Continuing our focus on audit quality

February 2020 update

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Our purpose drives everything we do. Audit quality is core to our purpose—to build trust in society and solve important problems—and our strategy. While we continuously evolve in response to changing technological, demographic, social, and economic environments, we vigilantly maintain our focus on enhancing audit quality.

As a leader in the profession, PwC is committed to fulfilling our purpose. We will continue to make significant investments to enhance quality and improve the value and experience from our audits, engaging seasoned leadership throughout the firm.

The 2019 edition of our Audit Quality Report, which you can find at www.pwc.com, describes how we at PwC:

- Maintain a sustained emphasis on our purpose and values that address integrity and independence.
- Deliver on our strategy to leverage our unique combination of people and technology through Tomorrow’s Audit, Today to enhance how we perform our audits. We are utilizing transformative technologies while making significant investments to upskill our people, addressing both new digital skills and foundational ones, like critical thinking, skepticism, and communication.
- Provide enhanced training, tools, and methodology in response to new standards and an evolving environment, so our people have the guidance and insights they need to drive quality.

We are pleased with the progress we have made on our quality journey, as outlined in the 2019 Audit Quality Report. We want to take this opportunity to describe a number of more recent steps we have taken to evolve our business and prioritize audit quality. Read in conjunction with our 2019 Audit Quality Report, this update provides timely insights regarding our continued efforts to enhance audit quality and how we deliver on our audit quality objectives.
This update includes:

- Announcements regarding the creation of an independent advisory committee and the addition of a third external director to our PwC US Board of Partners and Principals.

- Initiatives we’ve recently launched related to independence, specifically related to the acceptance and performance of non-audit services.

- Our ongoing commitment to the development of our people, approach, and technology, including investments in and enhancements made to our training, methodology, and technology to give our people additional guidance and tools to support audit quality.

We’re proud to be auditors. Quality, independent audits play an important role in the financial reporting ecosystem and support the overall health of the global economy. We do not take that responsibility lightly. Like all businesses today, we operate in an incredibly complex, dynamic, and often challenging global environment that is reflected in the expectations of our clients and stakeholders. During this time of significant change, we remain committed to leading with a strong culture of quality and excellence. We understand that this is a continuous journey that requires persistent work and the willingness to learn from self-reflection.

Thank you for your interest in our continued progress. We look forward to sharing additional information regarding our quality efforts as part of our 2020 Audit Quality Report, expected to be released this summer.
Announcements regarding our governance and advisory bodies

We recognize and value the outside-in monitoring and advice we receive from independent directors and advisory bodies. These perspectives add an important dimension to our internal assessments based on our own diverse range of experiences.

External directors

We believe that having external board members enhances our board’s governance and decision-making processes, and aligns us with widely-accepted governance best practices. As such, we are pleased to have elected a third external director to join our US Board of Partners and Principals. This highly qualified individual—Troy A. Paredes, founder of consulting firm Paredes Strategies LLC and a former US Securities and Exchange Commissioner—will serve as an external board member until his term expires on June 30, 2023. Troy will serve along with our two other external directors: Carlos M. Gutierrez and Carol M. Pottenger, who were elected in 2017. Collectively, these external directors’ independent perspectives are a hallmark of good governance.
We are also excited to announce that we are establishing an independent Assurance Quality Advisory Committee (AQAC), which will consist of up to three members who have the collective experience and deep understanding of the interests of the preparer, auditor, investor, standard-setting, and regulatory communities. The establishment of the AQAC makes us unique, as we have both external directors and an independent advisory committee. The AQAC will provide perspectives and advice to assurance leadership on aspects of the business, operations, culture, governance, and risk management of the assurance line of service reasonably expected to impact audit and assurance quality. We will formally announce further details about the composition and responsibilities of the AQAC in the latter half of 2020.
We only perform non-audit services for audit clients when, before any services are provided, it is determined that such services are appropriate in the circumstances, the services are permitted by applicable independence rules, and, if required, the audit committee agrees that such services will not impair our independence. Further, our audit partners are not evaluated or compensated for selling non-audit services to their audit clients. Our people are compensated based on their performance, and we reward teams and individuals for quality.

Our independence protocols and monitoring processes are designed to address the risks from having multiple lines of service that provide permissible non-audit services to our audit clients. We recently launched several important independence-related initiatives to continue to enhance our processes related to the acceptance and performance of non-audit services and to provide our people with additional training and support.
To further mitigate potential independence risk in the execution of non-audit services to audit clients and to improve audit committee pre-approval communications, we’ve enhanced our process for reviewing and authorizing certain non-audit services for SEC-issuer audit clients. This includes:

- The involvement of an independence specialist to review and assess the scope of services set forth in the relevant contract/statement of work (including related initial engagement communications, such as a request for proposal) and audit committee communications, where applicable.

- The performance of pre-engagement independence coaching sessions and independence in-flight reviews for certain engagements.

To support the implementation of the enhanced processes and reinforce the individual behaviors necessary to maintaining independence, we’ve developed a suite of incremental, mandatory training courses for all of our partners and staff that is tailored to their level and line of service.
Our commitment to the development of our people, approach, and technology

We remain committed to providing our people with first-rate training, methodology, and technology to give them the guidance and tools they need to drive audit quality and to reinforce the critical skills and behaviors related to delivering audit quality.

Continuing to align incentives with audit quality

To further align incentives with our audit quality objectives, we’ve recently updated our compensation award criteria. While delivering a quality audit is a responsibility all our partners and staff share, meaningfully rewarding those who especially demonstrate that commitment underscores the importance of quality. The award criteria include living our behaviors, raising a hand when help is needed, and embracing our tools and technology. This is just one more way we reinforce our tone at the top and commitment to quality in all that we do.
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Our continuous improvement process is designed to identify opportunities for enhancement in a timely manner through monitoring the results of consultations with our National Office, pre-issuance reviews, and internal and external inspections and quickly responding. We design and implement enhanced guidance, tools, and training in the areas identified, such as the effective evaluation of management review controls. We also continually explore innovative training techniques with the objective of increasing the effectiveness of our course content.

Recently, we’ve:

- Enhanced our methodology to increase the effectiveness and efficiency of procedures performed to establish our understanding of business processes and to identify and assess the risks inherent in the financial statements.

- Enhanced working practices for both partners and staff related to the execution of supervision and review to drive consistent behaviors across our audits, and provided additional support to specific engagements.

- Supplemented and refined our guidance supporting teams in understanding evolving cybersecurity risks and determining the relevance and applicability of those risks when designing and executing audit procedures.
We have also been working to prepare our teams and clients for the implementation of new standards, such as the PCAOB’s standards on auditing accounting estimates and use of specialists. In addition, we are monitoring the effectiveness of our audit response to new auditing and accounting standards, including revenue recognition, leases, CECL, and reporting of critical audit matters, or CAMs, pursuant to the PCAOB’s new auditor reporting model. We have provided additional guidance, tools, and training to our teams to continue to support these efforts. We’re also actively monitoring and evaluating the implications of new and emerging financial reporting and regulatory topics, including, for example, LIBOR reform, accounting for goodwill and intangible assets, and Inline XBRL. We have and will continue to provide our teams and clients with the guidance and insights they need to prepare for change.
Tech-enabling the audit to enhance quality

We continue to make significant investments in technology to provide teams with the tools to support a tech-enabled audit—something we call “Tomorrow’s audit, today.” As part of these efforts we are also finding new ways to harness the power of data to further enhance our audit quality.

We are working concurrently to:

• Further enhance the functionality within Aura, our global audit platform, to collect data and evidence in a more standard and structured way. This will allow for automated alerts to teams of potential follow-up items and will provide them with timely guidance that is responsive to the particular facts and circumstances.

• Use structured data to determine and ultimately evaluate key indicators of quality across our audits.

• Automate non-judgmental tasks, such as data/evidence matching using optical recognition technology and machine learning. This will increase the consistency in the execution of such tasks and allow teams to focus on carrying out aspects of the work that require more judgment, and reviewing and responding to the results of the procedures performed.

• Provide our clients information related to the audit status and results via our existing Connect tool. Connect is our collaborative workflow tool that currently allows fast, secure sharing of audit documents and deliverables. Expanding the information shared via Connect will allow us to provide greater transparency and work with our clients at an even faster speed.

• Develop integrated solutions related to risk assessment. We are currently developing new tools to facilitate our understanding of the business process and our scoping of audit procedures at the financial statement account and assertion level. In addition, next generations of Halo—the PwC Network’s award-winning data visualization and auditing platform—will provide teams with more expansive data analytics capabilities to assist in the carrying out of a richer, data-driven risk assessment and provide the ability to analyze data in order to pinpoint areas of focus for audit testing.
At the same time, we are deeply committed to citizen-led innovation, empowering our people with the skills and tools to create and use customized automation to enhance the efficiency and quality of audit engagements. Central to this approach is Digital Lab, our unique collaborative platform for accessing and sharing digital assets, which enables us to harness the collective power of our 55,000 professionals.

We continuously look for ways to explore the potential application of emerging technologies, such as artificial intelligence, to support audit quality.

We recognize that quality is an ongoing journey and there are always opportunities to do more. We’ll continue to listen to our stakeholders’ views about what they need and share our perspectives. As the world around us continues to change, we will continue our focus on audit quality.