistic and interconnected quality management framework that is tailored to reflect the individual circumstances at each member firm across the PwC network.

Delivering quality audits is core to our purpose of building trust in society and solving important problems.
Delivering a quality end-product consistently

Central to the framework is the recognition that quality management is not a separate concept; it needs to be embedded in everything we do as individuals, teams, firms and the network. To support consistency and guide member firms, the quality objectives are supported by designated key activities which are considered necessary to achieve the quality objectives, focused mainly on building a quality infrastructure and organisation. Member firms supplement and design those key activities as appropriate to respond to risks they have identified to achieving each quality objective.

Values and judgments

Performing quality audits requires more than just the right processes. At its core, an auditor’s role is to assess with a “reasonable” degree of assurance whether the financial statements prepared by the company’s management are free of “material misstatements” – reaching a professional judgment on whether the financial statements present a fair picture of the company’s financial performance and position. To carry out this assessment effectively, the auditor needs to use all the capabilities that have been built up in line with our quality objectives. These include applying ethical behaviour in accordance with PwC’s values, professional scepticism, specialist skills and judgment – all supported by state-of-the-art technology.
Measuring the quality of our audits - internally

Monitoring and measuring our quality results and recognition and accountability for quality are important aspects of continuous improvement.

A vital component of any quality audit is fulfilling the requirements of the applicable auditing and professional standards, such as independence and ethical requirements.

As part of our internal monitoring, we regularly perform independent reviews of a sample of completed audits to check whether the audit evidence gathered is sufficient and reliable and complies with relevant standards. We learn from these reviews and take steps to respond in an appropriate way to address and remediate potential root causes, including making changes to the quality management system when needed.

Results of our internal audit inspections

<table>
<thead>
<tr>
<th>Year</th>
<th>Compliant audits (%)</th>
<th>Non-compliant audits (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>94.9%</td>
<td>5.1%</td>
</tr>
<tr>
<td>2018</td>
<td>92.2%</td>
<td>7.8%</td>
</tr>
<tr>
<td>2017</td>
<td>91.2%</td>
<td>8.8%</td>
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Between 2015 and 2019, we reviewed a total of 9,415 audits by member firms worldwide.
Between 2015 and 2019, we reviewed a total of 9,415 audits by member firms worldwide, and the results are set out in the table above. 44% of those audits were ‘public interest entities’ (essentially listed and other significant companies) – and amongst these, 225 were classified as non-compliant over the five years. After a detailed evaluation of the instances of non-compliance, we observed that the vast majority of the instances of non-compliance did not involve inappropriate opinions being issued. Nor required a restatement of the audited organisation’s financial statements and/or for the audit opinion to be withdrawn or reissued, but rather a need for improvement in how the audit work was performed and documented.

We continue to invest heavily in enhancing audit quality, continuously review the clients with whom we work, and reassess what we believe to be appropriate. We know that we have more to do and that we need to reduce the level of non-compliant audits further. We remain committed to additional investment and actions needed to further enhance quality at both a local firm level and across the PwC network.

We take all instances of non-compliance seriously, and each member firm acts to understand the circumstances which led to its quality objectives not being met, to identify the potential root causes of the problem, and to make improvements to its controls, systems or approaches as needed to stop it from happening again. Our member firms also reflect quality in the evaluation, reward and accountability of the relevant audit partners and leadership teams.

And externally, through the eyes of the audit regulators

In addition to our internal review programme, our member firms are subject to monitoring and inspection by external regulators. Some 55 of these regulators are members of the International Forum of Independent Audit Regulators (IFIAR). In 2015, as an initiative to improve audit quality, nine leading audit regulators represented on IFIAR’s Global Audit Quality Working Group, and the six biggest global audit networks agreed on a target to decrease the proportion of audits of listed public interest entities identified with findings from regulator inspections on an aggregate basis.

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Starting with a baseline result for the six networks of 39% of audits with findings in IFIAR’s 2015 Survey, the target was to reduce that figure by at least 25% over a four year period on an aggregate basis, to below 29% which will be reported in the 2019 IFIAR Survey to be published in 2020. The equivalent figure for PwC for these nine regulators indicates a reduction from 34% in 2015 down to 20% in the 2018 survey published in May 2019. We believe we are on track to meet our element of the IFIAR target in respect of the 2019 Survey.

Impact of non-compliance

Where an audit is deemed to be non-compliant, we consider what, if any, impact this may have on the financial statements of the entity. This exercise is being undertaken for the recently completed inspection cycle and we will update this website with the latest data as soon as it becomes available. For the 2018 inspection cycle, of the 1,890 audits that we reviewed through our own inspection process, 147 were rated as non-compliant, and of these non-compliant audits, six required a restatement of the audited organisation’s financial statements and/or for the audit opinion to be withdrawn or reissued.

Engaging with stakeholders

As part of our network audit quality management framework, PwC’s member firms make significant investments in audit quality. Each investment reflects a common determination to understand the factors that drive quality, to identify opportunities for improvement, and to make those enhancements promptly to prevent issues from recurring.

The depth and breadth of resources across our global network aim to help firms understand different industry sectors and their emerging risks and challenges – in turn positioning our firms to anticipate, identify and address audit issues. What’s more, our common standards provide a basis for regular and productive interactions with audit committees, boards and regulators worldwide. And we are eager to keep engaging with others to share, listen and learn – while continuing to invest in enhancing the quality of every audit we undertake.