

## Management Discussion

# Breakthrough to realise Assurance Vision 2030

**Q. Half a year has passed since we started operating as PricewaterhouseCoopers(PwC)Japan LLC(the 'Firm') on December 1, 2023. What are your thoughts so far?**

**Kubota** : For PwC to lead the world with an eye on the future and grow together with our clients in this era of accelerating social change, we should constantly evolve and transform. We need to pave the way for a breakthrough toward greater and sustainable growth. The integration between PwC Aarata LLC (ex-PwC Aarata) and PwC Kyoto (ex-PwC Kyoto) was one of the decisions made to trigger a breakthrough. The purpose of this integration was to realise synergies by enhancing the strengths of both firms and complementing each other, and building trust in society through such synergies. On July 1, 2024, I was appointed Chief Executive Officer(CEO)and Takeshi Yamaguchi was appointed Assurance Leader and a new leadership team was formed. While embracing what Takaaki Ino, former CEO,

has passed down to us, I will also incorporate new perspectives in how we run our business to adapt to ever changing times with foresight.

**Kagi** : A successful breakthrough requires a fundamental and bold transformation. Taking the integration as an opportunity, we are now fundamentally reviewing our organisations and cultures and integrating the best to create a new culture.

**Kubota** : The element that underpins us as a professional firm is universal. We have valued, and always will value, trust.

**Yamaguchi** : Even if the way we provide services changes as technology evolves, trust remains the cornerstone for us. Maintaining trust with our clients, trust in our colleagues, and reliable quality. This will never change.

**Kagi** : As innovative tools, such as AI, emerge, the way we conduct audits will also change to keep pace with such advancement. But delivering our purpose, which is to build trust in society and solve important problems, is essential: to have an honest dialogue with clients' man-



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agement and gain a deeper understanding of their businesses and risks with a broader perspective.

**Kubota** : While AI quickly generates excellent and exemplary responses, the value of professionals lies in that they can think outside the box and have capabilities and experiences that can exceed expectations. I think professionals who can give interesting and unique responses have true value in times of drastic change.

**Kagi** : When I talk with the leaders of companies, I understand why they became leaders - because they are exceptional. This holds true for each employee in an organisation. For successful growth, we need to improve the unique qualities and strengths of each person and combine such qualities.

**Kubota** : Yes, it is important to cultivate a culture where people with unique talent can maintain their qualities and to establish a program that can develop such qualities. This can also be applied to the integration of PwC Arata and PwC Kyoto. Both firms had good elements, but if we homogenise all the aspects without giving it much

thought, such good elements may be lost. To avoid this, we work on the post-integration integration process under the policy of harmonise but not homogenise.

**Kagi** : In M&A of our clients, I have seen many cases where both companies frankly exchanged views on their management philosophy and what they valued, and built a better organisation. We can achieve true harmonisation by providing opportunities to challenge and discuss the existing ways of thinking and approaches.

**Yamaguchi** : We will have more productive discussions with all post-integration members to jointly review and redesign what had been created ex-PwC Aarata and ex-PwC Kyoto. For example, we plan to review our behaviours guidelines.

**Kubota** : Ex-PwC Aarata and ex-PwC Kyoto were different firms, but we completed the post-integration integration smoothly because we share the same Purpose and foundation as PwC member firms.



**Q. Changes have taken place in unprecedented pace and size, including the drastic advancement in generative AI, climate change and global fragmentation. What are the impacts on the environment surrounding audit firms, expectations towards audit firms and audit approaches? And what actions are taken to address such impacts?**

**Kubota** : In recent years, change in society has been extremely rapid and extensive which goes beyond the economy; for example, the widespread use of generative AI, climate change and geopolitical uncertainties. In such an era, our significant challenge will be whether we can keep up with the pace of such change. As the pace of change is faster than the pace of revising or developing rules, this has created a trust gap. In Vision 2030, we communicated our commitment to solving such a gap in trust. To realise this, needless to say, ensuring quality is the most critical task as this underpins trust. But to ensure an immediate response, we also need to add the element of time to careful consideration which guarantees quality.

**Kagi** : I think, now, we also need to consider, to some extent, how to promptly meet the needs of audit clients and at the same time maintain audit quality required by society.

**Kubota** : The integrated assurance we seek to deliver aims to provide assurance in the areas where people still feel uncertain about whether or not they should place their trust (e.g. platforms and rules of generative AI, data in automated driving, or production process of cultured

meat). We intend to expand areas in which trust in society is built. We must think ahead and address future societal concerns and study cutting-edge technology to explore assurance services that will be required by society.

**Yamaguchi** : For example, some local governments are working on a smart city concept and are using generative AI to analyse areas prone to disasters. But generative AI may not generate expected results depending on input data or method. Therefore, there may be assurance service needs for input data and methods. If we can build a structure that can provide these new types of assurance services in the broader assurance service (BAS) practice, we will be able to adapt to changes in society and provide audit services to these areas once appropriate rules and regulations are established.

**Kubota** : In terms of third-party assurance of sustainability information, we should actively engage with those companies that are voluntarily taking actions and making disclosures, not only for the areas with a certain level of disclosure and assurance frameworks (e.g. GHG emissions) but also for those in the pre-development stage, such as human capital, human rights, biodiversity and other future potential agendas. This, I believe, will help such companies be fairly evaluated by society and enhance their corporate value.

Concerns over greenwashing have heightened for all kinds of sustainability information. To avoid this and ensure that sustainability information fulfils its original purpose both for companies and users, we should focus



on building trust in this area as an audit firm through advisory and assurance services. The scope of services may include advisory for the disclosure preparation process, how topics are selected, disclosed information and monitoring process.

**Kagi** : In this highly uncertain era, we need to identify the needs of clients and society at an earlier stage and meet them as quickly as possible. But this effort requires courage to expand into new fields.

**Yamaguchi** : Of course, upholding quality is fundamental from a compliance perspective. To build trust, we ourselves need to be trusted. To realise this, we must maintain and further improve our quality.

**Kubota** : I think adhering to traditional approaches may eventually undermine trust. We should also strive to be pioneers while maintaining and improving quality. To do so, we need to redefine our organisation and business operation models and compensation plans, as well as evaluation and recruitment programs.

**Q. How will the audit profession change? As the Firm, what are your views on the next-generation audit, people strategy and investments in the future?**

**Kubota** : We are accelerating the preparation for deploying next-generation audit tools. These tools will incorporate generative AI and will automate data reconciliation and preparation of working papers in the areas that do not require significant judgement. This effort is expected to facilitate audit process enhancement, and drive the transformation of audit delivery models. The required skills of audit team members may also change. For example, they may need to have advanced prompt engineering techniques. To adapt to this, we need to drastically review our people strategy, including people development, over the next few years.

**Yamaguchi** : Currently, we are considering a program to shorten the period between the on-boarding as associates and the promotion to senior associates. This does not mean that we will relax the eligibility criteria for senior associates. We intend to rely on AI to perform stan-



dardised procedures and encourage associates to learn the basics of audits more efficiently, helping them deepen their understanding of audit clients more quickly during this program. The traditional audit consists of work to accurately do what is required and work to identify clients' risks and perform procedures to address them. This strategy focuses more on the latter.

Under this strategy, they must keep improving themselves and taking on challenges to gain an understanding of true audit essence, instead of relying on knowledge learned from textbooks, which will become insufficient. Taking on new challenges will increase the possibility of failure. As an audit firm, we will provide all staff with an environment and opportunities that encourage them to deal with fear of failure and embrace failure as the stepping stone to subsequent growth.

**Kagi** : To understand and engage in dialogue with clients' leadership, we have to develop ourselves more quickly. I think leadership have learned a lot from their failures. It is important for us, too, to look back on our failures and leverage them as a driver of our growth.

**Kubota** : Developing people from a medium- to long-term perspective is one of upfront investments for the future to prepare for any potential issues.

For us, people are our assets. I think investing in people in unprecedented ways will lead to realising the Firm's breakthrough.