2 | Quality management

Our 15 quality objectives

■ Leadership and quality management process

Objective 1: Leadership and quality management process

■ Ethics and objectivity

Objective 2: Ethical requirements and values

Objective 3: Objectivity and independence

■ Client selectivity management/ Solutions and opportunities management

Objective 4: Client selectivity

Objective 5: Managing services and products

Objective 6: Engagement acceptance and continuance

■ People management

Objective 7: Recruit, develop and retain

Objective 8: Learning and education

Objective 9: Assignment of people to engagements

Objective 10: Evaluation and compensation

■ Technology management

Objective11: Technological resources

■ Solutions delivery management

Objective 12: Support for engagement performance

Objective 13: Direction, coaching and supervision

Objective 14: Expert knowledge

■ Monitoring and enhancement process for the system of quality management

Objective 15: Quality controls in performing engagements

Message from leaders

New Firm will also place top priory on quality enhancement

Takaki Suzuki,
Executive Officer/Chief Quality Officer

Neil Weingarten,
Senior Officer/Risk & Quality Co-Leader

The Audit Quality Report 2024 is the first to be published by PricewaterhouseCoopers Japan LLC（the 'Firm') established on December 1, 2023.

Since ex-PwC Aarata and ex-PwC Kyoto were PwC member firms and adopted the same organisational structure for Risk & Quality, including their composition and roles, there were not many things to be aligned when compared to other integrations. Still, there were certain differences in specific operations and activities between the two firms. To solve these gaps, an integration task force was formed in each department of Risk & Quality to thoroughly conduct pre-integration preparations. As a result, the integration of Risk & Quality was successful.

As for the new Firm's governance and audit quality processes, we decided to retain the processes established and operated by ex-PwC Aarata. Thanks to the thorough pre-integration preparations, we were able to begin the integrated operation of these processes smoothly from Day 1.

In the Audit Quality Report 2023, I mentioned that evolving generative AI had enabled companies to more efficiently create information with the same or higher level of quality than in the past. The Firm, as an external auditor, also seeks to actively use generative AI to enhance audit quality and efficiency. Currently, we do not use generative AI directly in our audit procedures but have started its use in peripheral operations. Going forward, we will identify risks associated with using generative AI in the audit procedures, sufficiently discuss how to address those risks, and use generative AI in our audit procedures.

There are also discussions on providing assurance on sustainability disclosure in a phased manner from listed companies with large market capitalisation. The Firm has already delivered voluntary review services for some of our audit clients ahead of the establishment of such a regulatory framework. In response to this trend, Risk & Quality will strengthen its structure to support and monitor the teams delivering the assurance services.

Risk & Quality, as the second line, will support and monitor our Firm's breakthrough to realise Vision 2030, and maintain and enhance quality of assurance services including audit.

Our quality management - QMSE Framework (compliant with ISQM1)

International Standard on Quality Management 1 (ISQM 1)

In December 2020, the International Auditing and Assurance Standards Board (IAASB), approved and released three new and revised standards that strengthen and modernise a firm's approach to quality management, including ISQM 1. This standard, which became effective December 15, 2022, required all firms to have designed and implemented the requirements of the standard and evaluated their system of quality management (SoQM) under the new standard by December 15, 2023.

ISQM 1 is an objectives-based approach that expects firms to have a SoQM that operates in a continuous and iterative manner, taking into consideration the conditions, events, circumstances, actions and inactions that impact a firm. It enhances the firm's responsibilities around monitoring and remediation, emphasising the need for more proactive, real-time monitoring of the SoQM, a more effective, efficient, and timely root cause analysis process, and timely and effective remediation of deficiencies.

ISQM 1 states that the objective of the firm is to design, implement and operate an SoQM that provides the firm with reasonable assurance that:

- The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

The standard goes on to say that the public interest is served by the consistent performance of quality engagements and that this is enabled by an effective system of quality management.

A specific focus on audit quality across the network

■ The PwC network's Assurance QMSE framework

Delivering high-quality work is at the heart of what we do at PwC; it is what our stakeholders rightly expect of us.

To deliver services in an effective and efficient manner that meets the expectations of our clients and other stakeholders, the PwC network has established the Quality Management for Service Excellence (QMSE) framework which integrates quality management into how each firm runs its business and manages risk.

The QMSE framework is designed to align with the objectives and requirements of ISQM 1 and provides a model for quality management in PwC member firms that integrates quality management into business processes and the firm-wide risk management process. Under QMSE, our overall quality objective is supported by a series of underlying quality management objectives and each firm's SoQM should be designed and operated so that the overall quality objective, which includes meeting the objectives and requirements of ISQM 1, is achieved with reasonable assurance.

❝ Overall quality objective

To have the necessary capabilities in our organisation and to deploy our people to consistently use our methodologies, processes and technology to deliver services in an effective and efficient manner to fulfil the expectations of our clients and other stakeholders

■ Integrated and aligned in the right way

Our SoQM includes quality objectives which are identified from the following components of ISQM 1, as well as any additional objectives the PwC network has identified in the QMSE framework:

- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources
- Information and communication

To help us achieve these objectives, the PwC network invests significant resources in the continuous enhancement of quality across our network. This includes having a strong quality infrastructure supported by the right people, underlying tools and technology at both the network level and within our firm, and a programme of continuous innovation and investment in our technology. The PwC network's Global Assurance Quality (GAQ) organisation aims to support PwC firms in promoting, enabling, and continuously improving Assurance quality through effective policies, tools, guidance and systems used to further promote and monitor quality and to build an appropriate level of consistency in what we do.

These elements have been integrated and aligned by our network to create a comprehensive, holistic and interconnected quality management framework that each firm tailors to reflect our individual circumstances. Each firm is responsible for utilising the resources provided by the network as part of our efforts to deliver quality to meet the expectations of our stakeholders.

Our 15 quality objectives

Leadership and quality management process

◆Objective 1: Leadership and quality management process

Governance ► p. 33

Quality management ► p. 45

Client selectivity management/ Solutions and opportunities management

◆Objective 4: Client selectivity

Reviewing and responding to engagement risks of audit clients ► p. 57

◆Objective 5: Managing services and products

Delivering integrated assurance services ► p. 11

Our sustainability initiatives ► p. 13

Transforming assurance with technology ► p. 17

Our system of quality management ► p. 49

◆Objective 6: Engagement acceptance and continuance

Engagemetn acceptance and continuance ► p. 57

Solutions delivery management

◆Objective 12: Support for engagement performance

Support and monitoring structure at Risk & Quality ► p. 53

Using technology in a ► p. 69

◆Objective 13: Direction, coaching and supervision

Engagement team-level quality management ► p. 58

◆Objective 14: Expert knowledge

Support and monitoring structure at Risk & Quality ► p. 53

Monitoring and enhancement process for the system of quality management

◆Objective 15: Quality controls in performing engagements

Periodic monitoring activities of audit engagements ► p.65

Professional ethics and independence

◆Objective 2: Ethical requirements and values

◆Objective 3: Objectivity and independence

Professional ethics and independence ► p. 55

Resources for operating he audit firm

◆Objective 7: Recruit, develop and retain

Recruitment and development ► p. 79

Diversifying career paths ► p. 80

◆Objective 8: Learning and education

Training ► p. 81

◆Objective 9: Assignment of people to engagements

Deployment and assignment ► p. 82

◆Objective 10: Evaluation and compensation

Performance review ► p. 83

Technology management

◆Objective 11: Technological resources

Using technology in audit ► p. 69

2 Quality management

■ **The quality management process**

The achievement of these objectives is supported by a quality management process established by the Firm and Assurance leadership, business process owners and partners and staff. This quality management process includes:

- identifying risks to achieving the quality objectives
- designing and implementing responses to the assessed quality risks
- monitoring the design and operating effectiveness of the policies and procedures through the use of process-integrated monitoring activities such as real-time assurance as well as appropriate Assurance quality indicators
- continuously improving the system of quality management when areas for improvement are identified by performing root cause analyses and implementing remedial actions and
- establishing a quality-related recognition and accountability framework to both set clear expectations of expected quality behaviours and outcomes and reinforce those expectations through consistent and transparent use in appraisals, remuneration and career progression decisions

Our system of quality management

Our SoQM must be designed, implemented and operating on an ongoing basis to achieve the quality objectives. This ongoing process includes monitoring, assessing, evaluating, reporting, and being responsive to changes in quality risks, driven by the firm's internal and external environment. This is our Quality Management Process (QMP).

Our focus on quality management is therefore not to

apply prescribed rules but rather to design and implement risk responses which are fit for purpose to manage the risks we identify in our own risk assessment and achieve the quality objective taking into consideration the conditions, events, circumstances, actions and/or inactions that may impact our SoQM.

■ **Our risk assessment process**

The past several years have seen unprecedented challenges and our firm's SoQM has helped us navigate and respond to the impact that identified factors had on our ability to achieve the overall assurance quality objective - to deliver quality audit engagements. Our SoQM includes the performance of a risk assessment over the quality objectives identified in the QMSE framework. We consider how and the degree to which a condition, event, circumstance, action or inaction may adversely affect the achievement of the quality objectives which may result in:

- New or changing quality risks to achieving one or more of the quality objectives
- Changes to the risk assessment of existing quality risks
- Changes to the design of the firm's SoQM, including the risk responses

A quality risks is one that has a reasonable possibility of occurring and individually, or in combination with other quality risks, could adversely affect the achievement of one or more quality objectives.

Our monitoring and remediation process

In the section 'periodic monitoring activities of audit engagements' (p. 65), we have described the types of ongoing and periodic monitoring our firm has designed, implemented and are operating to provide relevant and reliable information about our firm's SoQM and to help us take appropriate actions over any identified deficiencies so we can remediate those deficiencies effectively and on a timely basis. To support the timely and effective remediation of identified deficiencies, the Firm has designed, implemented and are operating a root cause analysis program that is described further on page 65.

The information gathered from our monitoring and remediation process along with other sources of information, such as external reviews, is used to help us evaluate our SoQM.

The Firm has been implementing the quality enhancement initiative called '4+1', which covers high priority remedial measures developed in the process of past QMSE initiatives.

■ **Statement on the Firm's system of quality management**

During the year, we completed our evaluation of the Firm's system of quality management under ISQM 1. On behalf of the Firm, the CEO has evaluated whether our SoQM provides us reasonable assurance that:

1. The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
2. Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Based on all the relevant information of the Firm's SoQM, as at December 31, 2023, we believe our SoQM provides us with reasonable assurance that the quality objectives noted above have been achieved.

Our value creation activity

Assessment process of the quality management system ─QMSE─

**Quality improvement initiative '4+1'**
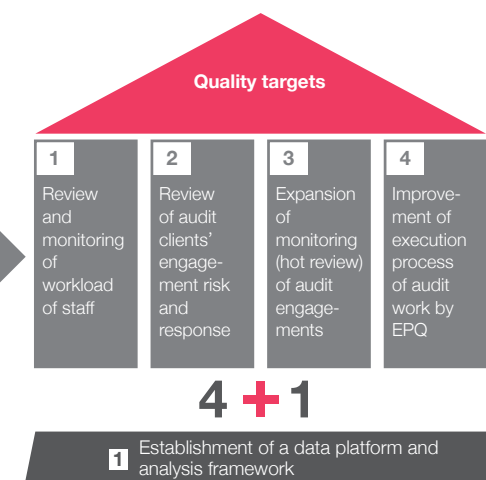
Our quality management

The Firm has established a structure to support engagement teams by bringing together all resources of the PwC network, including Risk & Quality, subject matter experts and the Japan Business Network（JBN）. This structure enables engagement teams to take the initiative in solving issues through engagement team-level quality management, support and monitoring by Risk & Quality and collaboration with subject matter experts and the PwC network.

Formation of engagement teams and support structure
—

The engagement team is composed of professionals sufficient to perform strict and fair audits who are selected from each OU. In addition, a structure is in place to provide support from outside the engagement team, including a quality review partner, OU partner in charge of risk management, OU partner in charge of quality management and chief auditor.

Engagement team-level quality management structure
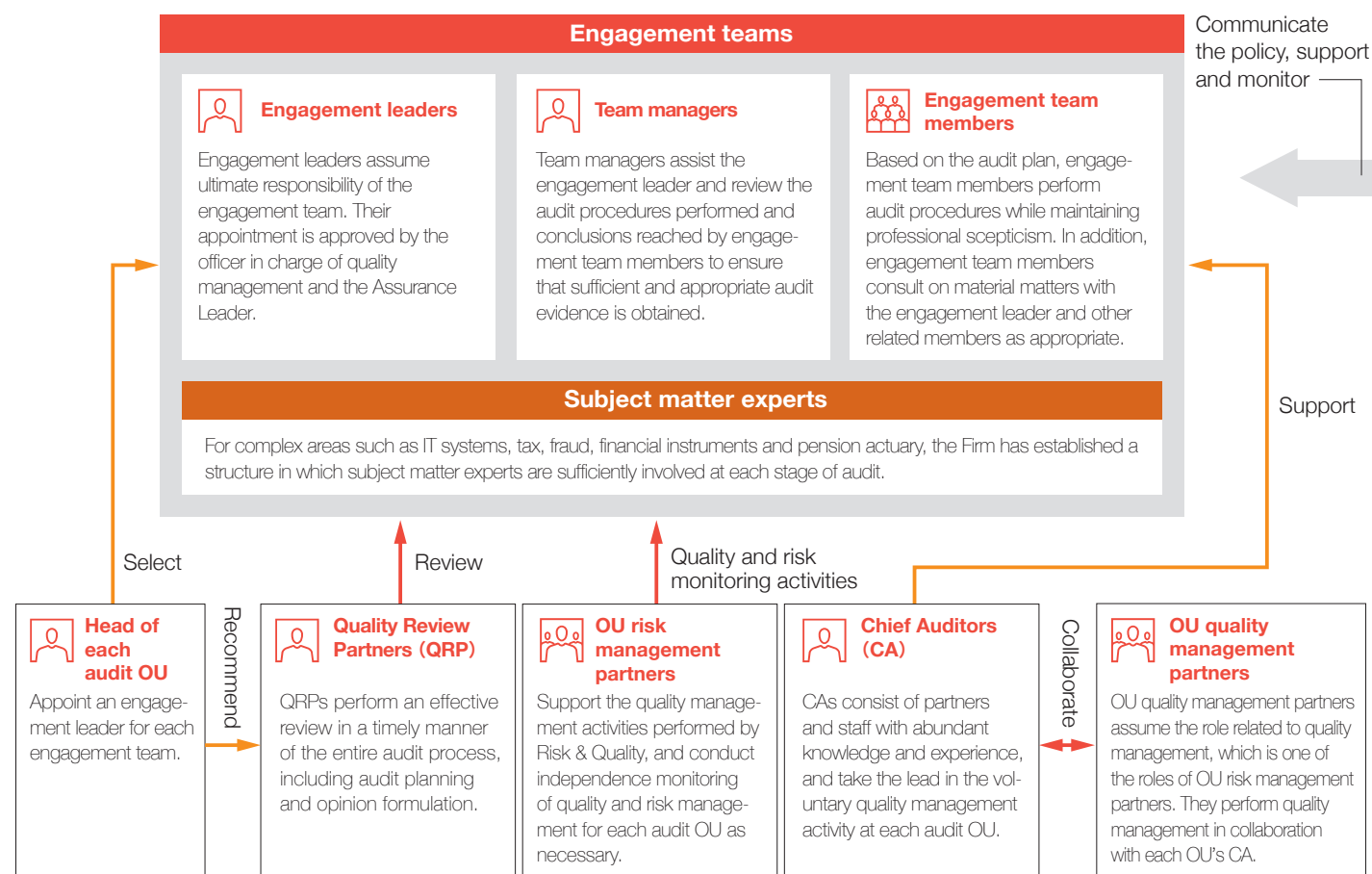
Quality management indicators at the engagement team level

Supervision of audit staff	Ratio of partners to professionals who are managers or above	1: 3.2
	Ratio of partners to all professionals	1: 12.7
Annual average working hours of audit practitioners*	Partners	2,177 hours
	Other than partners	1,918 hours

* Audit practitioner means a person who is engaged in audit work for 35 hours or more in a year.

Risk & Quality
—

Risk & Quality is staffed with partners and staff who are specialised in accounting and auditing, and identifies and resolves issues at an early stage by communicating with engagement teams. They also provide advice on consultations related to technical views.

Support and monitoring structure at Risk & Quality

Number of personnel engaged in quality management activity

Risk & Quality （Function）	FY2024		
	Partners	Professionals who are managers or above	Total
Supervision of Risk & Quality	3	1	4
Management of independence/professional ethics*1	2	32	34
Risk management/Oversight activities (e.g. periodic monitoring activities)	14	30	44
Legal affairs	1	2	3
Response to inquiries for technical views on accounting	7	18	25
Response to inquiries for technical views on audits	4	23	27
Education/training and people development	2	10	12
Risk & Quality in total (A)*3	33	116	14
Partners and professionals who are managers or above engaged in audits (B)*2/3	158	478	636
Percentage (C)*4	20.9%	24.3%	23.4%

*1 Management of independence/professional ethics is performed by the independence group and the compliance group of Internal Firm Services (p. 40), instead of Risk & Quality.
*2 Of partners/professionals engaged in audit work for 35 hours or more in a year, those audit practitioners who worked for the Firm as of end of June.
*3 Risk & Quality in total (A) and partners and professionals who are managers or above engaged in audits (B) only include those who are the members of Risk & Quality.
*4 Percentage (C) is derived by dividing Risk & Quality in total (A) by partners and professionals who are managers or above engaging in audits (B).

Support and monitoring structure at Risk & Quality

■ 1. Independence and contract monitoring

►►►

■ 2. Workload monitoring

The engagement leader is appointed by the leader of each audit OU in consideration of the competence, capabilities and experience sufficient to fulfil that responsibility. Risk & Quality objectively reviews the results of the selection. This review includes checking annual workload concentration for each partner and examining each partner's engagement portfolio. Risk & Quality also conducts detailed monitoring, including requesting a review of assignments as necessary after consulting with a related person.

■ 3. Consultation on technical views

The Firm pre-defines matters subject to mandatory consultation and requires engagement teams to obtain the views of Risk & Quality. Risk & Quality includes staff who have experience of secondment to external institutions and are specialised in technical areas and practices. Risk & Quality has detailed discussions with the engagement team to understand the nature of the consultation, the initial consideration by the engagement team and their tentative conclusion, and then conducts technical research and provides technical views.

■ 4. Survey on certain issues（Reach-out）

To support engagement teams, Risk & Quality conducts a reach-out survey to compile and analyse information on audit considerations to which special attention should be paid and the status of response by each engagement team. The scope of this survey (e.g. audit clients in certain industries) is determined on a case-by-case basis.

Risk & Quality conducts profiling based on the current status of individual audit engagements obtained through the reach-out activity above, financial information of audit clients and information from engagement teams, and identifies engagement teams that need additional responses and support.

■ 5. Accessing electronic audit documentation to detect anomalies（Real Time Assurance）

In addition to the reach-out activity, Risk & Quality monitors the progress of audits based on automatically-aggregated data from Aura, our electronic audit documentation platform. This activity is referred to as Real Time Assurance, and helps Risk & Quality identify in real time audit engagements that are not compliant with PwC Audit methodology or engagement teams that are delayed in the audit process, and provide support. Risk & Quality also performs analysis of firm-level quality based on data aggregated using digital tools.

■ 6. Review conducted during audit（Hot Review）

In Hot Review, experienced reviewers review selected engagement teams' testing approach and results with a focus on high-risk areas, and provide advice to the engagement team during the planning and execution of the audit. The purpose of this review is to support the engagement team while monitoring audit quality.

■ 7. Support for preparing KAMs

►►►

■ 8. Periodic monitoring activities

►►►

■ 9. Response to fraud risk

►►►

Support and monitoring structure at Risk & Quality in the audit process

Risk & Quality

Engagement teams

Audit planning
Audit execution
Audit completion
Ad-hoc

Support and monitoring

Audit engagement

1. Independence and contract monitoring

2. Workload monitoring

3. Consultation on technical views

4. Survey on certain issues（Reach-out）

5. Accessing electronic audit documentation to detect anomalies（Real Time Assurance）

Aura

6. Review conducted during audit（Hot Review）

7. Support for preparing KAMs

Analysis and sharing of Hot Review results

Issuance of audit report

8. Post-audit review （periodic monitoring activities）

9. Response to fraud risk

Root cause analysis and development of remedial actions

Professional ethics and independence

Independence policies and procedures
—

Maintaining independence is essential for audit professionals. Building a cooperative relationship with audit clients grounded on trust will help us deliver PwC's Purpose. As a member firm of the PwC network, the Firm has established independence policies and procedures as its independence guidelines to comply with the PwC Global Independence Policy developed based on the IESBA's International Code of Ethics for Professional Accountants, applicable laws and regulations in Japan and the code of ethics of the Japanese Institute of Certified Public Accountants（JICPA）. To ensure a thorough understanding of independence policies and

procedures, the Firm regularly conducts independence training for all partners and staff, and confirms that they understand and comply with the independence policies and procedures through the annual compliance confirmation procedure.

In accordance with these policies and procedures, the Firm has established a system to identify restricted entities of both the Firm and the PwC network by registering audit clients in the PwC network's client database. The Firm maintains and operates this system as a framework to ensure compliance with the independence rules.

Overview of the processes for ensuring independence

Pre and post activities such as controls, inspections and monitoring | Independence accountability framework

List of group companies of audit clients → CES →
- Checkpoint — Personal independence
- Business relationships — Firm's independence
- AFS — Independence related to NAS*

- Independence management function
- Review Committee

→ Management
→ PwC network
→ Clients

*Non-assurance services

Professional ethics
—

The Firm has established a code of conduct and related guidance for professional ethics in accordance with applicable laws and regulations in Japan and the code of ethics of the JICPA and the common Code of Conduct of the PwC network. The Code of Conduct and related guidance covers rules to address a wide range of cases, including anti-money laundering, antitrust and anti-corruption, responses to antisocial forces, information protection, prevention of insider trading and responses to illegal activities by audit clients. The Firm's partners and staff confirm their compliance with the Code of Conduct and the related guidance through the annual compliance confirmation procedure.

Further, PwC Japan Group has in place the ethics helpline（for PwC Japan Group）and the audit hotline（for the Firm）with the aim of detecting early violations of laws and misconduct.

Personal independence of partners and staff
—

The Firm ensures the independence of partners and staff through the annual compliance confirmation procedure and independence check conducted prior to engaging in audit. All partners and staff are also required to conduct pre-clearance and register their securities and indirect investments through insurance and pension products in a database (Checkpoint) prior to purchasing such securities and products. Through these measures, the Firm ensures

that partners and staff do not breach various independence rules. Additionally, the Firm annually conducts an in-depth inspection for randomly selected partners and staff, as well as officers and partner candidates, to ensure their compliance with the independence policies and procedures.

To prevent inappropriate relationships with audit clients, the Firm ensures adequate rotation of engagement leaders, quality review partners and team managers who assist the engagement leader by limiting the number of consecutive years for which they can serve as the auditor, and by defining the 'cooling off' period for which they may not be involved with that audit client. This is monitored accordingly.

The Firm's independence
—

To maintain independence between the Firm and audit clients, when purchasing goods and services from external suppliers or developing a business relationship with third-party entities and individuals, the Firm's rules require pre-approval on the permissibility and nature of the transaction from the responsible division. The Firm also periodically checks that there are no issues in independence with lenders and lessors.

The Firm also registers its securities holdings in the Checkpoint database to ensure that it does not breach various independence rules.

Independence in providing non-assurance services
—

There are certain restrictions on the provision of services to audit clients. Therefore, when considering the provision of a non-audit service, the Firm first assesses whether there are any independence restrictions related to the client to which the service is to be provided, based on the master client database used to register and manage audit clients of the PwC network（CES）, and determines the

permissibility of the service by referring to common non-assurance services guidance of the PwC network. A permissible non-assurance service is required to be pre-approved by the engagement leader through a process called Authorisation for Services（AFS）.

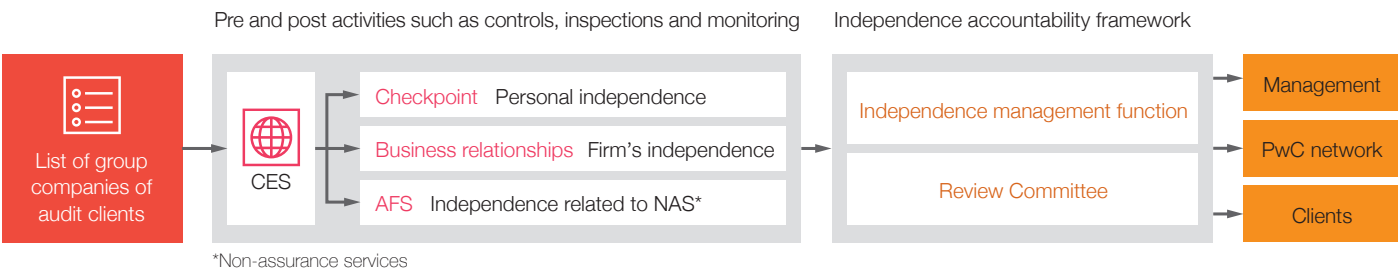## Actions for a breach of applicable laws, regulations, etc. relating to independence
—

If the independence rules are breached, the Firm resolves the conflict of interest that caused the breach as promptly as possible and discusses the matters, including the breach and action, in writing with those charged with governance of the audit client. The partner（s）and/or team member（s）who are involved in the breach of internal rules, such as independence policies and procedures, or applicable law and regulation, are subject to penalties.

We have confirmed that all breaches of laws and regulations detected as a result of independence checks in FY2024 were related to monetary conflict of interest of individuals and did not affect our individual audit engagements nor the Firm's objectivity and fairness.

Independence assessment procedure
—

To express an audit opinion, auditors are required to continuously maintain independence from the audit client and its subsidiaries and affiliates from the beginning of the accounting period through to the audit opinion date. Due to a change in the group structure of an audit client（e.g. acquisition or integration）, an entity may be newly included in the group of the audit client, and the scope of entities subject to the independence assessment（e.g. the permissibility of providing a non-assurance service, or employment relationship of family members）may increase. To address such a situation, the Firm requests all of its audit clients to cooperate and provide related information timely.

Acceptance and continuance
—

Based on generally accepted auditing standards in Japan and PwC network's policy, the Firm has established a policy for accepting a new client or continuing services provided to an existing client for all services, including audit engagements.

Prior to accepting a new client or a new audit engagement, the Firm considers whether it has the aptitude and competence to perform the audit, including time and human resources (the Firm may decline a new engagement if we do not feel we have the appropriate resources). In addition to assessing conflict of interests (e.g. independence) between the new audit client and the Firm (including its partners and staff), the engagement team conducts risk assessment procedures by taking into account the company's reputation, tone at the top, the status of governance and internal controls, any issues in accounting or audit and other factors, and obtains appropriate approval according to the assessed risks.

Upon continuance, the engagement team performs a risk assessment at least annually and obtains appropriate approval based on the results.

These series of procedures are implemented through the Acceptance and Continuance assessment system used across the PwC network.

Reviewing and responding to engagement risks of audit clients
—

When entering into a new contract or renewing an existing contract, the Firm makes a decision on acceptance or continuance by considering factors, including profitability, to establish an environment in which high quality audits can be delivered in cooperation with audit clients.

Our response to the revisions to the IESBA Code
—

The Firm has applied the revised International Code of Ethics for Professional Accountants (non-assurance services and compensation) issued by the International Ethics Standards Board for Accountants (IESBA Code) as of its effective date, regardless of revisions to JICPA's Code of Ethics.

For example, the Firm has already applied the following requirements: restrictions on providing non-assurance services (NAS) to public interest entity (PIE) audit clients (i.e. prohibit the provision of NAS that may create a self-review threat to a PIE audit client and requires concurrence from those charged with governance before providing the NAS to the PIE client) disclosure of fee-related information in the independent auditor's report (i.e. provide information to stakeholders and those charged with governance to help them assess an auditor independence); and response to group audit (i.e. aims to strengthen independence of group auditors in accordance with the revised ISA 600). The Firm is also preparing for the application of rules related to the definition of PIE, tax planning and related services, technology-related revisions and development of sustainability-related IESBA Code which are scheduled to be published.

To ensure the application and effectiveness of the revised IESBA Code and revised JICPA's Code of Ethics, the Firm has amended its internal policies and guidance, shared information and provided training to its partners and staff on the revisions, and developed and enhanced various tools and templates. Alerts called IESBA Newsletter are distributed on an ad-hoc basis to share subsequent developments of the IESBA and JICPA.

To fulfil its critical roles and responsibilities for the public interest and to gain trust of audit clients and society, the Firm maintains a structure to ensure compliance with the robust rules of auditor independence.

Engagement team-level quality management

Our audit approach - PwC Audit
—

Engagement teams perform audits in accordance with the auditing standards in Japan and PwC Audit, which sets out the PwC network's common audit methodology and process. As a member of the PwC network, The Firm has access to and uses PwC Audit. This methodology is based on the International Standards on Auditing (ISAs), with additional PwC policy and guidance provided where appropriate. PwC Audit policies and procedures are designed to facilitate audits conducted in compliance with all requirements of ISAs that are relevant to each audit engagement. Our common audit methodology provides the framework to enable PwC firms to consistently comply in all respects with applicable professional standards, regulations and legal requirements.

PwC Audit is revised at least annually to reflect changes in auditing standards and other developments. The revised policies and guidance are incorporated into Aura, an electronic audit documentation platform used by engagement teams, enabling engagement teams to conduct audits by referencing the new requirements in a timely manner.

Engagement team's response to new standards
—

The revised International Standard on Auditing (ISA) 600 and Auditing Standards Committee Statement (ASCS) 600 are applied to audits of group financial statements for periods beginning on or after December 15, 2023. The revised standards require facilitation of a risk-based approach on a top-down basis by the group auditor, and strengthen in-depth two-way communication between the group auditor and component auditors. The direction, supervision and review of component auditors' work by the group auditor may

require increased discussions with the component auditors, management of the group and management of the component auditor. To address this, each engagement team identifies areas in which the involvement as the group auditor increases and areas in which the same level of involvement is sufficient, and develops a detailed audit plan based on this.

The revised Standards and Practice Standards for Management Assessment and Audit concerning Internal Control over Financial Reporting as well as the Audit of Internal Control over Financial Reporting (Financial Reporting Internal Control Auditing Standard Statement No.1), which is practical guidance of the revised standards, will be applied to J-SOX-based audits of financial statements for periods beginning on or after April 1, 2024. These revisions review the fundamental framework of internal controls and engagement teams are considering the necessity to identify and assess new internal controls. The revisions also emphasise a risk-based approach in determining the scope of management's assessment of internal controls, and requires consideration of whether to change the assessment scope in consultation with management.

Risk & Quality's response to new standards
—

The Firm has in place a structure that enables engagement teams to perform audits in accordance with the new standards by using various templates and resources both inside and outside of the Firm. For example, for engagements to which the new standards are applied, Risk & Quality and CAs work together to compile inquiries from engagement teams, release related guidance as well as documentation examples and templates such as audit instruction templates.

Our initiatives on key audit matters（KAMs）to meet the expectations of stakeholders

Risk & Quality's support for KAMs
——

The fiscal year ended March 31, 2024 is the fourth year for listed companies to describe KAMs in their audit reports. KAMs are now established as practice in Japan.

The Firm has been working on the enhancement of KAMs by considering what information is useful for stakeholders. The Firm's policy is to include specific descriptions of how the situation of each company relates to the selection of KAMs, specifics of KAMs and relevant audit response, avoiding general information common to audits of all companies as much as practicable.

Risk & Quality has been providing support to engagement teams to ensure KAMs are prepared in accordance with this policy. Risk & Quality established and implemented an easy-to-consult structure in which the KAM team is assigned to each engagement team and responds to a consultation request from them. Risk & Quality also released a video introducing good practices of KAMs, and recommended to include more specific descriptions in KAMs.

When a KAM has a significant social impact or includes unusual descriptions, the engagement team is required to go through the formal consultation procedure（i.e. consultation on technical views）. However, Risk & Quality provided a number of other consultations on KAMs in FY2024 as well.

In-depth dialogue with management and those charged with governance and ongoing improvement of KAMs
——

KAMs are those matters that require significant auditor attention in performing the audit selected from matters communicated with those charged with governance. To prepare KAMs that are useful for stakeholders, it is essential to have deep dialogues on changes in the company's situation and risk assessment between management and those charged with governance of the audit client and the engagement team. Until KAMs are finalised, there will be discussions with the audit clients covering a wide range of topics, including not only KAMs but also corporate disclosure. As a result of this in-depth dialogue, the disclosure of companies has been expanded and contents of KAMs（e.g. the nature of KAM, why the matter is determined to be KAM and how the matter was addressed in the audit）are described more specifically.

In this process, Risk & Quality continuously supports engagement teams to ensure consistency among the footnotes, KAMs and audit response. As a result of the collaborative effort between engagement teams and Risk & Quality, the Firm has developed KAMs that appropriately reflect the judgement of the engagement teams, and are easy to understand and reliable for stakeholders. KAM case studies released by the Securities Analysts Association of Japan include a number of KAMs prepared by our Firm.

However, the issues related to KAMs（i.e. how to avoid KAM descriptions becoming boilerplate or how to reflect changes in the company's situations in KAMs）need to be continuously considered. Therefore, we will continue to work on the development of KAM practices to meet the expectations of our stakeholders.

Collaboration with the PwC network

The Firm collaborates with the PwC network to introduce audit methodologies, monitor audit engagements, and develop technology. It also coordinates audits of overseas subsidiaries of audit clients with the PwC network firms.

Global audit
——

In order to appropriately perform group audits of companies that operate business globally, it is necessary to identify audit risk related to overseas subsidiaries and take appropriate responses. PwC firm members apply PwC Audit which is audit methodologies commonly applied across the PwC network. While gaining a deep understanding of society, culture, legal system and language of overseas subsidiaries and other entities of companies, the Firm closely collaborates with local PwC network firms to perform global, consistent, high-quality audits while taking into account business environment surrounding overseas subsidiaries and other entities at each country.

When performing audits of companies operating globally, the Firm engages JBN members as necessary and works closely with engagement teams that perform audits of overseas subsidiaries and other entities.

In the occurrence of a serious issue, such as fraud, we hold face-to-face discussions with local management at an early stage with local auditors even if the issue has occurred overseas. Risk & Quality supports significant issues at an early stage and communicates directly with local Risk & Quality as necessary to resolve them. In addition, a four-party meeting is held among the audit client, overseas subsidiary of audit client, the Firm and local PwC member firm to reconcile views. In this way, issues are resolved promptly together with the audit client.

Japanese Business Network（JBN）
——

In order to support the business of Japanese companies, the PwC network has built a support network for Japanese companies consisting of accounting, auditing and other professionals in each jurisdiction across the world. As of July 1, 2024, the Firm has deployed 721 specialists in the JBN（of which 509 are capable of Japanese language support）.

Global audit structure
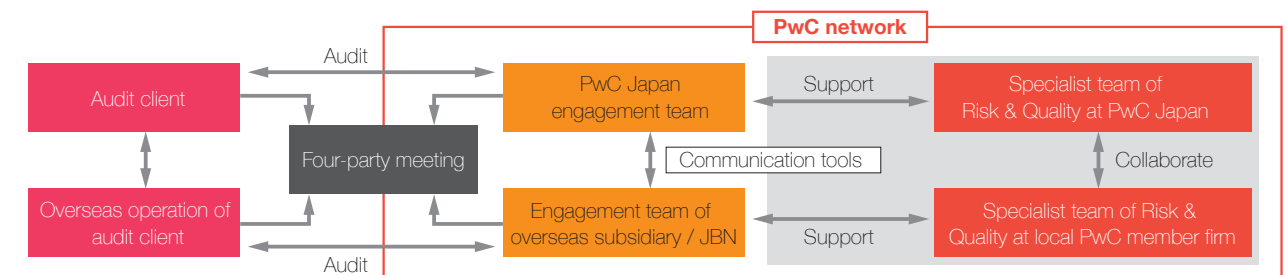
Four-party meeting
Flexibly hold to discuss matters such as an important issue or a new significant subsidiary, as necessary

Face-to-face discussion
Hold a face-to-face discussion with local management at an early stage, even overseas, with local auditors to solve issues as soon as possible

Collaboration between Risk & Quality
Risk & Quality supports significant issues at an early stage. Risk & Quality communicates directly with the specialist team of Risk & Quality at the local PwC member firm

Mobilisation of a specialist team
When a local specialist team is mobilised, a specialist team is also mobilised in Japan, which will respond to issues together with the engagement team

Response to fraud risk

Risks of material misstatement due to fraud
—

Auditing standards generally accepted in Japan stipulate that auditors must pay close attention as professionals and exercise professional scepticism when performing audits. The Standards for Response to Fraud Risk in Audits also emphasises the importance of scepticism (professional scepticism) as professionals in appropriately addressing fraud risk.

Maintaining and exercising professional scepticism
—

The Firm believes that smooth communication within the engagement team is indispensable for team members to maintain and exercise professional scepticism, to be more attentive and take a critical stance on fraud risk. By exchanging candid opinions among engagement leaders and team members, matters that may be significant issues in the audit (e.g. the identification of audit risk, including potential fraud risk and unusual transactions) and a plan to address such issues can be shared.

To help team members obtain information to identify risks of material misstatement due to fraud, the Firm requires partners and staff with experience in leading audit engagements to attend case study training as part of the Firm's initiative to promote the understanding of actual fraud cases. The Firm also invites practitioners and legal specialists from outside the Firm as lecturers to provide training on digital risks and responses to such risks by companies, the use of AI, legal risk management and key points of internal whistle-blowing programs for early detection and response to fraud risk.

Additionally, the Firm has established an audit hotline* as a whistle-blowing program for both inside and outside the Firm.

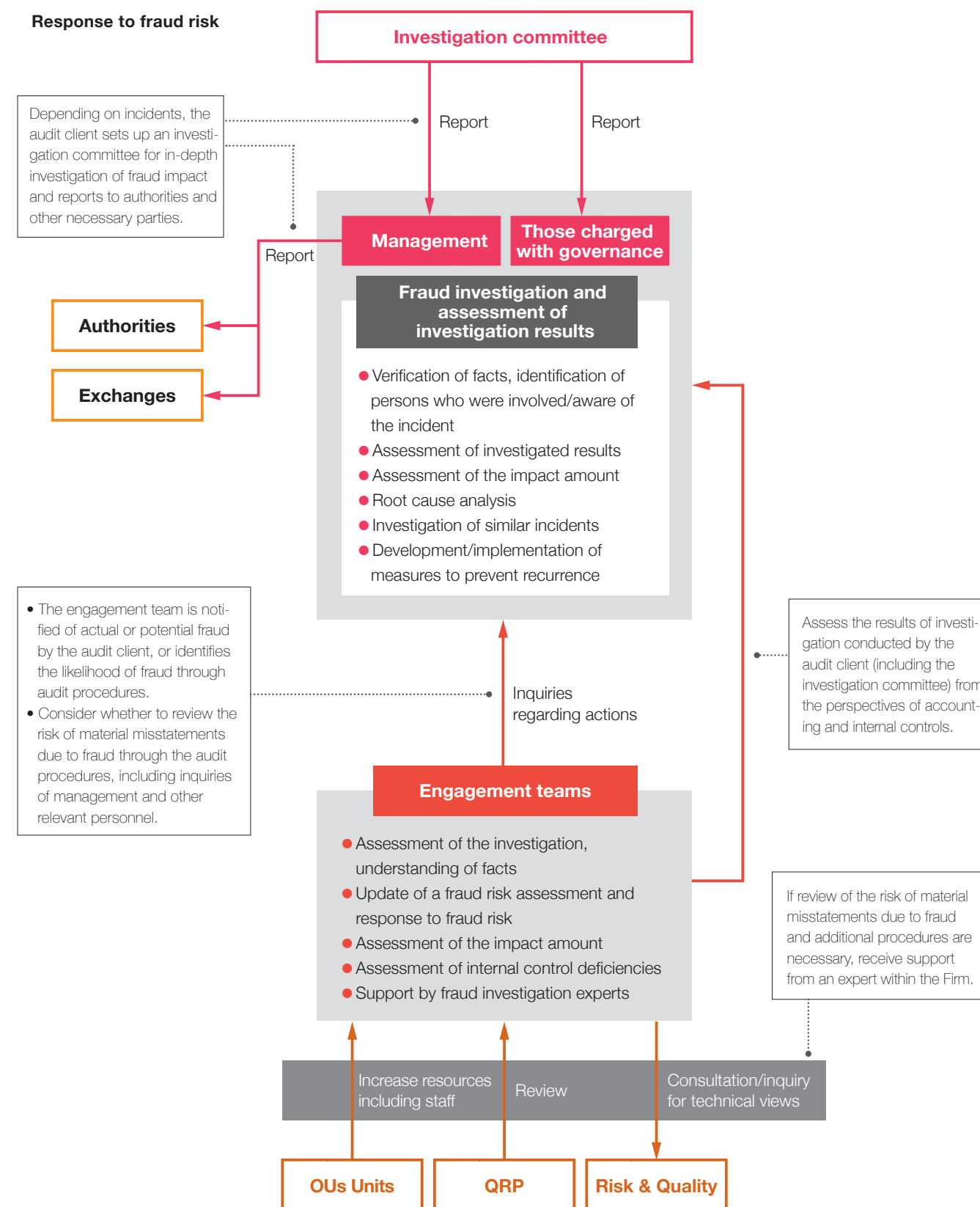## Response to potential material misstatement due to fraud
—

When an engagement team identifies a potential material misstatement due to fraud, this is shared within the Firm and necessary action is taken according to the circumstances shown in the figure on the right. The engagement team may receive additional review by the quality review partner, advice from the OU risk management partner or support from Risk & Quality. Furthermore, a fraud specialist may be involved.

Analyses of financial data of audit clients
—

The Firm has been performing various analyses to address fraud. These include (1) inquiring with the engagement team about any abnormal values using multiple analyses (e.g. multiple-year trends in financial data extracted from annual securities reports or earnings release published by the audit client, or analysis of trends in financial ratios and turnover period of accounts receivable) in reference to fraud cases, and assessing any signs of fraud; and (2) reviewing financial statements by the person in charge at Risk & Quality before the audit is completed to assess any signs of fraud in light of the nature of the audit client's business and accounts and disclosed fraud cases, and providing feedback to the engagement team.

Through discussions with the engagement teams, Risk & Quality can understand financial information and the nature of business of audit clients, which helps Risk & Quality enhance their risk profiling. Additionally, Risk & Quality has been developing AI-enabled fraud detection tools to analyse financial statements of audit clients based on corrections to annual securities reports in the past, and to use the results of analysis for the assessment of fraud and error risks.

* How to report via the audit hotline is posted on the Firm's website. The Firm's related policy sets out that whistleblowers should not be treated disadvantageously. The leader of Risk Management appoints persons who have access authority to the information provided. Persons who are involved in the reported matter are not granted access authority to protect the confidentiality of whistleblowers and avoid putting them at unexpected disadvantage.

Response to fraud risk

Investigation committee

Depending on incidents, the audit client sets up an investigation committee for in-depth investigation of fraud impact and reports to authorities and other necessary parties.

Report   Report

Report

Management   **Those charged with governance**

Fraud investigation and assessment of investigation results

- Verification of facts, identification of persons who were involved/aware of the incident
- Assessment of investigated results
- Assessment of the impact amount
- Root cause analysis
- Investigation of similar incidents
- Development/implementation of measures to prevent recurrence

Authorities

Exchanges

- The engagement team is notified of actual or potential fraud by the audit client, or identifies the likelihood of fraud through audit procedures.
- Consider whether to review the risk of material misstatements due to fraud through the audit procedures, including inquiries of management and other relevant personnel.

Inquiries regarding actions

Assess the results of investigation conducted by the audit client (including the investigation committee) from the perspectives of accounting and internal controls.

Engagement teams

- Assessment of the investigation, understanding of facts
- Update of a fraud risk assessment and response to fraud risk
- Assessment of the impact amount
- Assessment of internal control deficiencies
- Support by fraud investigation experts

If review of the risk of material misstatements due to fraud and additional procedures are necessary, receive support from an expert within the Firm.

Increase resources including staff   Review   Consultation/inquiry for technical views

OUs Units   **QRP**   **Risk & Quality**

Technology-focused audit approach

Importance of technology in audits and changes in risks from DX promotion
—

The use of technology has been expanding and deepening. Many entities are using advanced technology such as cloud and RPA by promoting digital transformation (DX). The use of generative AI has also been accelerated to improve efficiency and enhance operations through the use of data. At the same time, technological advancement has posed new types of risks. For example, when using the electronic sealing system as a replacement to papers and seals, we need to consider risks specific to technology (e.g. identify theft caused by inappropriate management of accounts, falsification of electronic trail using erroneous settings or weakness in the system).

The reliability of IT used for financial reporting needs to also be assessed for audit purposes and the importance of such assessments is increasing as digitisation initiatives of audit clients progress.

In this highly technology-dependent environment, cyber-security risk is now a risk that occurs at all entities. Auditors need to respond to this as one of the risks associated with financial reporting since damage caused by ransomware, which occurs frequently, affects timely processing of period-end closing and disclosures.

IT and business process diagram

IT application controls and IT general controls
—

There are two types of IT controls: IT application controls (ITACs), which are controls over the functions and processing of systems (e.g. access restriction and interfaces) and IT general controls (ITGCs), which underpin the reliability of systems, including system development, maintenance, operation and security management.

Taking a sales process as an example, the sales management system issues shipment instructions based on order data received, automatically calculates the sales amount using the amount registered in the unit price master, and interfaces the sales data to the accounting system in which journal entries are automatically prepared. Since this process is automated without human intervention, in the absence of ITACs, an inaccurate amount of sales could be booked if the interface fails to process due to a system problem or inaccurate journal entry programming.

If ITGCs that prevent and detect inappropriate programming and data updates (e.g. setting developers' access restrictions and log monitoring, problem monitoring for timely detection of errors and recovery) is not implemented, the assumption that ITACs are effectively functioning throughout the year cannot be made.

As shown in the figure on the left, ITGCs are the foundation for overall internal control over financial reporting, and therefore the evaluation of ITGCs is essential in audit.

Our audit approach related to IT
—

With the expansion of technology deployment by companies, auditors cannot sufficiently respond to heightening IT risks through only testing paper-based supporting documents and manual controls, and simply gaining an under-standing and evaluating the IT environment.
We perform in-depth audit procedures on controls over IT. For ITACs, we understand the configuration of the system accurately through inspection of specifications in addition to inquiries, and use actual data to verify whether the process is performed according to the specifications. With respect to ITGCs, we test log data of program changes and security settings to ensure the reliability of programs and data. Authority settings of complex ERP systems are also tested in a complete manner using evaluation tools developed by the PwC network.

The incorporation of technology into business processes enables the consistent processing of a huge volume of transactions and data in accordance with the rules, and helps strengthen internal controls by preventing fraudulent data alteration through limiting access only to appropriate persons. However, the use of technology also creates new risks. We believe that the auditor can perform effective and efficient audits by gaining a deep understanding of, and appropriately assessing, technology risks and related internal controls.

Since cyber security risk also has a significant impact on financial reporting, our audit approach to this risk is to perform procedures regardless of whether cyber incidents have occurred. We incorporate the PwC network's latest audit approach for cyber security risk. When there are no cyber incidents, this includes the assessment of common cybersecurity risks that may affect financial reporting and the evaluation of internal controls including intrusion detection, patch management, and backup and restoration to address ransomware attacks.

To adapt to the pace of clients' transformation and proactively respond to emerging risks arising from such transformation, we will continuously monitor changes in IT environment and trends and appropriately identify and assess risks arising from the use of technology, thereby delivering valuable audits.
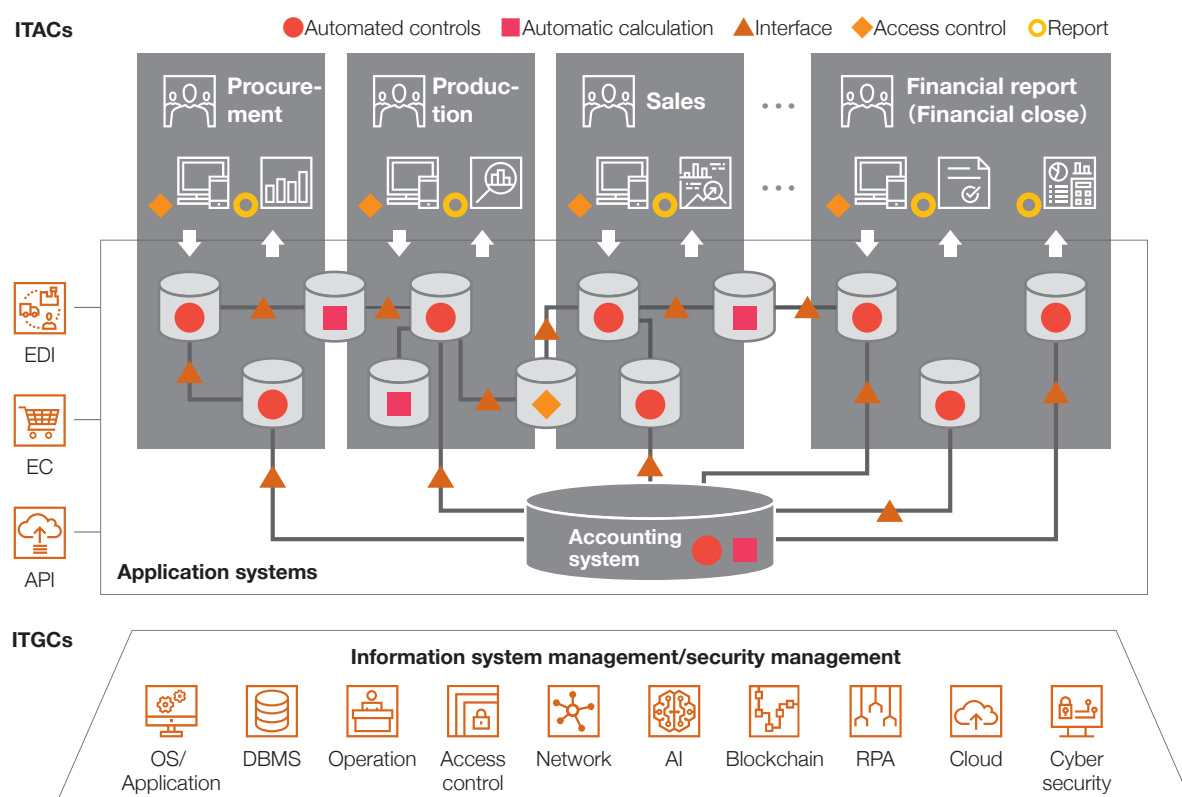
Periodic monitoring activities of audit engagements

1. Post-audit review (periodic monitoring activities)
—

The Firm periodically monitors the system of quality management and individual audit engagements.

As part of these periodic monitoring activities, we use a quality management review program adopted globally by the PwC network. The quality management review program is based on professional standards relating to quality management, including the International Standard on Quality Management No.1 and the PCAOB's Quality Control Standards.

Review teams are composed of staff at Quality Review and partners and managers of overseas PwC member firms, and perform monitoring using common PwC network policies, procedures, tools and guidance.

Periodic monitoring activities of the system of quality management
—

Periodic monitoring activities of the system of quality management review whether internal controls over the system of quality management are appropriately developed and operated in accordance with the quality management standards.

Periodic monitoring activities of individual audit engagements
—

Periodic monitoring activities of individual audit engagements review whether individual audit engagements are appropriately performed in accordance with applicable standards related to audits.
Partners who serve as an audit engagement leader are, in principle, subject to periodic monitoring activities of individual audit engagements once every three years. In addition, audit engagements with a high social impact

Cycle of review and root cause analysis

and those whose risks are assessed as heightened are also subject to periodic monitoring activities.

2. Assessment, communication and remediation of identified deficiencies
—

If the periodic monitoring activities identify a significant finding, the engagement leader is required to develop and implement a remediation plan to perform additional audit procedures. Risk & Quality monitors whether the remediation plan is developed and implemented in a timely and appropriate manner. The results of periodic monitoring activities and the set of remedial actions are also shared with the PwC network and are reflected in personnel evaluation of each audit team staff, including the partner, considering their roles and responsibilities within the engagement team.

3. Root cause analysis and thorough implementation of remedial actions
—

Based on the results of periodic monitoring activities and external inspections, the Firm promptly conducts a root cause analysis to help improve audit quality. Specifically,

the Firm conducts various analyses, including the analysis of matters that need improvement, comparison of audit engagements with issues identified with those with no issues, and consideration of objective factors and potential issues. The Firm assesses the results of these analyses and takes necessary actions, including reviewing the assignment policy, revising the written audit procedures, developing guidance to prevent recurrence, monitoring the progress of in-progress audit engagements, and conducting adequate education and training.

4. Reflection in next fiscal year's measures
—

Remedial measures are taken individually based on the root cause analyses. Findings are recognised as risks in the QMSE and are reflected in the Firm-wide quality management measures.

Results of periodic monitoring activities
—

In FY2024, as shown in the table below, 36 audit engagements were subject to periodic monitoring activities, and four significant findings were identified. These periodic monitoring activities covered 38% of partners engaged in audit engagements.

Initiatives to improve quality based on the results of periodic monitoring activities
—

Based on the results of FY2023 periodic monitoring activities, the Firm implemented initiatives to improve the

behaviour (direction, oversight and review) of engagement partners and team managers, strengthened the process to check audit reports, and developed or revised checklists. The Firm will continue its efforts for further improvement. Also, we have performed a root cause analysis for the findings identified in FY2024 periodic monitoring activities and are taking actions to address individual issues.

In terms of journal entries and accounting estimates, the Firm has been enhancing audit procedures to test these areas. However, with drastic changes in the business environment surrounding companies, audit clients will also need to continuously strengthen internal controls and provide detailed supporting documents for estimates by taking into account changes in their business environment.

The Firm encourages audit professionals to reconfirm their understanding of standards and required audit procedures and documentation. Furthermore, Risk & Quality will promote the standardisation of procedures together with the chief auditors.

The Firm has fostered a culture to understand global trends of quality improvement in audits, and to learn from findings raised in periodic monitoring activities. The Firm will continue to place top priority on improving audit quality and improve quality of financial reporting in Japan in cooperation with audit clients.

Results of periodic monitoring activities

Fiscal year	Number of in-scope engagements	Required modification of the audit opinion	No significant findings identified	Significant findings identified	Partner coverage rate
FY2024	36 cases	0 cases	32 cases	4 cases	38%

Reviewer's working hours

By review type		Total
Hot review (Review during audit)	Periodic monitoring activities (Post-audit review)	
9,049 hours	4,724 hours	13,773 hours

External inspections

Sustainability issues and financial statement audit

Quality management reviews by the Japanese Institute of Certified Public Accountants
———

With a view to maintaining and ensuring societal trust in audit by maintaining and enhancing an appropriate audit quality level, the JICPA has in place a self-regulatory program to review the status of audit quality management activities conducted by audit firms (quality management reviews). The quality management reviews are generally conducted once every three years, with their results being notified to audit firms and where necessary, recommendations for remediation being issued.

Results of recent quality management review

Date of issuing the most recent report on quality management review and remediation recommendation report	December 14, 2021
Results of performing the quality management review	Results with no significant deficiencies

Inspections by the Certified Public Accountants and Auditing Oversight Board
———

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) receives reports on quality management reviews from the JICPA, examines the details, and conducts on-site inspections at an audit firm as necessary. If the CPAAOB identifies that quality management of audits is significantly inadequate, or that the audit engagement is not in compliance with laws and regulations, the CPAAOB recommends the Financial Services Agency (FSA) to take administrative action or other measures necessary to ensure the appropriate operation of that audit firm.

The Firm was not subject to any administrative action by the FSA as of June 30, 2024.

Inspections by the Public Company Accounting Oversight Board
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The Public Company Accounting Oversight Board (PCAOB) periodically conducts inspections for accounting firms that audit public companies. The results of inspections are disclosed on the PCAOB's website.
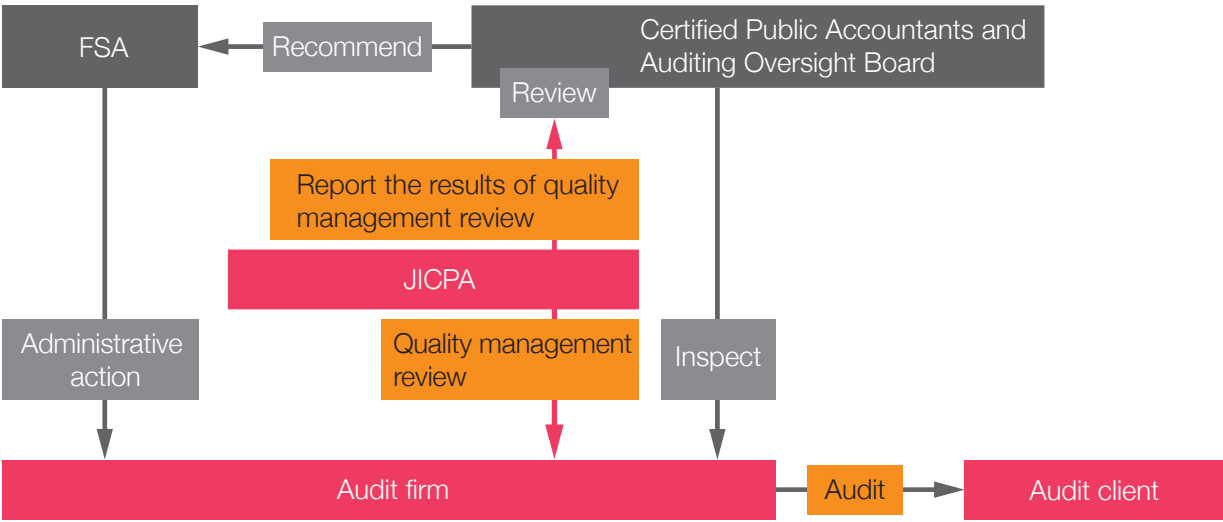
Response to findings
———

When findings are raised in the quality management reviews by the JICPA or inspections by the CPAAOB or PCAOB, the Firm takes appropriate measures, analyses root causes, develops guidance to prevent recurrence, implements education and training, and takes other necessary measures.

Administrative action resulting from external inspections

Administrative action by the FSA since foundation: 0

Meteorological disasters are becoming increasingly severe in various parts of the world and many economists across the globe are beginning to tackle the issues in earnest. There is also a growing interest in climate change issues that have a financially significant impact on entities.

In response to this trend, as part of financial statement audits, we inspect the sustainability information disclosed in annual securities reports, integrated reports and other disclosure documents as necessary, inquire of management and those charged with governance about the process to identify and assess climate change issues that affect the company, and determine whether they may lead to a risk of material misstatements by assessing the likelihood and magnitude of potential misstatements.

If climate change issues relate to accounting estimates, we make careful judgments by taking into account that they may have a broad impact on future business activities and that estimates of impact involve complexity and inherent uncertainties.

For the sustainability information disclosed in the annual securities report which is regarded as the other information, we read the information and consider whether there is a material inconsistency between the other information and the financial statements and our knowledge obtained in the audit.

**Overview of inspections by external institutions**

Using technology in audit

In this digital age where human beings and technology are inseparable, it is imperative to combine the power of imagination unique to humans with diverse skills and insights with innovation that relies on innovative technology. Based on this, we aim to roll out a human-led and tech-powered approach. In FY2024, approximately ¥15.8 billion of investment was made in technology at a PwC Japan Group level. The Firm also invests in technology and audit transformation efforts, as the use of technology for audit quality enhancement leads to higher audit satisfaction not only for audit clients but for all stakeholders.

As shown in the status of technology implementation in each stage of audit procedures below, the Firm has deployed many tools to improve timeliness, quality, effectiveness and efficiency of audit.
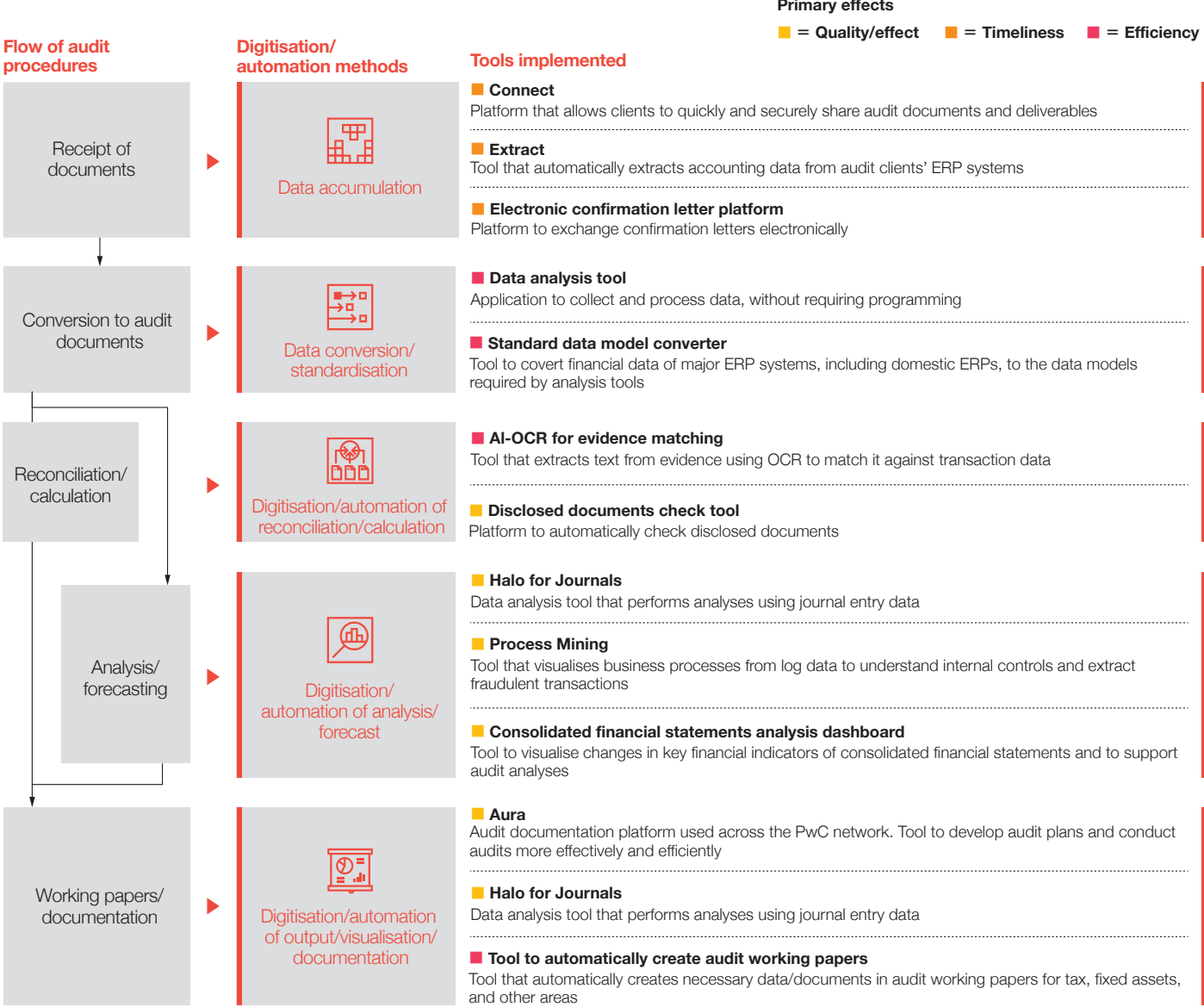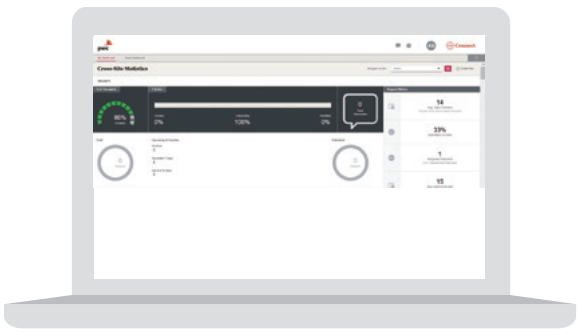
Connect

Listed audit client implementation rate **95.5**%

Connect is our collaborative platform that allows clients to quickly and securely share audit documents and deliverables. It also enables clients and auditors to visualise the status of deliverables and the progress of the audit.
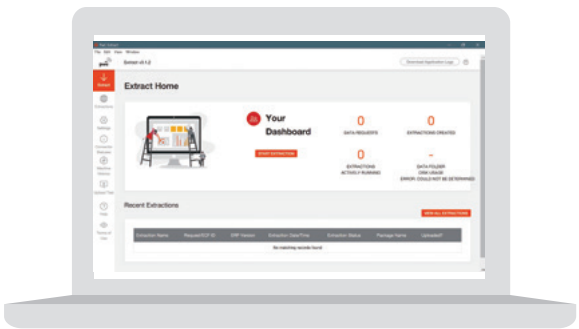
Connect's progress management view

Extract

Number of implemented clients **70**

Extract is a tool developed by PwC that can automatically extract accounting data from ERP systems. By improving the efficiency of the data extraction process, the tool reduces time for both the audit client and the auditor. It enables data sharing more frequently and safely, and helps detect high-risk journal entries at an early stage.

Extract's Home view

Status of technology implementation in each stage of audit procedures

Primary effects
■ = Quality/effect   ■ = Timeliness   ■ = Efficiency

| Flow of audit procedures	Digitisation/automation methods	Tools implemented
Receipt of documents	Data accumulation	■ **Connect** Platform that allows clients to quickly and securely share audit documents and deliverables ■ **Extract** Tool that automatically extracts accounting data from audit clients' ERP systems ■ **Electronic confirmation letter platform** Platform to exchange confirmation letters electronically
Conversion to audit documents	Data conversion/standardisation	■ **Data analysis tool** Application to collect and process data, without requiring programming ■ **Standard data model converter** Tool to covert financial data of major ERP systems, including domestic ERPs, to the data models required by analysis tools
Reconciliation/calculation	Digitisation/automation of reconciliation/calculation	■ **AI-OCR for evidence matching** Tool that extracts text from evidence using OCR to match it against transaction data ■ **Disclosed documents check tool** Platform to automatically check disclosed documents
Analysis/forecasting	Digitisation/automation of analysis/forecast	■ **Halo for Journals** Data analysis tool that performs analyses using journal entry data ■ **Process Mining** Tool that visualises business processes from log data to understand internal controls and extract fraudulent transactions ■ **Consolidated financial statements analysis dashboard** Tool to visualise changes in key financial indicators of consolidated financial statements and to support audit analyses
Working papers/documentation	Digitisation/automation of output/visualisation/documentation	■ **Aura** Audit documentation platform used across the PwC network. Tool to develop audit plans and conduct audits more effectively and efficiently ■ **Halo for Journals** Data analysis tool that performs analyses using journal entry data ■ **Tool to automatically create audit working papers** Tool that automatically creates necessary data/documents in audit working papers for tax, fixed assets, and other areas

People and culture supporting Digital and Innovation

As a professional firm whose vital asset is people, PwC Japan Group has been undertaking initiatives for digital upskilling. We believe investing in our people and implementing new technology and innovations into our operations are vital in delivering PwC's Purpose.
We aim to be an ever-evolving organisation through the continuous cycle of digital upskilling and contribution to corporate transformation both within and outside PwC Japan Group. The Firm has created an environment in which everyone has an opportunity to be engaged in digital initiatives and equipped with skills to use digital tools.

Our DX journey
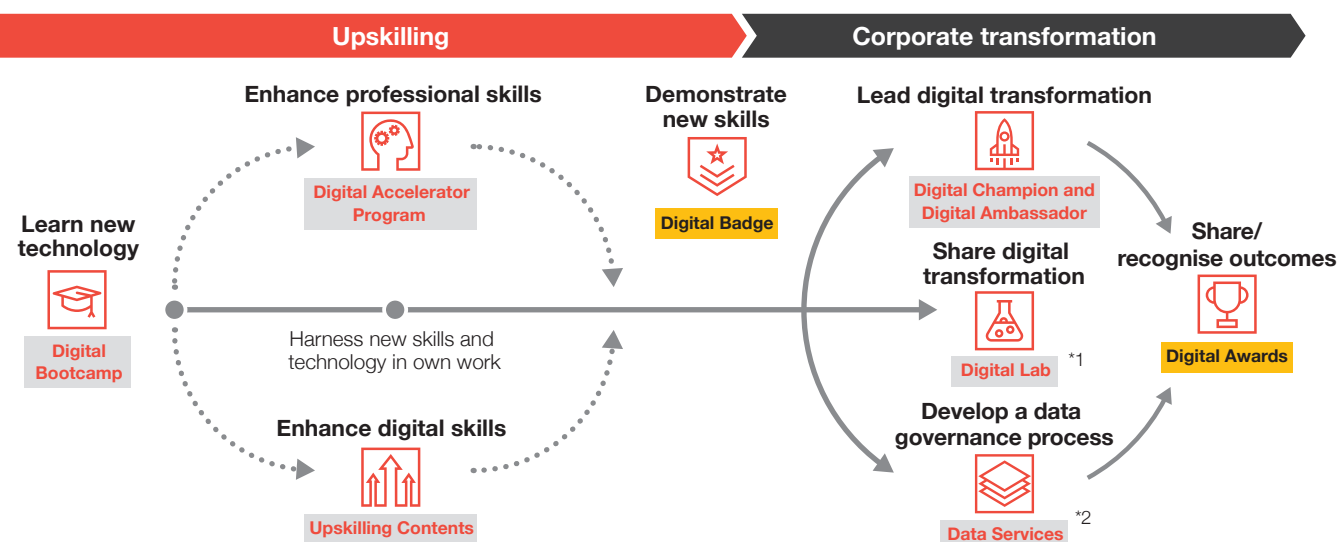
*1 Digital Lab: Data platform designed to collect and share digital tools created by PwC network firms, including Japan
*2 Data Services: Cloud-based platform developed by PwC

Upskilling initiatives

	Digital Bootcamp Onboarding training (mandatory)	This program is participated by all employees at the time of onboarding and is designed to have experience and learn digital thinking and technology required of the digital society by using common tools. Mainly, participants use data processing and visualisation tools and learn through that experience.
	Digital Accelerator Program Training of selective people	A training program designed to develop people who will promote the digitisation of PwC Japan Group. The program is participated by those members selected from various operating OUs, and includes training on business analyses using digital tools, information security, and generative AI. ●Digital Accelerator 140 persons
	Upskilling Contents Self-learning contents	A number of learning contents that enable users to easily and quickly acquire new digital skills and literacy are offered. In addition to internally developed contents, external training tools are available for self-learning. Upskilling contents are readily available to enable employees to learn at any time the areas of interest for enhancing their skills.
	Digital Champion and Digital Ambassador DC/DA (recommendation by others/self-recommendation)	Digital Champion (DC)/Digital Ambassador (DA) are selected from each OU and are responsible for fostering a digital culture at the OU level and the engagement team level. They are expected to refine their expertise and play an active role both inside and outside the company. ●DC/DA 181 persons

Initiatives to recognise skills and share outcomes

	Digital Badge	Digital Badge is a digital skill certification issued by PwC to visualise digital skills. This Badge can be shared not only within the Firm, but also through external social media.
	Digital Awards	PwC aims to contribute to building trust in society through human-led and tech-powered approaches, combining the human-unique ability to think and experience with technology-driven innovation. An event called Digital Awards is held to recognise individuals and teams who have contributed to such human-led, tech-powered initiatives.

New initiatives

Looking ahead, we classified key talent into three categories and launched a development plan for each category in FY2024.

## Process digitalisation talent
—

■ Skill to visualise operations and design business processes

Digital OJT was initiated in FY2024 to develop process digitalisation talent.
The program targets（i）employees who have high motivation to engage in digitisation projects but have difficulty in obtaining such opportunities, and（ii）employees with available time, and offers learning programs according to the individual skill level and opportunities to experience real projects. We expect that experiencing real digital projects after completing the programs will complement classroom learning and create synergies.

This program is easy to participate in, encouraging any employees who are willing to acquire such a skill.

Our DX approach
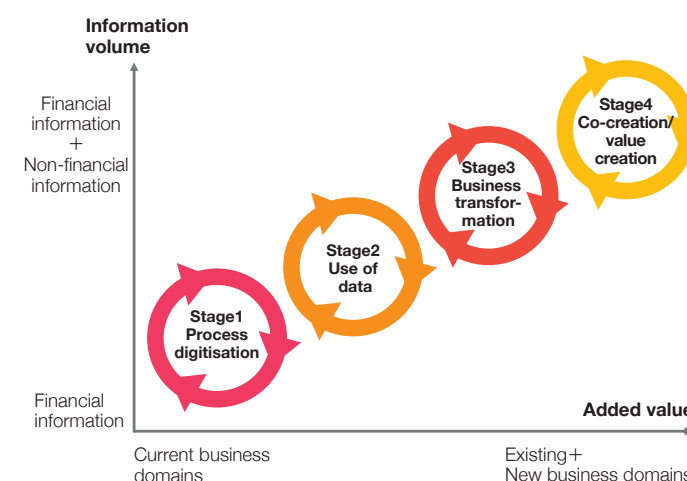
Data utilisation talent
—

■ Skill to link business and data and extract value from data

With the continued development of generative AI, the importance of high-quality data is increasing. Since FY2024, the Firm has been focusing on the development of data utilisation talent to foster a culture where all employees are equipped with data skills. In addition to providing data analysis and tool training, the Firm has enhanced specialised programs for data scientists and analysts. Technologically, we have developed a platform that handles anonymised data and shares successful cases through the PwC network, thereby raising the level of data utilisation skill of the entire organisation. Through these initiatives, we have been promoting the development of talent who can link business and data.

Product manager talent
—

■ Skill to design and implement new products and managed services

In an era where technology is constantly evolving, it is difficult for us to appropriately meet the needs of our clients with only our existing lines of services. Going forward, we will develop people who can produce new services and business models（product managers）, thereby contributing to society.

Since FY2023, the Firm has held new people development workshops and workshops for partners to discuss the agenda for establishing a people development environment. We have also been discussing plans to create an environment where product managers can play an active role. As a next step, we will shift to the implementation phase of these plans.

Organisations supporting improvement and standardisation of business processes

Initiatives for operational standardisation and delivery model transformation
—

At PwC Japan Group, the Technical Competency Centre (TCC), which has more than 500 staff in Japan, is working on the standardisation of the audit process. We plan to expand the use of the TCC in other territories as well.

TCC is an organisation that works closely with the digital-tool development department and engagement teams, and comprises staff who have digital skills and/or basic accounting qualifications. In addition to improving the audit process, we aim to improve audit quality through standardisation and automation by leveraging know-how of the digital tool development department.

TCC is an organisation that centrally manages the audit and other operations, and performs audit procedures according to a standardised process. Specifically, a team set up within the department performs testing of some accounts for which required audit procedures are the

same for most audit clients, thereby ensuring quality. Every year, TCC staff and CPAs work together to review the business processes to improve the quality of the audit procedures.

We have deployed a tool to verify that the disclosure documents on EDINET match the final version of the disclosure documents agreed with the audit clients and a process to automatically verify certain disclosures in the annual securities report using XBRL data, thereby supporting engagement teams.

To support these initiatives, more than 20 dedicated CPAs are assigned as managers for the quality management within TCC. TCC's work is also subject to quality management reviews by the Firm.

Three steps for DX promotion

Organisation committed to quality enhancement

Engagement Performance and Quality (EPQ) initiatives
—

EPQ comprises '4+1' (p. 50), which is the Firm's key quality enhancement initiative by improving business processes. EPQ intends to cultivate a culture where people act autonomously by making engagement teams and their respective staff understand the benefits of accelerating the timing of performing procedures for improving audit quality.

EPQ also seeks to realise our goal of digitising the audit

by improving the audit processes and establishing systematic audit processes and standardising procedures.

Three steps for DX promotion
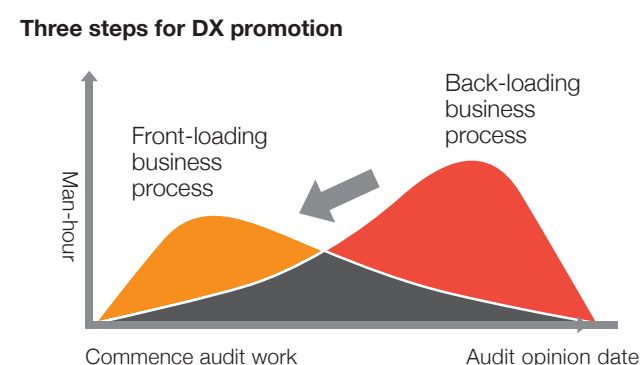
Information security

Information security management structure
—

Through collaboration between PwC network's information security department and member firms in each territory, PwC is working to strengthen information security. Initiatives at a PwC network level enable the prompt implementation of measures using the latest advanced technology globally, and efficiently promote compliance with laws and guidelines. This ensures a higher level of information security compared to the initiatives implemented at an individual member firm level.

The Firm has promptly introduced cybersecurity measures based on PwC network's zero trust security model, and is responding to emerging new threats in a timely manner. In addition to these technological measures, we have launched organisation and individual-level information security measures. These include conducting information security assessments in accordance with PwC network's common standards, providing training and drills based on common contents, identifying information security risks arising from Japan-specific working environments and cultures, and raising awareness of

partners and employees.

Through these initiatives, we strive to continuously ensure robust information security that protects our clients' information.

* To maintain and strengthen information security, the Firm acquired ISO/IEC27001(ISMS) certification in June 2022. Primarily due to the integration, the scope of certification was expanded to cover the Kyoto Business Management Office and PwC Risk Advisory LLC in FY2024.

Cybersecurity incident management
—

Threats of cyberattacks, including ransomware, are increasing each year. PwC has been taking measures to identify, prioritise, and mitigate cyber risks existing in PwC network's technological environment. The Firm has also established a structure to prevent cyberattacks, such as network protection, endpoint protection, cloud protection, identity security and 24/365 monitoring. It also has a mechanism whereby the information security department deals with an incident by sharing information and collaborating with the related departments, including the risk management department, the legal department and the department where the incident occurred.

Risk management based on NIS cyber strategy
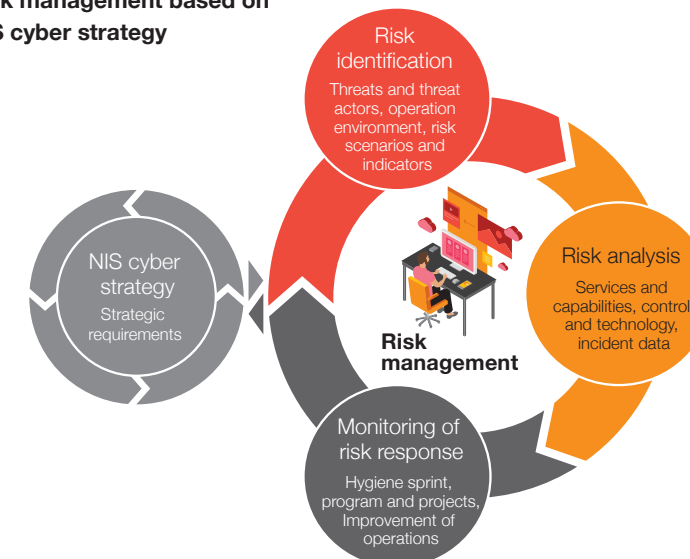
Cybersecurity management system