Our focus on audit quality
Contents

1 Opening message

29 Monitoring

4 Culture and values

34 Stakeholder engagement

10 People

36 Legal and governance structure

19 Approach
To our stakeholders

We live in a complex world, and the global economy is evolving fast. So many of our clients are driving transformational change to keep pace—capitalizing on new opportunities and navigating new challenges. At PwC, we’re changing quickly, too, so that we’re prepared to identify and address the risks we face in this environment. Here’s where we’ve been focused this past year.

Quality is our top priority. During this time of significant change, there are some things that remain the same. At PwC, we’re committed to driving a strong culture of quality and excellence. It’s core to our purpose—to build trust in society and solve important problems—and all the steps we are taking to accomplish our strategy. Importantly, it’s also what our stakeholders and clients expect of us.

Audit quality starts with our people. That’s why we maintain a constant emphasis on our purpose and values that address integrity and independence. We continue to invest in ongoing professional and personal development, with in-depth technical training and resources to help us bring our best to work and life. As a learning organization we are focused on positioning our people and firm for the future. We’re providing opportunities to learn new digital skills, earn digital acumen badges, and build digital fitness with intensive, hands-on training in areas such as data wrangling, automation bots and workflows, and data analysis and visualization tools to help our people thrive in an increasingly digital world. We’re also making significant investments in our people and technology to help our firm provide quality audits.

We see technology as a key enabler of quality. Through implementing our strategy to tech-enable the audit, we’re matching tailored innovations in transformative technology with the continued emphasis on vital skills of our people like critical thinking, skepticism, and communication to enhance how we perform our audits—upskilled, innovated, insightful. We’re also expanding our use of standardization and automation at scale through Acceleration Centers and Centers of Excellence to help in areas such as audit support and procedures for high volume transactions and specialized areas.

We’re responding to and anticipating change. In response to new standards and evolving environment, we provide enhanced training, tools, and methodology so our people have the guidance and insights they need to drive quality results.

We value differences. When people from different backgrounds and with different viewpoints work together, there is better ability to challenge—ultimately making for more informed audit work and promoting quality. We value differences, which is good for our performance and creates value for our clients, our people, and society. As a firm, we are committed to fostering an inclusive workplace that leverages the power of our differences to achieve our goals.

We’re proud to be auditors. Quality, independent audits play an important role in the financial reporting system and support the overall health of the global economy. We do not take that responsibility lightly.

In this 2019 edition of our Audit Quality Report, we discuss these efforts and more. The following pages provide a window into our system of quality controls, transparency data points, and how we have delivered on our audit quality objectives. Quality matters. It matters to us, and it matters to our brand, our stakeholders, and our clients.

Thank you for engaging with us on these topics, and for your interest in our continued progress.

Welcome to our 2019 Audit Quality Report
Our focus on audit quality

Assurance professionals surveyed who report:
- receiving consistent messaging on the importance of audit quality: 98%
- understanding the firm's audit quality objectives: 97%

Average voluntary turnover rate

<table>
<thead>
<tr>
<th>Role</th>
<th>Turnover Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>14.3%</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>27.3%</td>
</tr>
<tr>
<td>Associates</td>
<td>19.5%</td>
</tr>
<tr>
<td>Total</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

Average annual hours worked in excess of 40 hours per week

<table>
<thead>
<tr>
<th>Role</th>
<th>Hours Worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>412</td>
</tr>
<tr>
<td>Managers</td>
<td>308</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>281</td>
</tr>
<tr>
<td>Associates</td>
<td>254</td>
</tr>
</tbody>
</table>

2017 PCAOB inspection report

- Audits included in Part 1: 13
- Audits inspected: 55

Leverage ratio of audit team member hours

- Partner to Manager: 1 to 4.2
- Manager to Staff: 1 to 3.7
- Partner to Staff: 1 to 19.8

Number of issuer audit engagements subject to internal inspections: 132

Compliance rate of issuer audit engagements selected for internal inspection: 97%

Please see the full report for additional information regarding the data points shown. Electronic users may click on the data points to navigate to additional information.
## Year in review

<table>
<thead>
<tr>
<th><strong>80%</strong></th>
<th>Engagement Index</th>
<th><strong>Pride Advocacy Commitment Overall satisfaction</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>94 hours</strong></td>
<td>Average training hours completed per audit professional</td>
<td></td>
</tr>
<tr>
<td>Percentage of restatements of financial statements for issuer audit clients</td>
<td>0.55%</td>
<td></td>
</tr>
<tr>
<td>Percentage of restatements or withdrawals of ICFR reports for issuer audit clients</td>
<td>0.63%</td>
<td></td>
</tr>
<tr>
<td>Ratio of partners serving in technical support roles to the total number of audit partners</td>
<td>1 to 8.0</td>
<td></td>
</tr>
<tr>
<td>Number of hours of auditing and accounting training mandated by PwC annually for each level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partners</td>
<td>Managers</td>
<td>Senior Associates</td>
</tr>
<tr>
<td>0</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Percentage of audit hours performed by Acceleration Centers</td>
<td>12.1%</td>
<td></td>
</tr>
<tr>
<td>Percentage of audit hours provided by specialists</td>
<td>15.3%</td>
<td></td>
</tr>
<tr>
<td>Number of Assurance professionals trained as Digital Accelerators</td>
<td>400+</td>
<td></td>
</tr>
<tr>
<td>300,000+ digital assets downloaded or executed on our Digital Lab</td>
<td></td>
<td></td>
</tr>
<tr>
<td>147,000+ hours of digital upskilling training</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Please see the full report for additional information regarding the data points shown. Electronic users may click on the data points to navigate to additional information.
Our focus on audit quality

Our purpose is to build trust in society and solve important problems. We build trust by delivering on our commitment to quality. This means that performing quality audits is job #1 for our Assurance practice and is at the core of our strategy. Our focus on quality drives our actions with clients, colleagues, and other stakeholders and guides our decision making.

We expect our partners¹ and staff to exhibit the core values underlying our purpose:

<table>
<thead>
<tr>
<th>Care</th>
<th>Work together</th>
<th>Make a difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimagine the possible</td>
<td></td>
<td>Act with integrity</td>
</tr>
</tbody>
</table>

Key messages are communicated to our firm² by our Senior Partner and our leadership team and are reinforced by engagement partners. These communications focus on what we do well and actions we can take to make enhancements. We track whether our people believe that our leaders’ messaging conveys the importance of quality to the success of our firm. Based on this tracking, we are confident our people understand our audit quality objectives. Paramount to what we do is exercise independence and objectivity in our audits. This independent and objective mindset is reinforced by our tone and culture and is pivotal to our partners and staff in making important decisions and engaging in difficult conversations.

Percentage of Assurance professionals surveyed who report:

<table>
<thead>
<tr>
<th>receiving consistent messages about the importance of audit quality from both local and firm leadership</th>
<th>understanding the firm’s audit quality objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>98% FY19²</td>
<td>97% FY19</td>
</tr>
<tr>
<td>98% FY18</td>
<td>97% FY18</td>
</tr>
<tr>
<td>98% FY17</td>
<td>96% FY17</td>
</tr>
</tbody>
</table>

Our focus on audit quality
At PwC, “audit quality” means that we consistently:

- comply with auditing standards;
- exercise professional skepticism;
- use our experience to identify and resolve issues timely; and
- apply a deep and broad understanding of our clients’ businesses and the financial environment in which they operate.

Our audit quality principles are achieved through our audit quality practices and mean that we:

- ask tough questions;
- apply an objective and skeptical mindset;
- embrace the supervision and review process as a way to continuously improve;
- stay current on professional standards;
- have timely, meaningful exchanges with audit committees;
- plan our work and resolve issues in a timely and thorough fashion;
- recognize our role in the capital markets;
- remain alert for issues that need deeper analysis; and
- act with professionalism.

“At PwC, our purpose is at the core of what we do and why we do it.”

Tim Ryan, US Chairman and Senior Partner
Ethics, independence, and objectivity

Ethics

Ethical behavior is the foundation for building trust. We have a code of conduct and supporting policies that describe expected behaviors. We also provide multiple ways for our people to ask questions and obtain policy guidance or voice concerns about possible policy violations, including an Ethics HelpLine, through which concerns may be reported anonymously, if preferred.

Protecting client confidentiality and preserving necessary records are key components of our ethics policies. These policies are included as part of our new-hire training and reinforced during mandatory annual independence, ethics, and compliance training and in a required annual compliance confirmation.

Independence and objectivity

As auditors, we are required to be independent from our audit clients. Independence, in fact and appearance, sets the foundation for us to exercise professional skepticism and make objective conclusions without being affected by influences that could compromise our professional judgment.

Our independence policy is based on the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants and is supplemented to comply with the requirements of US standard setters and regulators. We support our people in maintaining independence by providing systems and processes that:

• track the entities requiring independence;
• enable assessments and documentation of approval for providing permissible non-audit services;
• facilitate the assessment and monitoring of joint business relationships;
• support consultations with our experts;
• facilitate the evaluation, pre-approval, and monitoring of securities and other financial arrangements held by partners, managers, and others to whom independence rules apply;
• allow many brokerage firms to record security transactions on behalf of our people;
• document our professionals’ annual confirmation of compliance with our independence policies and other compliance topics; and
• facilitate the process of sending engagement independence confirmations and generating the documentation necessary to evidence the confirmation process automatically.
A team of dedicated professionals (16 partners and 193 staff):

- maintains our independence policies, processes, and systems;
- develops our annual independence training; and
- serves as a resource for our people when questions arise.

In FY19, this team engaged in approximately 22,000 independence-related consultations.

We have disciplinary procedures in place to promote compliance with our independence policies. Independence policies require that we report independence rule exceptions to those charged with governance at our clients so that they can be addressed promptly.

Partner rotation

Partner rotation strikes a balance between bringing “fresh eyes” to the audit and maintaining a deep understanding of the client’s operations, in part, through continuity of other team members. Our practice leaders use systems and processes to manage current and successor partners’ portfolios, including understanding their skills and capacity to maintain consistent audit quality. We require public company lead audit partners and quality review partners to rotate off engagements every five years. We also have rotation policies for auxiliary partners and partners on audit engagements not subject to the SEC rotation requirements.

Accountability

Partners are evaluated based on their contributions to people, quality, and profitable growth. Our accountability program holds partners, including quality review partners and other partners in leadership roles, accountable for audits in which they participated that are found by external and internal inspections to have deficiencies. Partner accomplishments are measured based on the partner’s relative performance against established goals. Partners receive a share of the firm’s profits based on their level of responsibility, the firm’s performance, and the partner’s performance. Our audit partners are not evaluated or compensated for selling non-audit services to their audit clients.

Non-partner professionals are assessed against the dimensions of the PwC Professional framework, discussed on page 12. They participate in a performance bonus plan based, in part, on the achievement of quality goals and objectives.

We reward teams and individuals for quality. In cases that require it, partners and managers are required to implement a responsive action plan to address quality issues. Implementation of the plan is monitored by leaders.
Considerations in undertaking an audit engagement

We have approval processes for the acceptance of new audit clients and annual continuance of existing audit clients. For the acceptance of new audit clients, our process requires approvals by quality management partners and market leadership. For existing client continuance assessments, the extent and level of approvals depend on the nature of the client and results of a required risk assessment.

Key to making these approval decisions is whether we have people with the right skills, experience, and capacity to perform a quality audit. We also consider if the audit fees are commensurate with the level of effort needed to perform a quality audit. We only accept and continue to perform audit engagements when we believe our audit procedures can satisfactorily address the risk of material financial statement misstatement. Our client acceptance and continuance procedures consider whether:

- the engagement is allowable under professional and regulatory standards and is within our professional competence and capabilities;
- key management, board members, and significant shareholders are people of integrity and good repute;
- the entity’s operations are governed by acceptable standards of behavior;
- there are any unresolved issues involving independence, conflicts of interest, or relationships with other entities that may have a bearing on whether, and on what conditions, we undertake an audit engagement; and
- there are any unreasonable timing or resource constraints that would affect our ability to comply with applicable standards.
Multiple lines of service

Leveraging all lines of service is an important component of providing a high quality audit. Drawing on the knowledge of our non-audit professionals, we develop a deeper understanding of our audit clients’ processes and financial reporting risks, which leads to a better audit, more insightful feedback to the Audit Committee, and ultimately strengthens our organization. Our non-audit professionals’ deep technical knowledge supports our audit teams in understanding and evaluating the risks that may affect our audit clients’ financial statements—for example, the potential impact of complex income tax matters; valuation processes related to the use of fair value in financial reporting; information technology innovations; cybersecurity threats; and forensic investigations. Non-audit professionals also develop and use technologies that may be applied in our audits. Our interest in embracing these technologies is important to attracting and retaining top talent.

We are focused on maintaining audit quality, professional skepticism, objectivity, and transparency regarding non-audit services. We are part of a strong financial reporting ecosystem, including robust rules and regulations addressing the provision of non-audit services to audit clients. Our independence protocols and monitoring processes are designed to address the possible risks from having multiple lines of service. The majority of our non-audit revenue comes from clients with whom we have no audit relationship. We only perform non-audit services for audit clients when, before any services are provided, it is determined that such services are appropriate in the circumstances, the services are permitted by applicable independence rules, and, if required, the audit committee agrees that such services will not impair our independence.

Percentage of audit hours provided by specialists

15.3%
Our people strategy is focused on being the world's leading developer of talent. We hire candidates who have diverse backgrounds and appropriate skills; have a questioning mindset and intellectual curiosity; and demonstrate courage and integrity.

“Our Tomorrow”
Our One Firm “Your Tomorrow” strategy is how we are investing to create the PwC of the future; we are responding to the expectations of the market to deliver a different, more digital experience to our clients. We are helping our people develop their potential to harness rapid technological change. In Assurance, our Your Tomorrow strategy centers on tech-enabling our business so we can deliver enhanced quality and value for our clients and give our people the skills they need to thrive in an increasingly digital world. There are three elements to this strategy:

Digital upskilling—We provide our people with numerous individualized learning tools to expand the use of digital solutions on their audits and empower them with a mindset of continual improvement and innovation. Our two-day Digital Academies leverage market-leading software and focus primarily on building three core skills: data wrangling, automation, and data visualization. We also offer a variety of engaging learning channels, including podcasts, a real-time trivia game, and learning bursts to help our people build their digital skills on their own terms. These tools enhance the firm’s collective digital fluency while providing each individual with a personalized curriculum to build their digital IQ and earn a Digital Acumen knowledge badge. Our Assurance professionals completed more than 147,000 hours of relevant training during FY19 and more than 9,600 of them earned their Digital Acumen badge. In addition, more than 400 Assurance professionals became Digital Accelerators, receiving more intensive training in priority technology. Our Digital Accelerators are embedded within our engagement teams and are dedicated to applying digital capabilities to each audit, as well as developing new digital solutions for the firm.
Skills for society—This is a powerful program to develop our people while making a meaningful difference in our communities. It enables our people to use their skills in an impactful way through participation in Access Your Potential® or volunteering at nonprofit organizations (see page 12 for further discussion).

Be well, work well—Given the pace and complexity of change, the firm is putting the power of its resources toward supporting our people’s journey to greater well-being. In FY19, the firm continued to support our people’s well-being journey; including the use of a digitally-enabled employee Well-Being Rewards program. This is complemented with periodic firmwide events (e.g., PwC on the Move, 50k Random Acts of Kindness, The Big Breathe, Day of Joy/Purpose), which focus on enhancing personal well being.

Number of audit professionals4 by level

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY186</th>
<th>FY176</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>962</td>
<td>953</td>
<td>971</td>
</tr>
<tr>
<td>Managers5</td>
<td>2,536</td>
<td>2,464</td>
<td>2,656</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>2,206</td>
<td>2,280</td>
<td>2,593</td>
</tr>
<tr>
<td>Associates</td>
<td>4,711</td>
<td>5,020</td>
<td>5,521</td>
</tr>
<tr>
<td>Total</td>
<td>10,415</td>
<td>10,717</td>
<td>11,741</td>
</tr>
</tbody>
</table>

Our reputation depends on our people. Our hiring standards include a structured interview process with behavior-based questions built from The PwC Professional framework, assessment of academic records, and background checks. In FY19, we hired nearly 2,000 entry-level audit professionals and approximately 1,700 audit interns.

The incremental reduction of audit professionals over the last two years is driven by our talent planning and turnover. The reduction in our US hiring is a result of our Your Tomorrow strategy to tech enable the audit through standardization, tools, and automation. Standardization includes the use of both on and offshore resources at Acceleration Centers (previously referred to as Service Delivery Centers) and Centers of Excellence. Our voluntary turnover fluctuates based on a variety of factors, including market demand for talent.
We encourage our partners and staff to participate in Access Your Potential®, our commitment to equipping young people from disadvantaged communities with the technology, financial, and career-selection skills needed for a successful future. This includes offering our partners and staff time to volunteer in support of causes that are important to them. Many of our people participate in skills-based volunteering, such as teaching our financial literacy and technology skills curriculum to students or serving on a nonprofit board, among other opportunities. These efforts positively impact local communities and support retention of our purpose-driven staff. For example, the turnover rate for our core audit staff who participate in corporate responsibility-related activities is six percentage points lower than core audit staff overall.

We periodically measure the pride, advocacy, commitment, and overall satisfaction of our people. We call this measurement our Engagement Index.

Many internal and external factors have the potential to impact our Engagement Index; the compensation and benefits programs we offer compared to other employers and market demand for talent are two factors that impact the commitment and overall satisfaction of our people. Our Engagement Index is one tool we use to help evaluate our people initiatives.

The PwC Professional

The PwC Professional is our global leadership development framework, which provides a single set of expectations across our lines of service, geographies, and roles. It provides transparency on the skills our staff need to stay relevant and deliver quality to our clients.

The PwC Professional framework includes assurance quality dimensions to guide our staff in building critical skills and behaviors related to delivering audit quality, such as professional skepticism, review and supervision, auditing skills, issues management, and accounting and technical knowledge.
Professional development

We are committed to putting the right people with the right skillsets in the right place at the right time. One way we do this is by using TalentLink, our talent sourcing platform. This tool provides visibility into our people’s experiences and interests so that we can efficiently and appropriately staff client engagements.

Throughout their careers, our people are provided with career development opportunities, classroom and on-demand learning, and on-the-job real time coaching and development. Our on-demand learning portfolio facilitates personalized learning with access to CPE and non-CPE educational materials, including webcasts, podcasts, articles, videos, and courses.

Achieving a professional credential supports our Firm’s commitment to quality through consistent examination and certification standards. Becoming a CPA, an important part of our audit professionals’ career progression, is a prerequisite for promotion to audit manager. Our goal is to provide our staff with a more individualized path to promotion and support them in prioritizing and managing their time more effectively when preparing for the exam. Our staff often attain their credential well before they are eligible for promotion to manager. We incentivize staff with an enhanced primary credential bonus and provide them with additional support to get credentialed early.

Learning and development

We prioritize a learning culture. The composition of our audit teams provides our less experienced professionals the opportunity to work with more seasoned professionals, which promotes meaningful on-the-job training. Judgment is honed by observing how seasoned auditors approach issue identification, management, and resolution.

Leverage ratio of audit-related hours for audit team members

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner to Manager</td>
<td>1 to 4.2</td>
<td>1 to 4.0</td>
<td>1 to 4.0</td>
</tr>
<tr>
<td>Manager to Staff</td>
<td>1 to 3.7</td>
<td>1 to 3.9</td>
<td>1 to 4.1</td>
</tr>
<tr>
<td>Partner to Staff</td>
<td>1 to 19.8</td>
<td>1 to 19.7</td>
<td>1 to 20.3</td>
</tr>
</tbody>
</table>

In FY19, 14 of the 110 individuals recognized by the AICPA for achieving exceptional results on the CPA exam were from our firm.
Learning that occurs through on-the-job supervision, review, and mentoring is supplemented through participation in classroom and on-demand training programs. Our National Assurance Learning Team is dedicated to developing course content and updating our training curriculum based on feedback obtained from:

- our National Office on new accounting and auditing standards and financial reporting developments;
- our internal inspections process and other inputs that monitor quality;
- observations from the PCAOB and peer reviews; and
- surveys, focus groups, and post-course learning assessments.

Our National Assurance Learning Team collaborates closely with firm leadership so that training is responsive to changes in the Assurance practice. We require our audit professionals to attend training courses that integrate auditing and accounting concepts and we use simulation-based elements for a more effective learning experience. Our managers and partners also receive industry-specific training and training related to new accounting standards, when applicable. All mandatory auditing and accounting training courses include a learning assessment, which requires the participant to earn a passing score to be granted credit for course completion. In addition, we offer our professionals training on non-technical topics, such as project management, issues management, and business communications.
Number of hours of auditing and accounting training mandated by PwC annually for each level

<table>
<thead>
<tr>
<th>Level</th>
<th>FY19</th>
<th>FY18*</th>
<th>FY17*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>18 to 30</td>
<td>22 to 33</td>
<td>22 to 38</td>
</tr>
<tr>
<td>Managers</td>
<td>18 to 32</td>
<td>22 to 33</td>
<td>22 to 40</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>40 to 43</td>
<td>42 to 47</td>
<td>41 to 47</td>
</tr>
<tr>
<td>Associates</td>
<td>43 to 62</td>
<td>40 to 82</td>
<td>43 to 82</td>
</tr>
</tbody>
</table>

Completion of mandatory auditing, accounting, and new-hire and annual independence, ethics, and compliance trainings is a component of individual performance. Failure to complete mandatory training or to achieve the minimum number of auditing, accounting, and ethics training hours for licensure can impact an audit professional’s performance evaluation and compensation. In addition, all partners and staff were required to complete the mandatory digital upskilling training discussed on page 10, which included 3 hours for partners, directors and senior managers and 12 to 16 hours for managers and below.

The number of hours of auditing and accounting training mandated annually can increase or decrease from year to year based on a variety of factors, including the issuance of new accounting and auditing standards, the frequency and timing of leadership conferences, and the impact of our ongoing course redesign, which includes the use of digital tools to deliver training more efficiently. The increase in average training hours for FY19 can be attributed primarily to the firm’s digital upskilling efforts as described on page 10.

Retention

Turnover in the public accounting profession is often high because as accounting standards and regulations change, accountants are in demand and the development and experience we provide make our staff highly sought after in the external market. Our voluntary turnover can fluctuate based on several factors, including the experience we provide and external market demand.
Providing our people with the ability to meet their professional and personal commitments is a critical component of our people experience and retention strategy. Our “Assurance People Experience Plan” emphasizes 5 areas that directly influence staff retention: rewards & recognition, worklife flexibility, career development, Your Tomorrow, and staff connectivity. As an example, we continue to enhance our Your Tomorrow—Be Well Work Well strategy to support our professionals to become and sustain their best selves and encourage our teams to have discussions about what flexibility means to each team member and build flexibility into their team plans. We expect that consistent support and execution of these actions will result in enhanced retention.

**Average annual voluntary turnover rate by staff level**

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managers</td>
<td>14.3%</td>
<td>13.0%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>27.3%</td>
<td>25.6%</td>
<td>19.0%</td>
</tr>
<tr>
<td>Associates</td>
<td>19.5%</td>
<td>18.7%</td>
<td>12.8%</td>
</tr>
<tr>
<td>Total</td>
<td>20.0%</td>
<td>18.9%</td>
<td>13.4%</td>
</tr>
</tbody>
</table>

**Average annual hours worked in excess of 40 hours per week by level**

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>412</td>
<td>410</td>
<td>404</td>
</tr>
<tr>
<td>Managers</td>
<td>308</td>
<td>281</td>
<td>273</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>281</td>
<td>239</td>
<td>228</td>
</tr>
<tr>
<td>Associates</td>
<td>254</td>
<td>214</td>
<td>198</td>
</tr>
</tbody>
</table>

**Our diversity and inclusion strategy**

At PwC, we’re committed to creating a culture of belonging. We are focused on diversity and fostering an inclusive environment in which our people are comfortable bringing their whole selves to work and feel that they belong and are valued.

We know that when people from different backgrounds and with different points of view work together, we create the most value—for our clients, our people, and society. Our core values of caring and working together guide us to recognize the contributions of each individual and develop a workplace with a range of people, perspectives, and ideas.
Our focus on audit quality

Inclusion:
We offer our people opportunities to raise their diversity awareness through a variety of programs, including the following:

Our “Blind Spots” program is required for all new hires and promotees and helps individuals gain awareness of unconscious biases and their potential consequences. This training is available at www.pwc.com/us/blindspots.

We have formed Inclusion Networks for Black/African Americans, Asians/Pacific Islanders, Latinos/Hispanics, women, working parents, veterans, people with disabilities, and LGBT professionals.

Outsmarting Human Minds, is another opportunity to learn about blind spots through a series of podcasts, videos, and other materials. The series was developed by Harvard University with a grant from PwC and is available at www.pwc.com/us/en/about-us/outsmarting-human-minds.html

Our Color Brave™ series of conversations about race has helped break down barriers, challenge conventional thinking, broaden our perspectives, and inspire the best in all of us.

Our Inclusive Leadership and Belonging sessions for all of our managers, senior managers, directors, and managing directors help develop inclusive leadership skills and understand how the decisions they make every day affect the experiences of our people.
As a result of our efforts to promote diversity and sustain an inclusive environment, women and minorities comprise 46% and 33% of our firm, respectively, and the diversity of our partners has increased from 17% women and 7% minorities in 2009 to 22% women and 15% minorities in 2019. Another testament of our progress is our 2019 new partner class, which was 45% women and minorities.

While we are proud of the progress we have made, there is still more we want to do to enhance our inclusive culture so that we can continue to attract talented people who have unique skills, experiences, and ambitions. As a global champion of the United Nations HeForShe gender equality movement and a founding signatory of the CEO Action For Diversity & Inclusion™ we have demonstrated our commitment to being a firm where everyone has an opportunity to reach their full potential.

More than 700 CEOs have signed the CEO Action for Diversity & Inclusion™ corporate pledge, which includes a commitment to four goals:

1. to create or continue to make our workplaces trusting places for dialogue about diversity and inclusion
2. to offer or expand unconscious bias education
3. to share best practices and practices that aren’t working so others can learn from them
4. to create and share strategic inclusion and diversity plans with our board of directors

As part of CEO Action, individuals are also asked to take the “I Act On” pledge, committing to check their biases, speak up for others, and show up for all. More than 38,000 people have taken this pledge so far.

Last year, through CEO Action, we debuted the new Check Your Blind Spots unconscious bias mobile tour, where we used video, virtual reality, and other approaches to engage our clients, students on campus, and our communities across the country with a tech-enabled, gamified experience.

To learn more about PwC’s diversity and inclusion strategy, as well as the awards and recognition we have received for our achievements in this area, please visit www.pwc.com/diversity.
Performing audits in accordance with professional standards is an important way that we fulfill our purpose to build trust in society and solve important problems. Each year we issue audit reports on the financial statements of thousands of public and non-public companies. We conduct our audits following applicable auditing standards in order to obtain reasonable assurance regarding whether the financial statements are presented fairly, in all material respects. Although reasonable assurance is a high level of assurance, it is not a guarantee. An audit involves examining the underlying audit evidence, including information and reports provided by the company, on a test basis. In some circumstances, we also rely on—and for many companies, test and opine on—a company’s internal control over financial reporting, which due to inherent limitations may or may not prevent or detect misstatements. We are proud of the important role that audit opinions play in the capital markets, and how they help us fulfill our broader purpose as a firm.

Audit methodology and processes

Foundational to our audit methodology is the assessment of the risk of material misstatement in the financial statements. We consider materiality level for the financial statements as a whole in planning the nature, timing, and extent of audit procedures. Our risk assessment procedures establish our understanding of business processes, inform our assessment of risks inherent in the financial statements, influence the controls we select for testing, and guide our substantive audit response. Our risk assessment begins in the planning phase of the audit and continues through the issuance of our report. The timely involvement of audit partners and managers during planning and risk assessment facilitates the appropriate consideration of audit risk and the planned response based on the client’s circumstances.

When we audit the financial statements of a company with operations in multiple locations or business units (i.e., components), our audit approach, including the nature, timing, and extent of our involvement in the work of component auditors, is influenced by our understanding of and reliance on the component auditors, the significance of the component, and identified significant risks of material misstatement to the group financial statements. We continually refine how we use the work of component auditors and the level of our involvement in their work so that all components of our audits meet US standards and satisfy our own quality expectations.
Delivering on our continuous improvement mindset in FY19:

<table>
<thead>
<tr>
<th>Expanded use of Halo data auditing tools</th>
<th>Introduced new <strong>performance and documentation tool</strong> for audit planning and completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinforced documentation and supervision/review requirements for <strong>use of new audit technology</strong></td>
<td></td>
</tr>
<tr>
<td>Enhanced content, templates, and technology for our <strong>audit committee reporting</strong></td>
<td>Increased leverage of our <strong>Acceleration Centers</strong></td>
</tr>
<tr>
<td><strong>Enhanced methodology, training, tools, and templates</strong> in response to new leases and credit loss accounting standards</td>
<td></td>
</tr>
<tr>
<td>Refined approach to applying PCAOB’s new auditor reporting model: developed new <strong>policies, guidance, and templates</strong>; provided consultation support as teams worked with clients to prepare for adoption of new requirements related to <strong>Critical Audit Matters</strong></td>
<td><strong>Enhanced industry-specific guidance</strong> and guidance for certain engagement types, such as carve-out audits and brokers/dealers</td>
</tr>
<tr>
<td>Implemented additional <strong>Chief Auditor Reviews</strong> in areas such as controls over revenue</td>
<td></td>
</tr>
<tr>
<td>Enhanced tools in areas of <strong>significant judgment</strong>, adding illustrative examples on nature and extent of evidence necessary to effectively audit</td>
<td></td>
</tr>
</tbody>
</table>
Perfecting the blend of people and technology

At PwC, we are tech-enabling the audit, matching tailored innovations in transformative technology with the continued emphasis on vital skills of our people like critical thinking, skepticism, and communication to enhance how we perform our audits—upskilled, innovated, insightful. We are building new tools, working in the cloud and creating a global data platform—all to:

- further enhance audit quality;
- provide more transparency around our progress and a more predictable workflow; and
- provide real-time delivery, increased efficiency, valuable insight, and security.

Our people are critical to this development, and, as described on page 10, we are dedicated to training our people to deliver innovative audits using enhanced technology, digital skills, and strategic processes.

How we’re innovating the audit

We’re making significant investments in technology to provide engagement teams with the tools to support a tech-enabled audit, one tailored to our clients’ technological maturity. Our innovative technologies, which are seamlessly integrated into our processes, deliver quality, efficiency, and insight. These are the primary tools we are currently using across relevant engagements:

**Aura**, the PwC Network’s global audit platform, is used by auditors across the Network (more than 100,000 auditors worldwide), driving quality and consistency on a global basis. Aura enables sequential and intuitive audit plan development. It enables risk assessment through each phase of the audit, leveraging embedded industry-specific content that drives consistency in execution and assists teams in documenting and evaluating IT dependencies. The PwC Network continues to make incremental enhancements to Aura that further drive quality and standardization, support improved project management, and facilitate timely execution and review.

**Connect** is the PwC Network’s collaborative workflow tool that allows clients fast, secure sharing of audit documents and deliverables. PwC member firm staff and clients can easily review the status of information requests within this web-enabled tool. Part of the Connect platform, Connect Audit Manager is our global collaboration tool that streamlines, standardizes, and automates real-time communication and collaboration between group and component audit teams. It provides for secure document exchange, enhanced status tracking, and issue management capabilities between group and component audit teams.
Halo/data auditing, the PwC Network’s award-winning data extraction, visualization, and auditing platform, is designed to enhance our risk assessment process and facilitate automated testing and data validation to support the different phases of the audit—from planning, to execution, through completion. For example, Halo for Journals helps audit teams identify journal entries to test as part of the procedures performed to address the risk of fraud. Similarly, Halo for Investments helps audit teams analyze investment portfolio data and price testing results. We continue to expand the Halo suite of tools, most recently in the testing of revenue, harnessing the power of data to further enhance our audit quality.

Extract is our proprietary tool that automates the extraction of data from clients’ ERP systems during an engagement. Extract can locally or remotely extract, compress, encrypt, and transfer data securely. The tool eliminates data handoffs, reducing room for error. By the end of 2019, 80 percent of our eligible audit clients will benefit from Extract.

Data Sieve is a proprietary platform that uses artificial intelligence and optical character recognition to “read” documents and extract data.

My Independence Assessment guides users through each step of the Independence assessment process, tracks the status of the assessment, and serves as a resource for documenting results, required actions, and conclusions.
People-powered innovation

We have been increasing our digital skills as a practice; more than 75% of our Assurance professionals have completed one of our Digital Academies. Using these new skills, we want teams to brainstorm ways to enhance processes on their own engagements and develop innovative solutions to simplify, standardize, and automate as appropriate.

This year we launched Digital Lab, our One Firm technology-sharing community, which harnesses the collective power of our digital and business acumen to give our professionals the opportunity to find, build, and share digital assets to enhance efficiency and quality on their audit engagements. Since its launch, more than 90% of our Assurance professionals have visited Digital Lab and have downloaded or executed more than 300,000 digital assets.

Looking to the future

As a firm, we are focusing on the innovations we believe are most relevant to the audit of the future, including artificial intelligence and robotics. We continue to create new, integrated solutions for the audit and develop new tools to continue to shift manual tasks to machines, allowing us to focus more on areas of higher risk and deliver new insights. Our people and approach are critical to this development. Technology is just the enabler. We call it “human and machine collaboration”—and this combination is far stronger than either one alone.

“Our powerful combination of digitally-savvy people and leading technology enhances the quality of our audits while also making them more customized, efficient, and insightful. The collaboration between human and machine is where exceptional value is created.”

Wes Bricker, Vice Chair and US Assurance Leader
Resource management

We continue to enhance the quality and efficiency of our audits by leveraging our Acceleration Centers to perform standardized audit and administrative procedures. Acceleration Center staff receive relevant training and are subject to independence policies. Supervision and review of the work of Acceleration Center staff are comparable to the supervision and review of the work of our practice staff.

We’re also continuing to drive quality through innovation in the end-to-end audit process beyond just the use of Acceleration Centers. Specifically, we’re further streamlining, standardizing, automating, and centralizing portions of the audit in Centers of Excellence (COEs). COEs perform work, in coordination with our audit teams, following standardized processes and leveraging technology to drive increased quality and efficiency through scale and automation. COEs perform detailed testing and review of specific audit areas on a centralized basis. COE partners and managers are responsible for the supervision and review of COE staff activities. COEs are staffed with specialized, trained, and skilled professionals performing specific audit activities across a broad range of clients. This enables them to develop unique perspectives to bring insights and value to our engagement teams and clients, while driving consistency and quality in the execution of the work.

### Percentage of audit hours performed by Acceleration Centers:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY17</td>
<td>9.0%</td>
</tr>
<tr>
<td>FY18</td>
<td>10.9%</td>
</tr>
<tr>
<td>FY19</td>
<td>12.1%</td>
</tr>
</tbody>
</table>

In FY19, over 650 of our client engagements were supported by the COEs; we expect to increase that number to approximately 1,300 in FY20.
Consultation process and use of specialists

As part of our collaborative culture, engagement teams utilize firm specialists from our multiple lines of service (e.g., valuation, tax, information technology) to support various accounting and auditing areas and never have to go it alone.

<table>
<thead>
<tr>
<th>Percentage of audit engagement hours provided by specialists:</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY19</td>
</tr>
<tr>
<td>15.3%</td>
</tr>
</tbody>
</table>

Engagements teams also have access to the firm’s quality support network. This network includes our National Office, Chief Auditor Network, and Assurance Quality Management.

National Office

Our National Office comprises technical accounting, auditing, and financial reporting specialists. These specialists play a vital role in keeping our policies and guidance in these areas current. Our policies identify matters that require National Office consultation. Additionally, partners and staff are encouraged to voluntarily consult with the National Office whenever they believe they could benefit from their insights. In the event an audit partner initially has a different viewpoint than our National Office, a resolution process provides guidance for elevating the discussion until agreement can be reached.

Our ratio of partners serving in technical support roles to the total number of audit partners fluctuates based on our periodic evaluation of our technical support resource needs and leverage model, which includes the use of managing directors, to ensure sufficient, high-quality technical resources are available for our audit teams. This ratio may also fluctuate based on the resources needed to prepare guidance, policies, and publications as a result of new accounting and auditing standards.

National Office

Through presentations, client interactions, publications, podcasts, videos, and webcasts, the National Office keeps our audit teams, clients, and other stakeholders informed of standard-setting activity, regulatory matters, and other developments. Please see PwC’s CFOdirect.com for our publicly-available National Office content.

<table>
<thead>
<tr>
<th>Ratio of partners serving in technical support roles to the number of audit partners:</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY19</td>
</tr>
<tr>
<td>1 to 8.0</td>
</tr>
</tbody>
</table>
Chief Auditor Network

Our Chief Auditor Network comprises partners and professionals who help audit teams design effective and efficient audit approaches and reinforce key learning points from audit training and guidance. Our Chief Auditors contribute to market and industry group meetings focused on audit quality topics and serve as instructors for many of our audit-related training courses. Chief Auditors also provide advice on auditing matters through review of certain aspects of selected audit engagements before those audits are completed. Through these activities, the Chief Auditor Network is able to provide leaders with insights on overall audit quality trends.

Assurance Quality Management

Our Assurance Quality Management network includes experienced audit partners who serve in full or part-time national, regional, or local roles. Quality Management professionals are responsible for the design, development, and implementation of our assurance quality management policies.

Quality Management partners support audit teams in assessing risks (such as whether to undertake or continue an audit engagement) and applying the firm’s quality management policies. Audit teams are required to consult with a Quality Management partner on specific issues (e.g., certain principal auditor considerations, going concern matters, misstatement evaluations). In addition to required consultations, audit teams are encouraged to consult with Quality Management whenever they believe they could benefit from their insights.

Quality Review Partners

Quality Review Partners (QRPs) and QRP assistants are a component of our quality control system. Individuals serving in these roles must have the requisite technical knowledge, training, experience, and time to perform the role effectively. All QRPs and QRP assistants are required to take training before assuming their role.

QRPs and QRP assistants are involved in the most important aspects of the audit, including reviewing the audit plan, considering the firm’s independence, evaluating the significant risks of material misstatement in the financial statements and our responses to those risks, and reviewing certain accounting, auditing, and financial reporting and disclosure matters.
Global network

PwC is a member of PricewaterhouseCoopers International Limited (PwCIL), an English private company limited by guarantee. Member firms of PwCIL are separate legal entities providing professional services under the “PwC” brand that together form the PwC network. Member firms may draw upon the resources and methodologies of the PwC network, the resources of other member firms, and/or secure the professional services of other member firms. In return, member firms are bound to abide by certain common policies and to maintain the standards of the PwC network as put forward by PwCIL.

Quality across the network

Quality audits across the PwC Network are vital to the US firm’s brand. We continue to assist PwC Network member firms in enhancing their quality-focused infrastructure and processes, which includes providing materials for annual update trainings in certain territories on US accounting and auditing standards. Our US firm leadership also meets periodically with leaders from other member firms to share learnings and best practices on quality.

Each PwC Network member firm is responsible for monitoring its own quality control system, including effective monitoring processes aimed at evaluating whether the policies and procedures that constitute the member firm’s quality control system are designed appropriately and operating effectively to provide reasonable assurance that its audit engagements are performed in compliance with applicable laws, regulations, and professional standards. A PwC Network-led team inspects member firms’ reviews of their quality control systems. When areas needing improvement are identified in their reviews, the member firm prepares a remediation plan and the PwC Network monitors its implementation.

Each PwC Network member firm undergoes periodic inspection of completed engagements to assess whether an engagement was performed in compliance with applicable professional standards and engagement-related policies and procedures. The results of these inspections inform the actions taken by the member firm to continue to enhance audit quality. Individual member firms’ quality results are considered by US firm partners in planning and performing their audits, when applicable.

Our focus on audit quality
Audit committee communications

The oversight of auditors by audit committees (or equivalent parties charged with such oversight) is another key element of audit quality. Through timely, meaningful exchanges, we obtain the audit committee’s perspectives and fulfill our professional responsibilities to communicate certain items to them. For public company audits, our communications occur at least quarterly.

Examples of topics we commonly discuss include:

• our independence, including, when appropriate, the potential effects of proposed non-audit services;

• our role and the roles of management and the audit committee;

• our audit approach, including our risk assessment process, consideration of fraud risks and results;

• our client service team, including specialists;

• management’s accounting policies and practices, including adoption of new accounting standards and significant transactions;

• relevant trending topics, including economic developments and new laws and regulations affecting the company;

• our planned use of the work of others;

• the quality of the company’s financial reporting;

• audit fees;

• audit results, including areas of significant estimates and judgments; and

• firm PCAOB inspection results.

We also encourage audit committees to ask us candid questions and engage in an open dialogue to help foster an environment of accountability.
Continuous improvement cycle

Our continuous improvement process is designed to timely identify opportunities for enhancement and quickly respond. We identify opportunities through monitoring the results of pre-issuance reviews and internal and external inspections.

- Communication/training
- Plan audit
- Execute audit
- In-process/pre-issuance reviews
- Internal/external inspection
- Analysis of quality drivers
- Revise guidance/develop tools
Pre-issuance reviews

One way we monitor quality is to review audit work on certain audit engagements prior to the issuance of their respective audit report. Each year we reassess the scope and areas of focus of these reviews, taking into consideration recent inspection results and knowledge gained by our Chief Auditors in supporting engagement teams.

Our pre-issuance reviews provide engagement teams with timely feedback, which can be incorporated into their audit prior to the completion of fieldwork. These reviews primarily focus on the implementation of new standards and policies, audit methodology enhancements, and matters noted during inspections cycles. A portion of this year’s pre-issuance reviews also focused on certain activities performed by the COEs.

In FY19, our Inspections Group and Chief Auditor Network combined to perform more than 175 pre-issuance reviews.

Internal inspections

Our internal inspections program assesses audit engagements’ compliance with firm policies, procedures, and applicable professional and regulatory standards.

Under the firm’s internal inspections program, audit engagement partners are generally selected for inspection at least once every four years. Overall, the engagement selection process results in a sample of audit engagements that is representative of our audit practice (e.g., sector, geography, size) and meets or exceeds the requirements set forth in the applicable quality control professional standards.

Our Inspections Group oversees all aspects of the internal inspections program, including its design and execution. The group monitors audit quality, drives consistency in our inspections process, and delivers insights into areas for continued focus. This group, along with support from Assurance personnel with relevant industry or technical expertise (e.g., tax, valuation, actuarial), executes the annual inspections. Approximately 800 partners and professional staff will participate as reviewers in the 2019 internal inspections of 2018 audit engagements.

The Inspections Group communicates inspections observations and results to the audit practice. Further, the Inspections Group works with other groups in the National Office, the National Assurance Learning Team and firm leadership to identify actions we could take to continue to enhance quality. For example, additional guidance or training, audit methodology modifications, or targeted messaging from leadership are ways we can sustain and enhance audit quality.
Based on our 2018 inspection results, we continue to focus on the auditing of internal controls, supervision and review activities, and, for example, specific aspects of:

- the auditing of business combinations and other estimates;
- the evaluation of the design and operating effectiveness of controls over revenue; and
- compliance with independence pre-approval and documentation processes and report issuance policies.

The Inspections Group annually evaluates the firm’s system of quality control over our audit practice. Our system of quality control identifies risks and includes controls in the following areas:

- Organizational structure, including tone at the top and leadership’s responsibility related to quality
- Practice environment, including assessment of internal and external risks
- Acceptance and continuance of clients and engagements
- Independence, integrity and objectivity
- Personnel management, including training, assignment and evaluation
- Engagement partner assignments, including QRPs
- Engagement performance, including review and supervision
- Participation by network firms
- Monitoring, including internal inspections and root cause analyses of findings
- Administration, including design and maintenance of quality control policies and procedures

Our system of quality control is also subject to annual review by professionals from the PwC Network. Our most recent annual evaluation confirmed that our system of quality control over our audit practice is designed appropriately and functioning effectively.

Compliance rate of issuer audit engagements selected for internal inspection:

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY18</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>97%</td>
<td>96%</td>
<td>96%</td>
<td></td>
</tr>
</tbody>
</table>
External inspections

PCAOB inspections of our public company audit practice provide a data point for audit quality and represent an important check on our internal monitoring and assessment processes.

As the PCAOB has stated publicly, the audits they select and the portions of those audits they review are not done to identify a representative sample statistic that can be extrapolated accurately to a portfolio of audits. As a result, the findings cannot be used to draw conclusions about the frequency of deficiencies throughout the portfolio. The PCAOB’s approach is designed to target items of interest to their regulatory purposes, such as audit areas relating to recently issued standards. There are inherent differences in the purpose and methods used by the PCAOB to select audits for inspection compared to that used for our internal inspections.

The most recent inspection report on our audit practice is dated February 28, 2019 (the “2017 Inspection Report”), and describes the results of the PCAOB’s 2017 inspection of 55 (or approximately 3%) of our 2016 public company audits.

Part I of the PCAOB Report

Part I, which is the public portion of the PCAOB inspection report, contains an overview of the inspection procedures and observations on the engagements inspected. Partly in response to that report, we continue to focus on the following areas.

- Auditing internal control over financial reporting, specifically identifying and testing controls to address risks related to revenue and testing the design and operating effectiveness of controls with a review element in areas related to management estimates.
- The sufficiency of evaluation and corroboration of management’s key assumptions, including key data points used in developing the assumption.
Part II of the PCAOB Report

Part II of the inspection report reflects observations identified during the PCAOB’s review of certain practices, policies, and processes related to our system of quality control, including observations developed from the engagement-specific findings reported in Part I. The Sarbanes-Oxley Act mandates that Part II not be made public if a firm addresses the quality control observations to the PCAOB’s satisfaction within 12 months of the date of the inspection report. The PCAOB has not notified us of their determination of how we addressed observations contained in Part II of our 2016 inspection report (which covered our 2015 year-end audits). The 12-month period for us to address the comments made in Part II of our 2017 Inspection Report expires on February 27, 2020.

Analyses of quality drivers

We perform analyses of audits with and without deficiencies identified through internal and external inspections. A team of reviewers that is independent from the engagement team identifies and considers factors relevant to technical knowledge, supervision and review, professional skepticism, engagement resources, and training, among others that may have contributed to audit quality. These potential causal factors are identified by evaluating data for the engagement and certain members of the engagement team, performing interviews, and reviewing audit working papers.

We compare and contrast the data for audits with and without deficiencies to identify whether certain factors appear to correlate to audit quality. Examples of this data include the hours incurred on the audit, whether key engagement team members are in the same geography as the client, the number of years that key engagement team members have been on the engagement, the number of other audits the engagement partners are involved in, whether the engagement was subject to a pre-issuance review, and the timing of when the audit work was planned and performed.

Our goal is to understand how audits without deficiencies may differ from those with deficiencies, and to use those observations to identify enhancements that may be useful to implement across the practice.

“Even in times of unprecedented change in our profession and the markets we serve, one thing remains consistent—our dedication to delivering a quality audit.”

Jorge Milo, US Assurance Quality and National Office Leader
Our Governance Insights Center helps boards of directors and their committees meet the challenges of their critical roles and duties, and seeks to enhance the financial acumen of investment professionals. We also strive to strengthen the bridge between investors, directors, and corporate management as we help board members address evolving expectations and regulations. While our work encompasses various governance activities, we place a significant focus on the audit committee because the audit committee has the primary responsibility for an issuer's financial statements and oversight of the external auditor.

We share perspectives and insights with directors and investment professionals through various events and other mediums. For example, we provide directors with trainings, videos, and publications related to new and emerging financial reporting matters and accounting standards so they can make better oversight and investment decisions. Over the past year, we organized three corporate director conferences for nearly 300 directors; presented at more than 500 client meetings or other events; hosted small group meetings; and issued publications on important governance matters, including the results of our Annual Corporate Directors Survey.

Our interactions with directors and the investment community allow us to hear stakeholders’ perspectives on financial reporting matters and help inform our points of view. We also share investor insights and feedback with regulators and standard setters. Our work helps enhance stakeholders’ understanding of the role and responsibilities of the auditor. For more information, see the Governance Insights Center section on pwc.com.
Professional and regulatory landscape

In the US, the capital markets and the auditing profession benefit from a strong regulatory environment, which includes the SEC and the PCAOB, both of which have investor protection as part of their mission. We believe a strong audit profession and regulatory environment facilitate confidence and transparency in the capital markets and wider society.

The dynamic environment in which we operate includes new accounting and auditing standards, and a wide range of active regulatory and policy initiatives around the globe. This evolving regulatory landscape shows how actions taken by regulators in one part of the world continue to influence the views and behaviors of regulators in other parts of the world. Active US and international standard setting developments and agendas are an important aspect of this—for example, the auditor's use of the work of specialists in the US, risk assessment and quality control standards internationally, and the auditor's reporting model and auditing estimates, including fair value measurements in both environments, are areas that have been subject to active or recent standard setting initiatives. We have played an active role in these debates and participated in the due process, both as an individual firm and in collaboration with others in the profession by working with the Center for Audit Quality (CAQ).

We have the privilege of engaging with a wide array of stakeholders. Those interactions include dialogue around new and emerging accounting and auditing standards and regulatory and profession-wide topics, such as how to attract a sufficient pipeline of talent with appropriate skills into the profession. We are proactive in providing feedback on these topics to the relevant regulators and standard setters. These efforts maximize the value we can provide to companies and the capital markets.

Our US Chairman and Senior Partner, Tim Ryan, represents PwC on the CAQ’s Governing Board. Wes Bricker, Vice Chair and US Assurance Leader, Jorge Milo, US Assurance Quality Leader, and Roz Brooks, US Public Policy Leader, are members of the CAQ’s Advisory Council. Jorge Milo is also the chair of both the CAQ’s Professional Practice Executive Committee and the CAQ’s Advisory Council.
Legal structure and ownership of the firm

The firm is a limited liability partnership established under the laws of the State of Delaware. All interests in the firm are held by its partners and principals.

Governance structure of the firm

The firm’s Senior Partner serves as Chairman and Chief Executive Officer and manages the firm pursuant to the powers delegated to him by the firm’s partners.

To assist in discharging his responsibilities, the Senior Partner has appointed a Leadership Team to work with him to manage the firm. The responsibilities of the Senior Partner and the Leadership Team include establishing and determining the effectiveness of the firm’s system of internal control, including controls relating to the quality of the firm’s audit services. Changes to the Leadership Team are determined by the Senior Partner. The Senior Partner is elected by a partner vote for a four-year term. The Senior Partner may be re-elected for a second and a third term, unless limited by age according to the partnership agreement and, with respect to any third term, subject to the Board of Partners and Principals approving the individual’s nomination.
## Leadership Team Members

<table>
<thead>
<tr>
<th>Role</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Chair and Senior Partner</td>
<td>Tim Ryan</td>
</tr>
<tr>
<td>Chief Digital Officer</td>
<td>Joe Atkinson</td>
</tr>
<tr>
<td>Vice Chair and US Assurance Leader</td>
<td>Wes Bricker</td>
</tr>
<tr>
<td>US Public Policy Leader</td>
<td>Roz Brooks</td>
</tr>
<tr>
<td>General Counsel</td>
<td>Caroline Cheng</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>Martyn Curragh</td>
</tr>
<tr>
<td>US and Global New Ventures and Innovation Leader</td>
<td>Vicki Huff Eckert</td>
</tr>
<tr>
<td>Chief People Officer</td>
<td>Mike Fenlon</td>
</tr>
<tr>
<td>Vice Chair and US Managing Partner</td>
<td>Jim Flanagan</td>
</tr>
<tr>
<td>Senior Partner</td>
<td>Mauricio Hurtado</td>
</tr>
<tr>
<td>Vice Chair, US and Global Advisory Leader</td>
<td>Mohamed Kande</td>
</tr>
<tr>
<td>Communications and Change Leader</td>
<td>Christine Lattanzio</td>
</tr>
<tr>
<td>Vice Chair and US Managing Partner</td>
<td>Mark Mendola</td>
</tr>
<tr>
<td>Vice Chair and Chief Clients Officer</td>
<td>Amity Millhiser</td>
</tr>
<tr>
<td>Partner Affairs Leader and Chief Administrative Officer</td>
<td>Gary Price</td>
</tr>
<tr>
<td>Chief Purpose and Inclusion Officer</td>
<td>Shannon Schuyler</td>
</tr>
<tr>
<td>US/Global Chief Information and Technology Officer</td>
<td>James Shira</td>
</tr>
<tr>
<td>Chief Commercial Officer</td>
<td>Reggie Walker</td>
</tr>
<tr>
<td>Vice Chair and US Tax Leader</td>
<td>Roy Weathers</td>
</tr>
<tr>
<td>Chief Network Officer</td>
<td>Farhad Zaman</td>
</tr>
</tbody>
</table>
Board of Partners and Principals

Authority

The Board is responsible for overseeing the overall strategic direction of the firm. It oversees long-range strategies and business plans, and approves major transactions that could significantly affect the firm’s business. Its authority also includes the approval of the firm’s capital policies, the manner in which partners participate in firm profits, and the admission of new partners.

It approves the compensation of the Senior Partner and members of the Leadership Team as a group after review and recommendation by a committee of the Board. All candidates proposed by the Senior Partner Nominating Committee to stand for election as Senior Partner must also be approved by the Board.

Composition

The Board consists of partners and principals of the firm who have been elected for staggered terms of four years, as well as two external directors, each of whom also has a term of four years. Our external directors meet the applicable independence requirements to protect our reputation, objectivity, and integrity. They bring additional insights, expertise, and objective perspectives into our governance process as we consider the firm’s strategy, growth, and service offerings.

The Board is chaired by a Lead Director, who is elected by the members of the Board other than the Senior Partner. As of July 2019, there are 21 members of the Board in addition to the firm’s Senior Partner:

Members of the Board of Partners and Principals

<table>
<thead>
<tr>
<th>Tim Ryan</th>
<th>Tyson Cornell</th>
<th>Jennifer Kennedy</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Chairman and Senior Partner</td>
<td>Brendan Dougher</td>
<td>James Kolar</td>
</tr>
<tr>
<td>Michael Quinlan</td>
<td>Carrie Duarte</td>
<td>Paula Loop</td>
</tr>
<tr>
<td>Lead Director</td>
<td>Scott Gehsmann</td>
<td>Brian Meighan</td>
</tr>
<tr>
<td>Jane Allen</td>
<td>Bernadette Geis</td>
<td>Carol Pottenger,</td>
</tr>
<tr>
<td>Thomas Archer</td>
<td>Tim Grady</td>
<td>External Director</td>
</tr>
<tr>
<td>Don Christian</td>
<td>Carlos Gutierrez,</td>
<td>Lisa Sawicki</td>
</tr>
<tr>
<td>Len Combs</td>
<td>External Director</td>
<td>Jose Ignacio Toussaint</td>
</tr>
<tr>
<td></td>
<td>Dave Hoffman</td>
<td>Ellen Walsh</td>
</tr>
</tbody>
</table>
Committees

The Board is assisted by various committees that help to carry out its role. The Risk and Quality (R&Q) Committee provides oversight and monitors the appropriate policies, processes, and procedures for managing and minimizing risks of the firm. The R&Q Committee also comprises the Accounting and Auditing Practice Committee, which provides oversight of the accounting and audit practice of the firm. The R&Q Committee regularly engages with Assurance business and risk leadership to discuss matters potentially impacting audit quality and execution, including updates on internal and external quality inspection results, as well as the firm’s progress in tech-enabling the audit.

As requested by the Board, the R&Q Committee reviews regulatory matters that affect the firm and, as appropriate, other parts of the PwC Network. Such matters may include accounting licensing and professional standards issues and global regulatory trends.

Other committees of the Board include without limitation the Finance Committee, Partner Affairs Committee, and the Technology & People Committee.

Board member selection process

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

External Directors are elected to the Board by the affirmative vote of two-thirds of the members of the Board voting thereon.
Our focus on audit quality

Endnotes

1. A partner is a certified public accountant (CPA) while a principal is not. Only CPAs may sign an audit opinion or perform any other function reserved by law or by the firm solely to CPAs. Partners and principals are alike in most other aspects of the partnership.

2. References to firm, our, we, and PwC in this document relate to PricewaterhouseCoopers LLP or PwC US. The scope of this document pertains solely to the PwC US firm registered with the PCAOB. This report was prepared to provide our stakeholders relevant information related to our US operations.

3. Our fiscal year ends June 30th.

4. “Audit professionals” refers to our core audit partners and staff. Specialists, including risk assurance, and Acceleration Center personnel are excluded.

5. “Managers” includes managers, senior managers, directors, and managing directors.

6. The 2018 and 2017 numbers have been updated to exclude core audit professionals (except audit partners) currently on an international assignment and to include Innovation and Technology personnel currently supporting the audit.

7. The 2018 and 2017 ranges have been updated to include mandatory Independence, Ethics & Compliance training.

8. The 2018 and 2017 numbers have been updated to include Innovation and Technology personnel who support the audit and actual training hours versus CPE training hours.

9. Technical support roles exclude quality management professionals (see page 26) and dedicated independence professionals (see page 6).

10. The 2018 and 2017 numbers have been updated to correctly include all specialists supporting the audit.

11. Issuer audit clients comprise SEC registrants and mutual funds.

12. The 2018 number has been updated to reflect an additional restatement.

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

14. Includes inspections completed as of June 28, 2019 and an estimate of the number of inspections to be completed during the remainder of the 2019 internal inspection cycle.

15. The estimate presented in the 2018 Quality Report has been updated for the actual amount.

16. The 2019 compliance rate is for internal inspections completed as of June 28, 2019.

17. The estimated compliance rate presented in the 2018 Quality Report has been updated for the actual rate.