Our focus on audit quality
Contents

Opening message » 3

2021 year in review » 5

Our culture and values » 7

Our role in the financial reporting ecosystem » 15

Our people » 19

Assurance Quality Advisory Committee » 31

Our approach » 32

Our monitoring » 46

Our system of quality management » 51

Legal and governance structure » 52
To our stakeholders

Quality first, purpose always.

Well over a year since its onset, the COVID-19 pandemic continues to present significant new challenges across the globe. Our initial response was rapid, and our priority was keeping our people safe—just as it is today. It was our focus on our people, and their trust in us, that allowed us to navigate the disruption. With the tools, guidance, and confidence we provided, our audit teams continued to deliver quality and meet the needs of our clients and stakeholders. As a firm, we continued to focus on the important role we play as auditors in helping to facilitate transparency and instill confidence in the capital markets.

The pandemic also highlighted for us just how vital the forward-thinking aspects of our strategy are to the continued success of our people and our firm—including our investments in technology, upskilling our people, and reimagining our audit. And we know that we can’t stop looking forward. Our strategy at PwC has and always will recognize the importance of quality and growth to the long-term strength of the business, as well as the critical interplay between the two. We are excited about our recent announcement of The New Equation—a new global strategy that we believe will position us for the future we want for our firm, our people, and all our stakeholders. It will allow us to explore new opportunities to build trust, solve important problems, and further our commitment to quality. Effective July 1, 2021, The New Equation also reflects a newly simplified structure for our organization in the US.

Throughout the pandemic, we were able to live our purpose and be an agent of stability in an otherwise chaotic world. In January of this year, we released an update to our annual Audit Quality Report, Our continued focus on audit quality, which provided additional details on our ongoing response to COVID-19 and highlighted our latest inspection results and actions we’ve taken on our diversity and inclusion journey.
In our 2021 Audit Quality Report, we provide an update on how we have delivered on our audit quality objectives over the past unprecedented year and how this is reflected in our transparency data points. We’ve included a brief overview of The New Equation and what it means for the quality of our audits. You will also read about:

• **Our approach to environmental, social, and governance (ESG) reporting.** Our firm has become increasingly focused on our ESG efforts, including collaborating with organizations, regulators, and others in the profession to develop or enhance related metrics and disclosures, and issuing timely thought leadership to clients and teams.

• **Our ongoing commitment to diversity and inclusion.** The work we have done for more than two decades, has led to a firm that embraces diversity and inclusion as an essential aspect of our purpose, culture, and values. Our systems, programs, and processes are designed to support all of our people so that every person has the same opportunities to grow to their full capacity.

• **Our focus on living our values and maintaining independence.** Acting with integrity and maintaining independence is the foundation for building trust. We have made it clear—no client, no fee, and no opportunity is worth compromising our values. We provide our people with the support and tools they need to maintain independence and to uphold our values.

• **Our innovative, risk-based audit approach.** Our combination of people and technology continues to make a difference for our clients and the capital markets. Driven by a quality-first, purpose-always mindset, our people execute an audit approach that focuses on simplification, standardization, specialization, and automation.

Audit quality is still our #1 job. It’s core to our purpose—to build trust in society and solve important problems. We are proud of the work we do and the important role we play in the financial reporting ecosystem.

Thank you for engaging with us on our audit quality journey, and for your interest in our continued progress.

Tim Ryan  
US Chairman and Senior Partner

Wes Bricker  
US Trust Solutions Co-Leader
2021 year in review

Assurance professionals surveyed who report:

98%
Receiving consistent messaging on the importance of audit quality

97%
Understanding the firm's audit quality objectives

Audit professionals by level

<table>
<thead>
<tr>
<th>Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>10%</td>
</tr>
<tr>
<td>Directors/Managers</td>
<td>28%</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>23%</td>
</tr>
<tr>
<td>Associates</td>
<td>39%</td>
</tr>
</tbody>
</table>

Total Audit Professionals: 9,904

Average voluntary turnover rate

<table>
<thead>
<tr>
<th>Level</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors/Managers</td>
<td>15.3%</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>34.3%</td>
</tr>
<tr>
<td>Associates</td>
<td>22.0%</td>
</tr>
<tr>
<td>Total</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

Percentage of our firm composed of (each) women and racially/ethnically diverse individuals

<table>
<thead>
<tr>
<th>Category</th>
<th>Women</th>
<th>Racially/ethnically diverse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>49%</td>
<td>36%</td>
</tr>
<tr>
<td>Partners</td>
<td>24%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Average annual hours worked by audit professionals in excess of 40 hours per week

<table>
<thead>
<tr>
<th>Category</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>344</td>
</tr>
<tr>
<td>Directors/Managers</td>
<td>262</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>248</td>
</tr>
<tr>
<td>Associates</td>
<td>224</td>
</tr>
</tbody>
</table>

Leverage ratio of audit team member hours

1 to 4.6 Partner to Director/Manager

1 to 3.2 Director/Manager to Staff
2021 year in review

2020 PCAOB inspection report

1 Audit anticipated in Part 1.A
58 Audits inspected

15.8% Percentage of audit hours provided by specialists

1 to 7.6 Ratio of partners serving in technical support roles to the total number of audit partners

78 hours Average training hours completed per audit professional

96% Compliance rate of issuer audit engagements selected for internal inspection

23 Audit partners’ average years of experience at PwC

96 Number of issuer audit engagements subject to internal inspection

1 to 7.6 Ratio of partners serving in technical support roles to the total number of audit partners

78 hours Average training hours completed per audit professional

99.1% Percentage of reports on a company’s internal control over financial reporting that were not reissued or withdrawn

99.7% Percentage of issuer audit client financial statements that were not restated

16.4% Percentage of audit hours performed by Acceleration Centers

1,000 Number of Assurance professionals with advanced digital skills/training

1,600 Number of engagements supported by Centers of Excellence
Our purpose is to build trust in society and solve important problems.

And trust has never been more important than it is today. We build trust by delivering on our commitment to quality and independence, which are foundational to what we do. These principles must come first and can’t be compromised for our business to be successful.

Our people are delivering on that commitment. Throughout the pandemic, our people’s safety and well-being have been our top priority. We have provided them with resources and enhanced benefits to help support their mental and physical well-being and equip them with the tools needed to manage their work while navigating changes at home.

We have also financially recognized our people’s contributions, incentivized them to take time off for vacation, and reacted to both their desire to come back together and their need to stay safe. The decisions to open our offices or return to client sites have been and will continue to be on a measured and informed basis—with safety top of mind.

We are in the process of transitioning to a new, hybrid model of work that allows us to continue to serve our clients while balancing remote work, retaining some of the flexibility our people appreciated while working from home. We have used protocols, including approval processes, automatic contact tracing, occupancy limits, and support teams to allow our people to return to offices and client sites as appropriate in the circumstances.
The New Equation

Even as we establish a model of work responsive to today’s circumstances, we are positioning ourselves for the future we want for our firm, our people, and all of our stakeholders. In recent months, we introduced a new global strategy, The New Equation, that will help us to deliver quality in new and enhanced ways. We’ve focused on how we bring together unique combinations of people, powered by technology, to deliver quality work—leveraging continued significant investments in both technology and the capabilities of our people. These changes will provide our people with additional opportunities to grow personally and professionally, further develop the skills that help them be successful, continue to grow as a community of solvers who imagine bold solutions, and share in the success of a strong and growing business.

Effective July 1, 2021, PwC US is newly realigned as a two-segment structure, designed for simplicity and scale, and structured around the ways our clients engage with us to provide services and how we deliver those services. One segment is Trust Solutions, bringing our legacy Assurance line of service and our tax reporting and compliance capabilities together, which we believe will further drive consistent teaming behaviors, further enhance quality, and expand the opportunity to meet the needs of our clients and the capital markets. Trust Solutions will continue to provide the services that our brand is built on—delivering quality and excellence while helping to build trust in the public markets. As a firm we will continue to draw on our multidisciplinary approach to audit and other services. Our Trust Solutions segment will draw on a range of expertise from our other segment, Consulting Solutions, which brings together the legacy Advisory line of service and Tax consulting practices.

Drawing on the knowledge and experience 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, including more insightful feedback to management and the audit committee. 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.

In the US, this also includes a three-year, $300 million commitment called “Tomorrow Takes Trust,” to embed trust-based principles into today and tomorrow’s businesses. This commitment includes the creation of the PwC Trust Leadership Institute, as well as investments in Access Your Potential, CEO Action for Diversity and Inclusion, and CEO Action for Racial Equity (see page 24). The PwC Trust Leadership Institute, which aims to equip more than 10,000 business leaders with the skills to help build trust around the challenges and realities of the future, will address subjects such as ethical decision-making, empowering economic mobility, trust in technology, and more.
**Tone at the top**

As a purpose-led and values-driven organization, we look at tone at the top broadly, considering areas such as how we win new work, accept new clients, develop and share thought leadership, recruit and develop our people, and create an inclusive and respectful work environment.

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

- **Act with integrity**
- **Make a difference**
- **Care**
- **Work together**
- **Reimagine the possible**

Our people are working in a complex environment with competing demands. As a result, topics such as quality and accountability are an ongoing focus of our leadership communications, and those communications are used to reinforce our commitment to our purpose and values, including integrity and ethics. Key messages are communicated to our firm by our Senior Partner and our leadership team and are reinforced by engagement partners. 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.

<table>
<thead>
<tr>
<th>Percentage of Assurance professionals surveyed who report receiving consistent messages about the importance of audit quality from both local and firm leadership</th>
<th>Percentage of Assurance professionals surveyed who report understanding the firm’s audit quality objectives</th>
</tr>
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<tbody>
<tr>
<td><strong>98%</strong>&lt;br&gt;<strong>FY21</strong>&lt;br&gt;<strong>99%</strong>&lt;br&gt;<strong>FY20</strong>&lt;br&gt;<strong>98%</strong>&lt;br&gt;<strong>FY19</strong></td>
<td><strong>97%</strong>&lt;br&gt;<strong>FY21</strong>&lt;br&gt;<strong>98%</strong>&lt;br&gt;<strong>FY20</strong>&lt;br&gt;<strong>97%</strong>&lt;br&gt;<strong>FY19</strong></td>
</tr>
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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 in identifying and responding to risks relevant to our audit.

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 and management;
• plan our work and resolve issues in a timely and thorough fashion;
• remain alert for issues that need deeper analysis;
• act with professionalism; and
• recognize our role in the capital markets.
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 for which independence is required;

• enable assessments and documentation of approval for providing permissible non-audit services;

• automate the recording of many security transactions in order to manage and monitor independence;

• 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, staff, and others to whom independence rules apply;

• 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.
To further mitigate potential independence risk in the execution of non-audit services to audit clients and to enhance audit committee pre-approval communications, our process for reviewing and authorizing certain non-audit services for SEC-issuer audit clients includes the involvement of an independence specialist to review and assess the scope of services and the adequacy of audit committee communications, where required, and the performance of pre-engagement independence coaching sessions and independence in-flight reviews for certain engagements.

In addition, to support the implementation of our processes and reinforce the individual behaviors necessary to maintaining independence, our partners and staff are required to take training courses tailored to their level and line of service.

Supporting these efforts, we have a team of dedicated professionals (15 partners and 232 staff) whose responsibilities include:

- maintaining our independence policies, processes, and systems;
- developing our annual independence training; and
- serving as a resource for our people when questions arise.

In FY21, this team engaged in approximately 33,600 independence-related consultations.

We also have an accountability framework that covers personal, services, and relationship independence matters. It identifies specific actions or behaviors that are expected of each partner and staff member to be in compliance with independence policies and regulatory requirements. Increased accountability is responsive to the heightened expectations of stakeholders. The framework includes consequences that are subject to review and then applied when violations and exceptions occur.

We report independence rule exceptions to those charged with governance at our affected clients so the impact on the firm’s independence can be assessed.

As we also emphasize to our people, we strive to do the right thing whether we’re dealing with clients, each other, or with our stakeholders. This is the foundation of our professional reputation, status, and brand, and we will not compromise it. We have made it clear—no client, no fee, and no opportunity is worth compromising our values. This is simply non-negotiable, and we do not accept pressure to do otherwise.
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. Lead audit partners and quality review partners on audits of SEC issuers are required 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 and incentives

Partners are evaluated based on their contributions towards our strategic agenda, One Firm teaming, and their individual goals, inclusive of quality. In holding partners, including lead audit partners, quality review partners, auxiliary partners, and specialist partners accountable, our accountability program considers the results of external and/or internal inspections in audit areas requiring their review. 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. Through audit quality team awards, we further recognize and incentivize partners who meet certain criteria in delivering quality and demonstrate behaviors that are consistent with our strategic agenda. Our audit partners are not evaluated or compensated for selling non-audit services to their audit clients.

Our non-partner professionals are assessed against the dimensions of the PwC Professional framework discussed on page 25. They are eligible to participate in our annual performance bonus plan based, in part, on the achievement of quality goals and objectives.

Where necessary, partners and directors/managers are required to implement a responsive action plan to address quality issues. Implementation of the plan is monitored by leaders.

Non-audit services

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 protocols and monitoring processes are designed to address the risks to independence from having multiple lines of service that provide permissible non-audit services to our audit clients. The majority of our non-audit services revenue comes from clients with whom we have no audit relationship.
Considerations in undertaking an audit engagement

Our approval processes govern the acceptance of new audit clients and continuance of existing audit clients (annual and/or as-needed assessments) based on the audit team’s responses to a series of questions, which, in aggregate, form the basis of our risk assessment. For the acceptance of new audit clients, our FY21 process required approvals by lead audit partners, 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 the required risk assessment. Additionally, an event-driven reassessment is performed when certain events occur, or become known, that were not considered at the time of the latest assessment in order to evaluate our relationship with the client.

For both acceptance and continuance assessments, we consider that the foundation to performing a quality audit includes the availability of resources with the right skills, experience, and capacity, as well as whether the amount of audit fees is commensurate with the expected level of effort. We only accept new or continue existing audit relationships when supported by our assessment of risks and when we believe our audit procedures can be satisfactorily designed and executed. We consider:

- the applicable professional and regulatory standards as compared to our professional competence and capabilities;
- the integrity, conduct, and reputation of key management, board members, and significant shareholders;
- the nature of the company’s operations, its industry, and applicable laws and regulations;
- the potential impact on independence, conflicts of interest, and/or relationships with other entities and whether there are circumstances that might impair our independence or objectivity as auditors of the company; and
- the timing and resource needs of the engagement, including any potential constraints that would affect our ability to comply with applicable standards.

In addition to the aforementioned considerations, we continue to evaluate trends impacting our clients and engagement teams. Most recently, we identified an increase in:

- companies undergoing an initial public offering or entering into a transaction with a special purpose acquisition company (SPAC); and
- companies expressing an interest in activities that associate them with digital assets such as cryptocurrency.

With respect to these matters, we conduct acceptance and continuance consultations with our teams. Through guidance and targeted reach-outs we also continue to support teams as they identify and respond to related risks.
Collectively, our people spend **tens of thousands of hours** participating in standard setting and regulatory efforts to enhance the quality and usefulness of financial and other information available to the capital markets. Experienced individuals in our firm who are subject matter specialists contribute as leaders and members of working groups, committees, and advisory boards of the CAQ, standard setters, and other organizations working toward this purpose.

Investors, lenders, and other stakeholders depend on quality financial information to make the decisions that allow our capital markets to properly function. 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 transparency and instill confidence in the capital markets.

This year we issued **more than 600** audit reports that included critical audit matters (CAMs) in accordance with the PCAOB’s reporting standards. We invested significantly to prepare our practice and our clients for this shift towards greater transparency in our audit reports, engaging in dialogue with them as well as regulators and the profession during implementation. As the revised reporting standards were phased in, we made enhancements to our tools and guidance based on our implementation experience. We have found that communicating CAMs in our audit reports complements robust financial reporting by management and appropriate oversight of the financial reporting process by the audit committee.

Our role in the financial reporting ecosystem is not limited to the issuance of audit reports. The dynamic environment in which we operate necessitates the development of new and revised accounting and auditing standards, in addition to a wide range of active regulatory and policy initiatives around the globe.

We also play an active role in these developments, both as an individual firm and in collaboration with others in the profession by working with the Center for Audit Quality (CAQ).
Our US Chairman and Senior Partner, Tim Ryan, is a member of the Board of Trustees of the Financial Accounting Foundation and represents PwC on the CAQ’s Governing Board. Our Vice Chair—US Trust Solutions Co-Leader, Wes Bricker, serves as chair of the board of XBRL International. In addition to Wes, Jorge Milo, US Assurance Quality Leader, and Roz Brooks, US Public Policy Leader, are members of the CAQ’s Advisory Council. Jorge is also the chair of both the CAQ’s Professional Practice Executive Committee and the CAQ’s Advisory Council.

In addition, through presentations, client interactions, publications, podcasts, videos, and webcasts, we keep our audit teams, clients, and other stakeholders informed of standard-setting activity, regulatory matters, and other developments.

In FY21, our National Office released over 175 publications, podcasts, webcasts, and videos covering a wide variety of topics, from the financial accounting and reporting considerations for domestic SPAC mergers to cyber risk strategy. Content also covered the ongoing accounting and reporting impacts of COVID-19, such as the use of non-GAAP measures, government assistance, and COVID-19 disclosures. In addition, 17 of our accounting guides were expanded or updated for new or enhanced content or to add additional examples. During the year, our publications were downloaded nearly 900 thousand times and users streamed our podcasts, webcasts, and videos more than 1 million times.

Please see viewpoint.pwc.com for our publicly-available National Office content.

In the early months of 2021, we provided outlooks on changes made under President Biden’s administration, including tax legislation and insights on how companies can prepare for policy shifts, including those related to cyber and privacy, trade, and ESG.
The financial reporting ecosystem is also experiencing significant change fueled by the acceleration of data availability, enabling technologies, and an increase in reporting of non-financial measures of value. Our focused efforts and contributions in areas such as XBRL and ESG reporting reflect our commitment to support the availability of quality information in the capital markets.

**Environmental, social, and governance**

Stakeholders are increasingly looking beyond the traditional financial metrics to determine value by using more information about a company’s risks and strategies related to ESG considerations. Our leading approach to ESG includes, but is not limited to:

- representation on the SASB and network representation on the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures;
- collaboration with the World Economic Forum and others in the profession to develop a common, core set of metrics for companies to use for ESG reporting internationally;
- working with the SASB to assist in developing a SASB XBRL taxonomy;
- responding to the SEC’s request for comment on climate change disclosures—providing perspectives in areas such as rulemaking, minimum disclosure requirements and industry specificity, geography of disclosures, global coordination, and assurance;
- helping shape the application of the SEC’s new principles-based human capital disclosures through publications and interactions with clients and stakeholders; and
- launching our [ESG Pulse App.](#)

We also provided our teams with materials to facilitate conversations with their clients’ Audit Committees and management about ESG themes and perspectives, and to appropriately consider ESG matters that may impact their clients, such as climate change.

**XBRL**

We recognize that by providing quality financial statement data in a structured, digital format, XBRL makes that data more accessible and useful to investors. The increased use of XBRL and related regulation, including forthcoming audit requirements in other parts of the world, is an important trend, and we are actively monitoring developments and being proactive in our engagement with stakeholders. Over the past year we have issued multiple publications and podcasts emphasizing the importance of quality XBRL data to the capital markets and highlighting how robust quality control processes with clear ownership impact the quality of the XBRL filing. We continue to refine our strategy around how best to deliver value to our clients around XBRL and its ability to enable insight-rich, technology-driven reporting solutions.
Stakeholder engagement

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 provide insights to board members to address evolving expectations and regulations. While our work encompasses various governance activities, we place a significant focus on the audit committee because it has the primary responsibility for an issuer’s financial statements and oversight of the appointment, performance, and independence 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 training, videos, and publications related to new and emerging financial reporting matters and accounting standards so they can make better oversight and investment decisions.

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.

Over the past year, we: organized one virtual corporate director conference for nearly 380 directors; presented virtually at more than 530 client meetings or other events; and issued more than 70 director-focused publications on important governance matters, including the results of our Annual Corporate Directors Survey.
Our One Firm people agenda

We continue to be agile in our continually changing market and culture. Our One Firm people agenda is focused on being the world’s leading developer of talent with a desired outcome of quality client services, greater engagement of our people and their experience, and providing an inclusive environment that allows our people to reach their full potential. Our agenda is organized within three main areas—Growth & Quality, the PwC Difference, and People & Teaming.

Growth & Quality

The execution of our strategy promotes quality while creating efficiencies by expanding teams to include individuals from our Acceleration Centers and Centers of Excellence (ACs and COEs, respectively, see page 40). This evolution shifts work to team members in the ACs and COEs, creating opportunities for other team members to provide value-add insights to our clients and take on more challenging work earlier in their careers. With our focus on quality, we are committed to moving our talent to the right engagements through strategic deployment efforts (deploying without walls). Our strategic deployment efforts address the needs of our clients and the development of our people with additional opportunity for career mobility.

The PwC Difference

The PwC Difference is our vision for moving forward differently, creating value and exceptional experiences for our clients and our people. This includes giving our people the skills they need to thrive in an increasingly digital world and tech-enabling the audit so we can deliver enhanced quality and value for our clients.
We provide our people with numerous individualized learning tools, housed in the Digital Hub, to expand the use of digital solutions on their audits and empower them with a mindset of continual improvement and innovation. Our virtual 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, to help our people build their digital skills on their own terms. These tools provide each individual with a personalized curriculum to build their digital IQ. During FY21, our audit professionals completed more than 50,000 hours of training to maintain their digital upskilling.

Our people have access to obtain multiple knowledge and skill badges through the PwC badge program, including Human-Centered Design, Digital Acumen, and Digital Learning Paths, which are a collection of self-paced learning assets on topics such as Automation, Business Analytics, Data and Analytics, and Artificial Intelligence. More than 3,300 of our audit professionals earned a knowledge or skill badge in FY21, bringing the total number of badges earned to over 14,000. More than 2,300 of our audit professionals renewed a knowledge or skill badge in FY21.

Our Assurance professionals also have access to the Digital Lab, which is a platform where people can find, build, and share digital solutions that support tech-enabling the audit. Together, our digital training, PwC badge program and Digital Lab have helped us enhance the firm’s collective digital fluency.

We continue to reimagine the audit with equal parts automation and human experience, what we call Tomorrow’s audit, today. A support network is in place to help our audit teams adopt the enhanced guidance and innovative tools and technology that are part of Tomorrow’s audit, today. These in-market resources have had a significant impact in driving the use of automation and tech-enabled tools and in assisting our audit teams in designing customized approaches modeled around the specific needs of each engagement.

We continue to embed Continuous Listening into our people strategy, leveraging our Assurance Staff Council, Global Pulse Survey, and other feedback channels to gather insights from our people to help positively influence their experience.

We have also introduced our people to the Difference Makers, giving us a fresh way of working together through new behaviors, activities, techniques, and virtual tools.
People & Teaming

We are focused on re-imagining the experience for our people. We strive to create a culture of care and belonging, supporting our people every day to learn and grow and enhance our culture through emphasis on flexibility, well-being and connectivity.

Flexibility and well-being are all about putting the power of the firm’s resources behind our people and helping support their journey to greater well-being with science-backed concepts, practices, and tools. We continue to leverage “The Well”—a source for all things Be well, work well at PwC, including the “team plan builder,” where teams are asked to create a plan that addresses individual and team needs so we can all be our best self at work, at home, and everywhere in between. Given the pandemic, we have enhanced flexible work options that are personalized for our people and provided well-being offerings to help our people navigate the challenges that come along with uncertain times.

Connectivity is front and center of everything we do. The pandemic demonstrated the importance of connectivity in a virtual work environment, and our experiences throughout have helped inform our approach to keeping our people connected. We have provided resources to our teams that include creative ways to connect virtually. We also reimagined the experience for our new joiners through a virtual onboarding program that includes the training, tools, and resources for our new joiners to help them be successful as they begin working for the firm.
Our focus on diversity and inclusion

Diversity and inclusion is an essential aspect of our purpose, culture, and values. PwC is made up of approximately 55,000 people of different races, ethnicities, genders, backgrounds, religions, sexual orientations, and beliefs. We continue to build a culture of belonging—one where we move from awareness to empathy and demonstrate inclusive leadership. Our systems, programs, and processes are designed to support equity so that every person has the same opportunities to grow to their full capacity.

As part of our commitment to transparency and accountability, we released our first annual Diversity & Inclusion Transparency Report. With 14 diversity-related data points that are relevant to our business, this level of transparency is rare, especially for a private firm. The report shows that while we have made progress, we are not yet where we aspire to be, and will continue to support equity and parity of experience for all of our people.

As of FY21, women and racially/ethnically diverse individuals comprise 49% and 36% of our employees, respectively.

The diversity of our partners has gone from 17% women and 8% racially/ethnically diverse in 2010 to 24% women and 17% racially/ethnically diverse in 2021.

Our 2021 new partner class was 30% women and 26% racially/ethnically diverse individuals.

The US Leadership Team is 32% women and 32% racially/ethnically diverse individuals and our Board of Partners is 38% women and 19% racially/ethnically diverse individuals.

Our strategy for sustainable change within the firm is rooted in our culture of belonging and in supporting our people’s career journey from the talent attraction process, a person’s first two years with the firm, and progression through our pipeline to partnership. We believe that these are important stages to introduce strategic interventions at scale for women and underrepresented minorities, which we define as Black and Latinx individuals, to achieve a more diverse workforce and partnership.

To learn more about PwC’s diversity and inclusion strategy, as well as the awards and recognition we have received in this area, please visit pwc.com.
Our diversity and inclusion strategy is driven by data to address key inflection points within our people’s career experience.

**Talent attraction**
Changing the trajectory of representation in the firm requires concerted change at entry and experienced-level recruiting, rethinking both where and how we source talent.

**Two-year experience**
The first 24 months for our diverse staff is predictive of their success and contingent on equity in experience and establishing a sense of belonging.

**Pathway to partnership**
Fostering a diverse and inclusive partnership requires deliberate cultivation of our pipeline and intentionality in progression.

**Culture of belonging**
Establishing and maintaining a culture of belonging across the entire firm requires a shift from awareness to empathy and emotional connections to human stories and experiences, actively cultivating a greater sense of trust among our people and with our clients.

**Our role to influence**
We have a responsibility to drive change outside our four walls, including through who we do business with, how we use our voice externally, and the ways we make an impact in society.

To help our people on their inclusive leadership journey, we launched Inclusion 2.0 day-in-the-life simulations on Coaching Diverse Teams and Giving Authentic Feedback. We also launched our My Story, Your Story technology platform to drive deeper connections among our people and grow relationships and communities in a meaningful way. And we continue to introduce resources and opportunities to facilitate candid conversations and execute specialized programs for all employees—especially our diverse and female colleagues.

To further support our strategy, in FY21, we launched a D&I Staff Council—composed of 30 employees from a mix of experience levels, backgrounds, and interests to provide recommendations that advance diversity and inclusion progress.

We also focus on being a changemaker within the business community and in society. We empower our people to invest their passion and skills in causes that are important to them and in support of nonprofit organizations and educational institutions tackling social justice issues. More than 26,000 of our people provided a total of nearly $30 million to nonprofits addressing critical societal issues, including $5 million specifically for racial justice. The US firm and PwC Charitable Foundation amplified the giving of our people with $2.5 million in grants.
In April, we launched a new Access Your Potential Careers commitment to digitally upskill 25,000 Black and Latinx college students, helping them stand out in a competitive job market and advance their future careers. In support of our diversity and inclusion strategy, we aspire to hire 10,000 of these students in the next five years.

Through Skills for Society, we're giving our employees paid time to use the skills and experience they bring to client work to help nonprofits digitally transform and tackle operational challenges in order to help effectively address injustice—for example, through pro bono projects and nonprofit board seat service. In FY21, over 10,000 of our people worked with over 4,000 organizations in education, health, and economic empowerment.

As a founding signatory of CEO Action for Diversity & Inclusion™ (CEO Action), we have demonstrated our ongoing commitment to being a firm where diverse perspectives and experiences are respected and to advancing diversity, equity, and inclusion conversations and actions in the business community. Nearly 2,000 CEOs and presidents of America’s leading businesses, academic institutions, and nonprofits have signed the CEO Action pledge.

Through the CEO Action initiative, we have been able to coordinate a powerful nationwide annual conversation about bias and understanding in the workplace with the Day of Understanding—with nearly 400 organizations and an estimated 1.5 million employees participating in 2021.

In October 2020, we launched CEO Action for Racial Equity, a business-led initiative that unites fellows from approximately 100 CEO Action signatory organizations to advance public policy across four priority areas: healthcare, education, public safety, and economic empowerment.
Our audit professionals

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, review of relevant prior experience (if applicable), and background checks. In FY21, we hired nearly 1,700 entry-level audit professionals and approximately 1,800 audit interns.

Number of audit professionals by level

<table>
<thead>
<tr>
<th>Level</th>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>981</td>
<td>987</td>
<td>962</td>
</tr>
<tr>
<td>Directors/Managers</td>
<td>2,794</td>
<td>2,765</td>
<td>2,536</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>2,238</td>
<td>2,572</td>
<td>2,206</td>
</tr>
<tr>
<td>Associates</td>
<td>3,891</td>
<td>4,550</td>
<td>4,711</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,904</strong></td>
<td><strong>10,874</strong></td>
<td><strong>10,415</strong></td>
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</table>

The PwC Professional

The PwC Professional is our global leadership development framework, which provides a single set of expectations across our lines of service, roles, and territories, and helps us to fulfill our purpose, drive our strategy, and live our PwC values and behaviors.

In FY21, the PwC Professional framework was enhanced to emphasize the importance of inclusive leadership, digital skills, and well-being as staff progress and develop at each level. The PwC Professional framework assesses skills and competencies, which are expressed as observable behaviors across five dimensions: Relationships, Business acumen, Technical and digital, Global and inclusive, and Whole leadership. For our Assurance professionals performing audits, it also includes US 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.

Each staff member is aligned to a Development Team composed of a Relationship Leader, Connectivity Partner, and Talent Consultant. Relationship Leaders play a primary role in the professional growth of our staff by providing mentoring and career support by continuing to review and discuss staff progression against the five dimensions of the PwC Professional framework.
Professional development

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

Throughout their career, our people are provided with career development opportunities; virtual, 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 for more “just in time” learning, including webcasts, podcasts, articles, videos, and courses.

Achieving a professional credential supports our firm’s commitment to quality through consistent examination and certification standards. Obtaining a CPA credential, an important element of our audit professionals’ career progression, is a prerequisite for promotion to audit manager. Our staff are incentivized with a bonus to get credentialed early and will often attain their credential well before they are eligible for promotion to manager.

In 2021, 89 individuals out of the 75,000 who sat for the CPA exam were recognized by the AICPA for achieving exceptional results on the CPA exam; 13 were from our firm.

Leverage ratio of audit-related hours for audit team members

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
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<tbody>
<tr>
<td>Partner to Director/Manager</td>
<td>1 to 4.6</td>
<td>1 to 4.4</td>
<td>1 to 4.2</td>
</tr>
<tr>
<td>Director/Manager to Staff</td>
<td>1 to 3.2</td>
<td>1 to 3.5</td>
<td>1 to 3.7</td>
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</table>

Our leverage ratios reflect the impact of increasing use of team members at our ACs and increased retention at the director/manager level.

Audit partners’ average years of experience at PwC:

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
</tbody>
</table>
Learning and development

We prioritize a learning culture. The composition of our audit teams provides newer 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.

Learning that occurs through on-the-job supervision, review, and mentoring is supplemented through participation in classroom, virtual, and on-demand training programs. Throughout the fiscal year, due to COVID-19 protocols, in-person classroom events were adapted to virtual formats to achieve the intended learning objectives.

Our National Assurance Learning Team collaborates closely with firm leadership so training is responsive to developments impacting our audits, including changes in the Assurance practice. Investments in learning and our people experience are critical components of our strategy. The way we deliver training evolves with the restructuring and digitizing of content—both to make it more accessible and to align with what audit work is done, by whom, and how.

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, consultations on auditing matters, and other inputs related to monitoring quality;
- observations from the PCAOB and peer reviews; and
- surveys, focus groups with engagement team members, and post-course assessments.

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 people are required to meet the minimum continuing professional education requirements for licensure and complete training specifically targeted to their role and staff class. The average annual training completed by our audit professionals significantly exceeds the minimum annual requirements for licensure. Our partners and directors/managers also receive industry-specific training and training related to new accounting standards, when applicable. 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 people training on non-technical topics, such as project management, issues management, auditing while working remotely, and working in virtual teams.
In response to the COVID-19 pandemic, we made available to our engagement teams additional training that built upon previously-issued guidance and tips to help them prepare to execute a quality audit and continue to develop their skills while they manage their personal and professional responsibilities. The training’s primary focus was on busy season working practices, supervision and review, client interactions, and team connectivity. Engagement teams were encouraged to complete the training together and use the companion discussion guide to make and commit to a plan to adapt their working practices for busy season.

Completion of mandatory auditing; accounting; and annual independence, ethics, and compliance training 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.

The amount of annually mandated auditing and accounting training can vary from year to year based on a number of factors, including the issuance of new accounting and auditing standards, the nature and extent of feedback obtained, as previously described, and the impact of our ongoing curriculum redesign, which includes the use of digital tools to deliver training more efficiently. The lower average training hours for FY21 and FY20 as compared to FY19 reflects the non-recurring nature of certain initial firmwide investments in digital upskilling, the deferral or digitization of certain programs in response to the COVID-19 pandemic, and our longer-term strategic efforts to restructure and digitize our curriculum.

Average training hours completed per audit professional:

<table>
<thead>
<tr>
<th>Year</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>78</td>
</tr>
<tr>
<td>FY20</td>
<td>75</td>
</tr>
<tr>
<td>FY19</td>
<td>94</td>
</tr>
</tbody>
</table>

Infinite learning days are a key element of our strategy that were implemented in FY20 and continued in FY21. In addition to the time we expect our people to proactively carve out throughout the year for learning, we selected specific days within each quarter to give our people dedicated and agreed-upon time to invest in their own learning—whether it’s focusing on technical accounting and auditing, digital upskilling, and/or professional development.
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 external market demand. The lower level of turnover in FY20 followed by higher levels of turnover in FY21 reflects, in part, the effects of a suppressed job market during the COVID pandemic and subsequent recovery in the last half of FY21.

Average annual voluntary turnover rate by staff level

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors/Managers</td>
<td>15.3%</td>
<td>10.9%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>34.3%</td>
<td>19.0%</td>
<td>27.3%</td>
</tr>
<tr>
<td>Associates</td>
<td>22.0%</td>
<td>13.8%</td>
<td>19.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>23.2%</td>
<td>14.4%</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

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 five areas that directly influence staff retention: rewards and recognition, work life flexibility, career development, digital upskilling, and staff connectivity. For example, as described on page 7, we financially recognized our people’s contributions and incentivized them to take time off for vacation. We also continue to enhance our Be well, work well programs to support our people to become and sustain their best selves. We 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 hours worked by audit professionals in excess of 40 hours per week by level

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY20</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners</td>
<td>344</td>
<td>398</td>
<td>412</td>
</tr>
<tr>
<td>Directors/Managers</td>
<td>262</td>
<td>286</td>
<td>308</td>
</tr>
<tr>
<td>Senior Associates</td>
<td>248</td>
<td>263</td>
<td>281</td>
</tr>
<tr>
<td>Associates</td>
<td>224</td>
<td>238</td>
<td>254</td>
</tr>
</tbody>
</table>

In Spring of 2021, we administered our Global People Survey, which is used to periodically measure the pride, advocacy, commitment, and overall satisfaction of our people (a measurement we call our People Engagement Index (PEI)).

Many internal and external factors have the potential to impact our PEI; market demand for our talent and our total rewards and benefit programs are two factors that impact the commitment and overall satisfaction of our people. Our PEI has a substantial influence on how we define and adjust our people initiatives.

We are currently transitioning to a new PEI to capture more distinctive aspects of the people experience, including sense of belonging and values. Our new PEI in FY21 for the US Assurance practice was 79%. We believe this result reflects our continued commitment during the COVID-19 pandemic to the well-being of our people, including the consistent, transparent communications regarding job performance and job security, and our unwavering focus on our purpose and values.
Audit quality is a key to strong capital markets, strong capital markets are a key to a strong economy, and a strong economy is a key to a strong country. Therefore, the work of audit quality has a big impact on our society.

—Joanne Wakim

Our independent Assurance Quality Advisory Committee (AQAC), established in FY20, currently consists of three members who have the collective experience and deep understanding of the interests of the preparer, auditor, investor, standard-setting, and regulatory communities.

The AQAC provides perspectives and advice to Assurance leadership on aspects of the business, operations, culture, governance, and risk management approach that are reasonably expected to impact audit and assurance quality. The AQAC has been a valuable resource for our Assurance leadership team over the course of FY21—acting as a sounding board on our quality initiatives, use of technology, our response to COVID-19, our approach to ESG, and the role of the auditor in relation to fraud and going concern in an audit of financial statements, in light of standard setter initiatives and related global interest.

The establishment of the AQAC made PwC US the first firm with both a Board that includes external members and an independent advisory committee focused on quality.

Russell (Russ) Golden
Chair

Alan Beller

Joanne Wakim

To learn more about the members of our AQAC, refer to pwc.com.
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.

FY21 developments

Our response to COVID-19

Throughout the COVID-19 pandemic, our people continued to execute quality audits using the guidance and tools we provided on a regular and timely basis, including:

- insights into effective behaviors and working practices to perform and monitor the audit while working remotely;
- materials and guidance for audit teams to engage with their clients regarding the virtual audit, establishing mutual expectations, and coordinated project management;
- guidance regarding the impacts of COVID-19 on audit areas such as internal control considerations, virtual inventory observations, asset impairments, and going concern assessments; and
- additional training that built upon previously issued guidance and tips (see page 28).

In addition to the above, our Chief Auditors conducted targeted reach-outs to engagement teams, covering recent guidance, inspection findings, and other key reminders. Similarly, our Assurance Quality Management Network engaged with teams through consultations and reach-outs on liquidity and financing matters.
Reimagining the end-to-end audit experience

Because of the focus and dedication of our people over the past year, we were also able to continue to build momentum in our efforts to reimagine our end-to-end audit experience, further enhancing audit quality and delivering the PwC Difference. We:

- conducted virtual audit team workshops, facilitated by experienced subject matter specialists from our National Office and Chief Auditor Network and aimed at supporting teams in applying learning in areas including walkthrough or other procedures, revenue testing strategies, risk assessment, multi-location scoping, cybersecurity risks, and the appropriate phasing of planning activities;
- released enhanced guidance and conducted virtual training in the areas noted in the bullet above, as well as other areas such as supervision and review and scoping of significant accounts and disclosures;
- leveraged our support network (see page 20) to collaborate with each audit team to plan, execute, and monitor the adoption of new tools;
- expanded our data extraction and data analytics capabilities—further enhancing risk assessment and the effectiveness and efficiency of our procedures in certain audit areas, such as revenue; and
- expanded the use of Acceleration Centers and Centers of Excellence.

Other developments

We also addressed numerous other auditing, accounting, and reporting developments. Specifically, we provided our teams with:

- guidance to assist in the identification of climate-related risks that may impact their clients and the assessment of whether those risks represent risks of material misstatement;
- a centralized library of resources related to IPO and SPAC activity, as well as specialist and COE teams to assist in specific related accounting and auditing matters;
- a centralized source of key concepts for teams to consider and people, processes, and tools for teams executing going concern assessments;
- considerations relevant to the implementation of FASB guidance on reference rate reform;
- guidance on assessing the potential impact of known cyber events on our audits; and
- a framework to understanding risks and controls related to Agile and DevOps approaches for program development and/or program changes.
People + Technology

Rooted in our core values, Tomorrow’s audit, today reflects our view of the future—people-led, enhanced by powerful technology, and digitally amplified.

Technology is a key part of how we’re reimagining and revolutionizing the audit experience. But it’s our people—with their unique blend of audit expertise and digital acumen—that set us apart. Driven by a quality-first, purpose-always mindset, our people execute an audit approach that focuses on:

**Simplification:** We provide the resources and guidance our teams need to take out unnecessary complexity and focus on the areas of risk.

**Standardization:** Through the consistent adoption of our tools and guidance and greater centralized execution at our ACs and COEs, we are able to appropriately scale and standardize.

**Specialization:** Our audit teams have relevant industry and technical expertise, and they leverage specialists and consult with the National Office, when appropriate, to bring the right knowledge to the audit at the right time.

**Automation:** Our people are upskilled to understand and use our innovative technology and are empowered to create custom automations.

The biggest game-changer isn’t a specific technology—rather, it’s how we continue to balance people and technology and harness that combination to create something bigger than the sum of the individual parts. The magic is when we put human IQ and digital IQ together to create something new—that’s the game-changer.

—Wes Bricker

Our comprehensive audit platform

Our technology development is purposeful and focused on the end-to-end audit experience. Our comprehensive audit platform delivers enhanced quality, more consistent execution, and improved issue identification and communication.

Aura, the PwC Network’s cloud-based global audit platform, is used globally across all of our audits (more than 100,000 auditors worldwide use Aura), driving quality and consistency on a global basis. Aura helps our teams deliver an audit tailored to our clients’ business. It enables sequential and intuitive audit plan development and risk assessment through each phase of the audit, leveraging embedded industry-specific content that drives consistency in execution. We continue to make significant enhancements to Aura that further drive quality and standardization, support improved project management, and facilitate timely execution and review.
Automated data extraction, using PwC’s direct-feed data ingestion tools can locally or remotely extract, compress, encrypt, and transfer data securely. Data handoffs are eliminated, thereby reducing room for error. By accessing our client’s data directly, we can better analyze and assess risks, spot anomalies, and direct audit focus and testing.

PwC’s award-winning data visualization, analytics and auditing tools are 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, audit teams can access specialized tools to identify journal entries to test as part of the procedures performed to address the risk of fraud. Similarly, our investments tools help audit teams analyze investment portfolio data and price testing results. We continue to expand our capabilities, harnessing the power of data to further enhance our audit quality. Sophisticated analytics facilitate risk assessment and help us spot anomalies or new trends, using a robust set of analytical tools. Audit teams can easily navigate between numerous content-themed visualization dashboards and detailed data schedules, prompting more focused audit analysis and testing.

The PwC Network’s digital collaboration tools allow clients to quickly and securely share audit documents and deliverables. We also ease the burden of tracking the status of deliverables and resolving issues by automatically flagging and tracking outstanding items and issues identified through the audit for more immediate attention and resolution. Clients are also able to see audit adjustments, control deficiencies, and statutory audit progress for all locations—in real time. Our global collaboration tools also streamline, standardize, and automate real-time communication and collaboration between group and component audit teams. The result: secure document exchange, enhanced status tracking, and issue management capabilities between group and component audit teams.
Additionally, our Sector teams are empowered to innovate with their respective client base in mind, leveraging our platforms as appropriate.

**People-led innovation.** In FY21, we have continued the digital upskilling of our Assurance professionals building on our base data analysis and other technological capabilities to enhance quality and increase efficiency. Our skilled Assurance professionals are able to use our technology platforms to dig deeper into their client’s data, surfacing audit-related matters, and providing relevant perspectives and insights as a result of audit procedures.

Our commitment to digital upskilling and people-led innovation is helping redefine the profession. We’re developing more well-rounded professionals who are skilled in both digital and audit acumen, and this, in turn, enhances quality and the audit experience. Automations developed by our people reduce time-intensive routine tasks, allowing more time for performing analysis. Custom data visualizations bring insights to life, and quality is enhanced because work is done more consistently.

**Nearly 1,000** of our Assurance staff, including individuals at our ACs, have taken enhanced training for digital skills through our Digital Accelerator program or other opportunities. These influencers work with or are embedded within our audit teams and are applying digital capabilities to each audit, as well as developing new digital solutions for the firm.

Digital Lab, our unique technology-sharing community, has been integral to our innovation journey. Digital Lab allows our people to find, build, and share digital assets to enhance efficiency and audit quality. **More than 85%** of our Assurance professionals were active in Digital Lab at some point during FY 21, leveraging the more than 2,000 digital assets available to them and their digital core skills and training to enhance audit quality.
Our audit

Our top-down, risk-based audit starts with obtaining an understanding of the company’s industry and business, financial systems, internal controls, and processes. We combine deep, dynamic, tech-enabled analysis with the digital skills, industry and technical knowledge, and the professional judgment of our people to obtain this understanding.

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.

Using data provided by our client or via direct-feed, we apply advanced data science, visualization, and guided risk assessment to analyze full populations and focus work on areas of relevant risk and outliers. With the knowledge obtained in understanding the business, we analyze large volumes of data and transactions to identify likely sources of potential misstatements for a thorough risk assessment, often with the help of our data visualization, analytics, and auditing tools. The timely involvement of audit partners and directors/managers during planning and risk assessment facilitates the appropriate consideration of materiality, audit risk, and planned response.

With Aura, our teams are able to develop a more targeted audit plan that specifies risk levels, controls reliance, and substantive testing. Smart dashboards show the impact of scoping decisions and progress of the audit more quickly.

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.

Throughout the audit, we stay connected with our clients to anticipate and resolve complex issues and discuss relevant emerging topics and data trends. Our digital collaboration tools allow our clients’ teams and ours to be in touch 24/7 and provide a place where they see real-time status updates.

Quality will always be our number one priority.

—Wes Bricker
Audit committees have an important role, being charged with oversight of the appointment, performance, and independence of auditors. Through timely, meaningful exchanges, we obtain the audit committee’s perspectives and fulfill our professional responsibilities to communicate certain items to them. We encourage audit committees to ask us candid questions and engage in an open dialogue to help foster an environment of accountability. For public company audits, our communications occur at least quarterly.

Examples of topics we commonly discuss with the audit committee 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;
- the audit committee’s views about fraud risks in the company;
- our audit approach, including our risk assessment process, consideration of fraud risks, and results;
- the scope of our audit, including multi-location considerations, when applicable;
- our client service team, including specialists;
- our planned use of the work of others;
- our timeline and communication plan;
- audit fees;
- 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;
- the quality of the company’s financial reporting;
- audit results, including areas of significant estimates and judgments; and
- firm PCAOB inspection results.

We also frequently share observations regarding other matters related to the audit committee’s roles and practices, such as the company’s management and governance over financial reporting.
Looking to the future

Innovation is about more than just technology. It’s about building and strengthening trust and delivering quality. It is rooted in people who are skilled and empowered. With these powerful forces, we are driving human and machine collaboration and reshaping the audit for the future.

The platforms that power our audit are just the beginning; we continue to develop the next wave of innovation by investing in the technologies that will continue to drive us forward and identifying new ways for our people to work with one another and with clients to enhance quality. We are pursuing new ways of using data to identify risks, detect anomalies, and surface insights, increasing the application of Artificial Intelligence to the audit, redefining digital collaboration, and elevating the experience for our people and our clients in the process.

Data security

Our standards of behavior emphasize the importance of integrity and require our people to protect the confidentiality of client data and information. Our information security policies outline controls every staff member and partner must comply with when using or building technologies to support the audit. Our Security Operations Center is tasked with monitoring and managing PwC’s global security systems to establish the security of firm and client assets and data. Teams of highly skilled professionals are focused on threat detection and response around the globe.
Acceleration Centers and Centers of Excellence

Our audit teams include individuals located in our Acceleration Centers (ACs) and Centers of Excellence (COEs). The ACs comprise diverse, global talent pools that perform work following standardized processes and leverage automation and specifically designed tools to support quality and efficiency. AC team members apply deep experience and advanced digital tools to appropriately scale and automate certain tasks—freeing up time for other team members to focus on more complex or judgmental matters.

Our COE professionals apply specialized skill sets to design and complete procedures in certain areas of the audit and specific audit-related activities (e.g., the preparation of comfort letters). By applying those skills across a broad range of clients, these team members further drive standardization and quality and are able to develop unique perspectives that bring additional insights and value to our audits.

All individuals at the ACs and COEs are required to be independent and trained. Their work is subject to supervision and review comparable to that of other audit team members. Effective supervision and review is the combined responsibility of all team members. The ACs and COEs are also subject to the monitoring programs described on page 46.

In FY21, our AC and COE team members performed work in an increasing number of audits and audit areas. We continue to increase use of these individuals through new and expanded policies and guidance and refinement of our tools and operational protocols. Approximately 1,600 and 1,100 of our client engagements were supported by the COEs in FY21 and FY20, respectively.

Percentage of audit hours performed by Acceleration Centers:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>16.4%</td>
</tr>
<tr>
<td>FY20</td>
<td>12.4%</td>
</tr>
<tr>
<td>FY19</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

40 | Our approach
The consultation process and use of specialists

Specialists

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

Percentage of audit hours provided by specialists:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>15.8%</td>
</tr>
<tr>
<td>FY20</td>
<td>16.4%</td>
</tr>
<tr>
<td>FY19</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

The 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 and are updated as appropriate. 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.

Ratio of partners serving in technical support roles\(^9\) to the number of audit partners:

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>1 to 7.6</td>
</tr>
<tr>
<td>FY20</td>
<td>1 to 8.0</td>
</tr>
<tr>
<td>FY19</td>
<td>1 to 8.0</td>
</tr>
</tbody>
</table>

The ratio of our partners serving in technical support roles to the total number of audit partners is 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 also reflects the resources needed to prepare guidance, policies, and publications to address new accounting and auditing standards or other developments impacting financial reporting.
Assurance Quality Management Network

Our Assurance Quality Management Network comprises over 130 experienced audit partners serving in local, regional, and national roles in support of our Assurance practice. Quality Management professionals are responsible for the design, development, and implementation of our Assurance Quality Management policies and guidance.

The design of the Assurance Quality Management Network allows the Quality Management partners to provide support to audit partners and teams as they navigate complex issues with our clients and other stakeholders. A Quality Management partner is assigned to each audit partner and assists 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 Quality Management on a variety of topics, including specific circumstances related to the determination of materiality, evaluation of errors, potential illegal acts, going concern considerations, and principal auditor considerations. Given the levels of collective experience, audit teams are encouraged to consult with Quality Management when they become aware of complex matters to evaluate the risks, consider the potential impact, and gather insight even when consultation may not be required.

Chief Auditor Network

Our Chief Auditor Network comprises partners and professionals who support audit teams in designing effective and efficient audit approaches, including reinforcing key learning points from audit training and guidance and matters noted during inspection cycles. 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 through consultations and facilitation of targeted workshops with audit teams as they plan their audit procedures. In addition, the Chief Auditors perform targeted reach-outs to audit teams on specific audit quality related topics. Through these activities, the Chief Auditor Network is able to support audit teams in enhancing audit quality and provide leaders with insights on the practice environment and overall audit quality trends.
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.

Percentage of issuer\textsuperscript{10} audit client financial statements that were not restated:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>99.7%</td>
<td>(5 restated)</td>
</tr>
<tr>
<td>FY20</td>
<td>99.6%</td>
<td>(6 restated)</td>
</tr>
<tr>
<td>FY19</td>
<td>99.5%</td>
<td>(9 restated)</td>
</tr>
</tbody>
</table>

Percentage of reports on a company’s internal control over financial reporting that were not reissued or withdrawn:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21</td>
<td>99.1%</td>
<td>(5 reissued or withdrawn)</td>
</tr>
<tr>
<td>FY20</td>
<td>98.7%</td>
<td>(6 reissued or withdrawn)</td>
</tr>
<tr>
<td>FY19</td>
<td>99.3%</td>
<td>(4 reissued or withdrawn)</td>
</tr>
</tbody>
</table>
Global network

Member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services under the “PwC” brand. Together, these firms form the “PwC Network.” “PwC” is often used to refer either to individual firms within the PwC Network or to several or all of them collectively.

In many parts of the world, accounting firms are required by law to be locally owned and independent. The PwC Network is not a global partnership, a single firm, or a multinational corporation.

The PwC network consists of firms which are separate legal entities.

PricewaterhouseCoopers International Limited

Firms in the PwC Network are members in, or have other connections to, PwCIL, an English private company limited by guarantee. PwCIL does not practice accountancy or provide services to clients. Rather its purpose is to act as a coordinating entity for member firms in the PwC network. Focusing on key areas such as strategy, brand, and risk and quality, PwCIL coordinates the development and implementation of policies and initiatives to achieve a common and coordinated approach amongst individual member firms where appropriate.

Member firms of PwCIL can use the PwC name and draw on the resources and methodologies of the PwC Network. In addition, member firms may draw upon the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. 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. Refer to pwc.com/structure for more information.

The PwC network is not one international partnership. A member firm cannot act as an agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm, and is liable only for its own acts or omissions and not those of PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm, cannot obligate any member firm, and is liable only for its own acts or omissions. PwCIL has no right or ability to control member firms’ exercise of professional judgement.
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 training 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 system of quality management, including an ongoing assessment aimed at evaluating whether the policies and procedures that constitute the member firm’s system of quality management are designed appropriately and operate effectively to provide reasonable assurance that its audit engagements are performed in compliance with applicable laws, regulations, and professional standards. The PwC Network coordinates an inspection program to review the design and effectiveness of member firms’ systems of quality management. Each PwC Network member firm also undergoes risk-focused reviews of completed engagements covering, on a periodic basis, individuals in the member firm who are authorized to sign audit or non-audit assurance reports. The review assesses whether an engagement was performed in compliance with applicable professional standards and engagement-related policies and procedures.

The results of these reviews are reported to member firm leadership who are responsible for analyzing the findings and implementing remedial actions as necessary. Individual member firm quality results are considered by US firm partners in planning and performing their audits, when applicable.

Quality in emerging markets

Over the past three years, the SEC and PCAOB have issued several joint statements outlining the risks for investors and other market participants posed by companies with significant operations in emerging markets. The SEC and PCAOB have also engaged with US auditing firms regarding the significance of their work and the importance of diligence efforts with respect to their work in China.

We recognize the need for effective and consistent global oversight of member firms, including those operating in emerging markets. While our existing processes across the PwC Network are built to deliver quality audits regardless of jurisdiction, we continue to evaluate our firm-level oversight processes and engagement-level procedures to be responsive to evolving risk factors related to audit work performed in emerging markets. We welcome continued dialogue with the SEC and PCAOB on this important issue.
Continuous improvement process

Our continuous learning and improvement process is ongoing throughout the audit cycle. It is designed to identify opportunities for enhancement in a timely manner through various channels, including monitoring the results of consultations with our National Office, pre-issuance reviews, and internal and external inspections, as well as an analysis of quality drivers. As part of this process, we rapidly respond, developing and implementing actions to address the opportunities identified. Through this established process we were able to quickly pivot and respond to the challenges presented by the COVID-19 crisis. We also have expanded, and continue to explore further, how we use technology and data to monitor the quality of our audits and to support our teams in performing appropriately rigorous risk assessments. The actions we have taken and continue to take related to audit quality, which include but are not limited to additional communications and training, targeted workshops and reach-outs, and enhanced guidance and tools, are responsive to the opportunities previously identified.

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 factors such as changes in regulatory requirements, recent inspection results, the results of other monitoring procedures, and knowledge gained by those charged with supporting audit teams’ quality efforts.

Our pre-issuance reviews provide audit teams with timely feedback, which can be incorporated into their audit prior to the completion of fieldwork. The results are also considered as part of our continuous improvement process, as noted above.

In FY21, our Quality Review & Monitoring Group and Chief Auditor Network combined efforts to perform more than 180 pre-issuance reviews (140 performed in FY20).
Internal inspections

Our internal inspections program assesses audit engagements’ compliance with firm policies, procedures, and applicable professional and regulatory standards. The selected engagements are inspected subsequent to the issuance of their respective audit report.

Number of issuer audit engagements subject to internal inspection:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY19</td>
<td>130</td>
</tr>
<tr>
<td>FY20</td>
<td>118</td>
</tr>
<tr>
<td>FY21</td>
<td>96</td>
</tr>
</tbody>
</table>

Under the firm’s internal inspections program, audit engagement partners are generally selected for inspection at least once every five years. The frequency of selection reflects, in part, a balance with the increase in the number of pre-issuance reviews. 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 Quality Review & Monitoring 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 professionals and specialists (if applicable) with relevant industry or technical experience, executes the annual inspections. Approximately 600 partners and professional staff will participate as reviewers in the 2021 internal inspections of 2020 audit engagements.

The Quality Review & Monitoring Group communicates inspections observations and results to the audit practice. Further, the Quality Review & Monitoring 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, and targeted messaging from leadership are ways we can sustain and enhance audit quality.

Based on our 2020 internal inspection results, we continue to focus on assessing the risks of material misstatement and sufficiency of audit evidence, audit reporting, including Critical Audit Matters, and compliance with independence pre-approval and documentation processes.

Compliance rate of issuer audit engagements selected for internal inspection:

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY19</td>
<td>96%</td>
</tr>
<tr>
<td>FY20</td>
<td>97%</td>
</tr>
<tr>
<td>FY21</td>
<td>96%</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 be weighted towards targeting 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 December 17, 2020 (our “2019 Inspection Report”), and describes the results of the PCAOB’s 2019 inspection of 60 (or approximately 3.7%) of our 2018 year-end 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. Part 1.A includes discussion of deficiencies identified by the PCAOB in its inspection of issuer audits. Based upon the most current information related to the PCAOB’s 2020 inspection of 58 of our 2019 year-end public company audits, we anticipate a significant decrease in the number of issuer audits with identified deficiencies—a positive impact of the investments we have made in audit quality.

In our 2019 Inspection Report, the PCAOB identified deficiencies in our audits related to the:

- identification and testing of controls for a significant account or relevant assertion;
- sufficiency of testing of the design and/or operating effectiveness of controls selected for testing;
- identification and/or testing of controls over the accuracy and completeness of data or reports that management used in the operation of controls;
- sufficiency of testing significant assumptions or data used by management in developing an estimate;
- sufficiency of substantive testing related to an account or significant portion of an account or to address an identified risk; and
- performance of substantive procedures to obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls).
<table>
<thead>
<tr>
<th>Year</th>
<th>Audits inspected</th>
<th>Audits included in Part I.A</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>58</td>
<td>1 (anticipated)</td>
</tr>
<tr>
<td>2019</td>
<td>60</td>
<td>18</td>
</tr>
<tr>
<td>2018</td>
<td>55</td>
<td>14</td>
</tr>
<tr>
<td>2017</td>
<td>55</td>
<td>13</td>
</tr>
<tr>
<td>2016</td>
<td>56</td>
<td>11</td>
</tr>
</tbody>
</table>

Part I.B of the PCAOB inspection report includes information on deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless address other deficiencies related to compliance with PCAOB standards or rules. Part I.B of our 2019 Inspection Report identified deficiencies where certain required communications were not made to the issuer’s audit committee related to other independent public accounting firms that performed audit procedures, the firm’s report on Form AP contained inaccurate or omitted information or was not filed by the relevant deadline, and required written communications were not made in accordance with PCAOB Rule 3524.

**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 2018 inspection report (which covered our 2017 year-end audits). The 12-month period for us to address the comments made in Part II of our 2019 Inspection Report expires on December 17, 2021.

Our most recent inspection results really reflect the positive investments we’ve made and the leadership of our people.

—Wes Bricker
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, as well as other factors 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.

In addition, 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.

The potential causes we identify through our analyses are used to identify enhancements that may be useful to implement across all or certain elements of our practice and improve our system of quality management.
Our system of quality management is fundamental in achieving our purpose and delivering quality in our audits. Leveraging technology and data, we take a proactive, risk-based approach in designing and operating our system of quality management to achieve our quality objectives. Our system operates in a continual and iterative manner and is designed to be responsive and resilient to changes in the nature and circumstances of the firm and developments in the auditing environment and the regulatory landscape. We also continue to invest in and reimagine our system of quality management to capitalize on the rapid technological change and changing business environment.

Our system of quality management 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

Annually, our system of quality management over our audit practice is subject to evaluation by the Quality Review & Monitoring Group and review by professionals from the PwC Network. An assessment of the results of the most recent annual evaluation confirmed that our system of quality management over our audit practice is designed appropriately and operating effectively to provide reasonable assurance that our personnel comply with the professional standards and our firm’s standards of quality.
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 by the firm’s partners.

The Senior Partner has appointed a Leadership Team to assist with managing the firm and discharging the responsibilities of the Senior Partner. 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 the terms of 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 as of July 1, 2021

Tim Ryan
US Chair and Senior Partner

Joe Atkinson
Vice Chair—US Chief Products and Technology Officer

Wes Bricker
Vice Chair—US Trust Solutions Co-Leader

Roz Brooks
US Public Policy Leader

Martyn Curragh
US Chief Financial Officer and Head of Portfolio Strategy

Neil Dhar
Vice Chair—US Consulting Solutions Co-Leader

Mike Fenlon
US Chief People Officer

Ana Paula Jiménez
Senior Partner—Mexico

Kathryn Kaminsky
Vice Chair—US Trust Solutions Co-Leader

Mohamed Kande
Vice Chair—US Consulting Solutions Co-Leader and Global Advisory Leader

J.C. Lapierre
US Chief Strategy and Communications Officer

Christine Lattanzio
US Partner Affairs Leader and Chief Administrative Officer

Mark Mendola
Vice Chair—US Managing Partner

Shannon Schuyler
US Chief Purpose and Inclusion Officer

Yolanda Seals-Coffield
US Deputy People Leader

James Shira
US and Global Chief Information and Technology Officer

Zachary Stern
US General Counsel

Sagar Teotia
Vice Chair—US Chief Risk Officer

Roy Weathers
Vice Chair—US Societal Engagement and Policy Solutions

Farhad Zaman
US Chief Network Officer
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 2021, there are 21 members of the Board in addition to the firm’s Senior Partner:

Members of the Board of Partners and Principals

| Tim Ryan, US Chair and Senior Partner | Bernadette Geis | Bob Sands |
| Len Combs, Lead Director            | Jennifer Kennedy | Lisa Sawicki* |
| Jane Allen*                        | Laura Martinez   | Earl Simpkins  |
| Puneet Arora*                      | Brian Meighan*   | Gurpreet Singh |
| Don Christian*                     | Scott Moore      | Jose Ignacio Toussaint |
| Tyson Cornell                     | Troy Paredes, External Director* | Ellen Walsh |
| Dallas Dolen                      | Carol Pottenger, External Director | Karen Young* |
| Scott Gehsmann                    |                     | |

* Also serves on the PwC Network’s Global Board (Lisa Sawicki serves as the Chair).
Committees

The Board is assisted by various committees that help to carry out its role. The Risk & 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 serves as the Accounting and Auditing Practice Committee, which provides oversight of the accounting and audit practice of the firm. The R&Q Committee’s responsibilities include oversight of the Firm’s internal audit function, enterprise risk assessment, and risk management and compliance programs. 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.
Endnotes

1. References to the 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 with relevant information related to our US operations.

2. 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.

3. Our fiscal year ends June 30th.

4. “Audit professionals” refers to our core audit and private company services partners and staff. Specialists, including Digital Assurance & Transparency, and individuals in our Acceleration Centers are excluded.

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

6. “Audit team members” for purposes of the leverage ratio excludes individuals in our Acceleration Centers.

7. Our legacy US Assurance Engagement Index for FY21 was 76%.

8. In this context “active” is defined as a user that has logged into Digital Lab and used more than 5 automations (at least 3 of which are unique).

9. Technical support roles exclude Quality Management professionals (see page 42) and dedicated independence professionals (see page 12). It also excludes over 40 Managing Directors that serve in technical support roles.

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

11. Includes inspections completed as of June 25, 2021 and an estimate of the number of inspections to be completed during the remainder of the 2021 internal inspection cycle.

12. The estimated number of issuer audit engagements subject to internal inspection presented in the 2020 Audit Quality Report has been updated for the actual number.

13. The Quality Review & Monitoring Group was formerly known as the Inspections Group.

14. The 2021 compliance rate is for internal inspections completed as of June 25, 2021.

15. The estimated compliance rate presented in the 2020 Audit Quality Report has been updated for the actual rate.

16. Includes the number of audits inspected and included in Part I for 2017 and 2016.

17. This reflects our judgment based upon the most current information, as the draft 2020 inspection report has not yet been received. This number is subject to change until the PCAOB issues its final report.

18. The International Auditing and Assurance Standards Board has issued a new International Standard on Quality Management to replace the current standard effective December 2022, and the PCAOB issued a concept release, Potential Approach to Revisions to PCAOB Quality Control Standards, in December 2019. The evolution of our system of quality management aligns to these revisions, and we support the principle of a quality management approach aimed at continuous improvement to firms’ QC systems.