

# Management discussion

## Evolving beyond breakthrough: The value of trust delivered by assurance

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### Society and trust: Medium- to long-term outlook

**Q** Society is undergoing drastic change, driven primarily by climate change and increased use of generative AI. In this environment, how should audit firms foster relationships with society and companies?

**Kubota:** In the past, PwC identified five global megatrends: climate change, technological disruption, demographic shifts, a fracturing world and social instability. I feel these predictions are rapidly becoming reality. They are no longer distant possibilities, but are present-day challenges. We must now consider how to respond to them.

**Kagi:** Japan is also entering a new era of transformation and uncertainty, moving away from stagnation and stability. Amid the sweeping changes happening around us, it is essential for audit firms to reflect on what is expected of them and how they can play a part in ensuring safe and secure lives for people, sustainable growth for businesses and development for the country. To do so requires fairness, transparency and integrity.

**Kubota:** Responding to these megatrends requires us to change, but it is natural to feel uneasy. In times when established order is disrupted, trust becomes even more critical. For example, societal transformation often involves sharing personal data, which carries risks of information leakage and misuse. In order to share data, the trustworthiness of people handling that data is key.

**Yamaguchi:** In today's world, where information and data are of paramount importance, PwC can make a difference by ensuring information and data accuracy and providing support for its respon-

sible use. This is one of our greatest strengths and our core responsibility to society.

Our Diagram of Trust [▶ p.14](#) illustrates this concept. One of the Firm's defining features is our dual engagement in both audit and broader assurance services (BAS: advisory services). Our mission is to build trust in society by leveraging the strengths of both. In audits, we provide trust by independently verifying the appropriateness of financial statements and internal control reports. Through BAS, we help clients build trust by supporting their efforts in data creation, collection, retention and internal control development.

By delivering trust through both audits and BAS, we believe we can make a meaningful contribution to society. But first, it is essential for us to earn trust—from society, our clients and our own people. That trust is built through consistently delivering high-quality services that are recognised and valued.

**Kubota:** It is important to create a chain of trust.

**Yamaguchi:** Trust begins with a culture that values quality and compliance, and is built on a track record of consistently meeting the expectations of stakeholders.

**Kubota:** Building trust with the Firm's staff is also crucial. Merely implementing policies in a top-down manner will not earn their trust.

**Yamaguchi:** Maintaining mutual respect with our people and sharing information transparently is crucial to building trust with our staff. It is essential to foster a culture where people feel empowered to speak up for what they believe is right and consistently do the right thing. Trust within the organisation is built on a foundation of integrity.

**Kagi:** Trust is not something we create alone; it is something others grant us based on our daily actions. I believe trust is cultivated through strong thinking and beliefs, open communication and genuine empathy.

**Kubota:** Management must first place trust in our people. That is the only way to foster a cycle of trust and extend it across the Firm.

### Reflecting on FY2025\* and looking ahead to FY2026

**Q** How will the achievements from FY2025's breakthrough initiatives direct the Firm in implementing changes for FY2026?

#### ▶ FY2025: Meaning and achievement of 'breakthrough'

**Kubota:** In FY2025, the Firm set the goal of executing initiatives aimed at breakthroughs, which involved laying the groundwork for major changes such as brand renewal and organisational redesign. The most significant achievement was the trust we have fostered across the organisation, which gave us confidence in bringing different organisations with distinct cultures and values together to work as one.

**Yamaguchi:** PricewaterhouseCoopers Aarata LLC and PricewaterhouseCoopers Kyoto integrated in December 2023. FY2025 marked our first full year operating as a unified organisation, and it served as a year of foundation-building.

**Kagi:** About six months after the integration, our new structure began to take shape. Throughout FY2025, we witnessed significant advancements

in both quality and operations. Most importantly, the integration established a solid foundation for future transformation.

#### ▶ FY2026: Year of transformation – Driving integration and its impact

**Kubota:** FY2026 will be the year to realise transformation built on the foundation of trust we established in FY2025. Of course, change comes with risks, but the experiences we gained last year have equipped us with the confidence to move forward without fear.

**Yamaguchi:** The sequence matters: it is the breakthrough that makes us embrace change. The breakthrough achieved in FY2025, centred on organisational integration, has given us the confidence to embrace transformation in FY2026. In FY2025, we stood firmly on the launchpad; FY2026 will be the year we take off. I am truly excited about what lies ahead.

**Kagi:** The confidence in moving forward together continues to guide us as we implement changes in the next fiscal year. FY2026 offers a meaningful opportunity to reaffirm our purpose of building trust by strengthening the relationship between our clients and us—those who choose us and those we support.

**Kubota:** Regarding integrated assurance services [▶ p.15](#), the separation of audits and BAS into different operating units is merely a formality. What truly matters is our ability to ultimately help our clients build trust. Integration in this context is not about the methodology but about the outcome. Even if the audit team and the BAS team start from separate paths, true integration will be realised if they share knowledge and experiences along the way and meet at the finish line.

\* FY2025 is the Firm's fiscal year from July 1, 2024 to June 30, 2025.

**Yamaguchi:** I agree. Our goal is to help our clients build trust in society. The key is not to determine whether audit or BAS is better suited to fill the trust gap. What is more important is how we can leverage the knowledge and experience of both to best meet our clients' needs. By understanding and respecting each other's knowledge and experience within the Firm, we not only enable smooth operations but also positively influence growth and mobility among our people.

**Kubota:** From an organisational perspective, we have consolidated and redesigned our operational units to allow members to share and engage in a broader range of work. However, as the organisation expands through consolidation, there is a view that we may not be able to give adequate attention to certain industries or regions, which could potentially lead to a decline in service quality.

**Yamaguchi:** Regarding this view, I actually see value in the organisation's expansion, as it facilitates knowledge-sharing across different industries. This can lead to fostering a group of professionals with broad perspectives to deliver solutions.

**Kagi:** I also believe that, by consolidating organisations while understanding and leveraging the unique characteristics of each region, we can close the trust gap and provide the best solutions that will earn our clients' trust.

**Yamaguchi:** As our organisation expands, some members may feel they are not receiving adequate attention. In building an environment to address this concern, it is crucial to establish smaller teams to reduce the sense of distance and foster communication that allows people to perceive the direction of the organisation. Starting this year, we have embraced the message 'Grow here. Go further' for our people-focused initiatives. Our goal is to build a foundation that empowers our staff to grow as professionals, so that their growth contributes meaningfully to society.

► **Strengthening governance and significance of external perspectives**



**Kubota:** We view FY2026 as a year of transformation. As our organisation continues to grow, it is essential that we remain true to our core values. This is why external perspectives are

indispensable. Beginning in FY2026, we will introduce a new governance system by inviting external members from the Public Interest Board (PIB) to join the Oversight Committee.

**Yamaguchi:** Third-party perspectives allow us to identify issues and areas for improvement that we might otherwise overlook. This input is particularly valuable as we navigate upcoming changes.

**Kagi:** When you are inside the organisation, it is easy to overlook deviations. This is why maintaining a structure that welcomes candid feedback from external voices should remain a priority for us.



**Yamaguchi:** Beyond our firm, collaboration with other firms within the PwC Japan Group, including those providing consulting, deal advisory and tax services, is becoming increasingly important. Expanding our perspectives and delivering value from multiple angles lead to enhanced services. I believe our ability to maintain open relationships that empower people to speak up and professionally challenge one another across different business lines is a major strength of our organisation.

**Kubota:** The Oversight Committee also includes members from outside the Firm. This diversity is essential in engaging in meaningful monitoring and dialogue, helping us to maintain fairness in governance and to prevent internal bias.

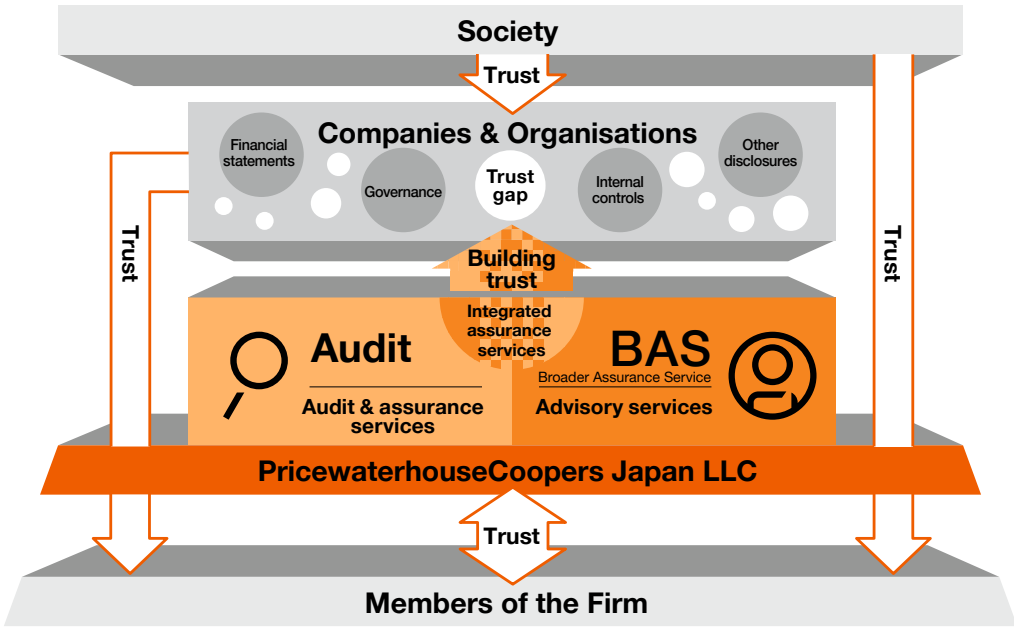
**Future-focused investments for high-quality services**

**Q** Which areas are being prioritised for future investments to ensure the delivery of high-quality services?

**Kubota:** In terms of business management, stakeholders are increasingly focused on technology and people. A major priority is leveraging technology to enhance the efficiency of our operations and service delivery. The key is to realise audit transformation by using next-generation audit tools designed to automate many audit tasks, which are currently under development, as well as generative AI (e.g., ChatPwC).

**Yamaguchi:** We are planning to transition from our current audit platform to a next-generation plat-

■ **Diagram of Trust**



form. The next-generation audit platform will use AI agents, freeing professionals from routine tasks. Functions such as data entry, market and industry research and comparative analysis will be handled by these audit tools. ChatPwC is already providing support for tasks such as e-mail responses, translation and information gathering. Going forward, we aim to introduce more tools across the Firm that will help us work more accurately, effectively and efficiently.

**Kubota:** While the budget allows for system development, technology only delivers true value when it is actually used, a journey that takes time. To support this, we may need to establish a mechanism that encourages people to invest time in exploring tools like AI. By dedicating time to learning and applying these tools during the implementation phase, we can save time in the long run. The effective use of next-generation audit tools will have a significant impact on productivity and is therefore a management priority.

**Yamaguchi:** Some members of the Firm are not yet fully utilising AI. This is likely because they are unfamiliar with its capabilities and have not experienced the extent to which it can enhance the efficiency of work. I encourage our staff to explore, experiment and discover new ways to use these tools, thereby gradually expanding their use.

**Kubota:** The ability to harness technology will be a key focus in our people development strategy from FY2026 onward.

**Yamaguchi:** To embody the changes society expects of us, our people need to transform into professionals who can create new value through technology, beyond performing tasks faster and more accurately. This requires not only a shift in individual mindset, but also an organisational structure that actively supports such transformation. This is a critical management challenge.



**Kubota:** These kinds of professionals will deliver high-quality audits and services, which in turn build trust, achieving our purpose of building trust in society.

**Kagi:** High quality expected from an audit firm is underpinned by trust — trust that clients feel confident in our services, with PwC delivering services that not only meet but exceed expectations. No matter how advanced the tools and systems we implement, it is ultimately people who use them and make final judgments. Therefore, developing professionals capable of engaging sincerely with clients and earning their trust, whether in audit or BAS, is essential. In this regard, investing in both human capital and systems remains a critical theme we must continue to work on.