Our continued focus on audit quality
To our stakeholders

With the celebration of each new year comes the promise of new beginnings, opportunities, and challenges. It is a time to embrace new resolutions and reinforce ongoing commitments.

Amid global and national forces like climate change, labor and resource shortages, supply chain disruptions, and social, economic, and racial inequality, trust is the currency that will allow business leaders to thrive, giving them room to innovate, take on bigger challenges, create opportunities for their people, and most importantly, achieve sustained outcomes for their organizations and for society. The New Equation - our recently launched new global strategy that brings together our community of solvers in unexpected ways - will allow us, through the largest Trust Solutions practice in the world, to further our commitment to quality and help our clients as they seek to continue to build trust and deliver sustained outcomes. We also launched Tomorrow Takes Trust, a landmark commitment to embed trust based principles into the core of today and tomorrow’s businesses. As described in our 2021 Audit Quality Report, this includes the PwC Trust Leadership Institute, which we are proud to say is now officially in session. We are excited by what we have already accomplished under The New Equation, and by what is yet to come.

Quality is the impetus for the continual innovation and growth we believe is key to building trust in society and solving important problems. Our audit professionals are currently in the midst of wrapping up year-end fieldwork on many of our audits, focused on delivering to their clients and the capital markets the trust and confidence that comes from a quality audit. Our audits are required to be performed in accordance with our methodology and the professional standards currently in place, and the quality of the work being performed by our engagement teams today is measured in that context. Yet, as a firm we remain forward looking, anticipating the needs of our audit teams and clients and transforming how we perform audits amid shifts in the business and regulatory environment, in addition to developments in accounting and auditing standards and their application. The investments we continue to make in audit quality related to technology, upskilling our people, and reimagining our audit are once again reflected in the positive results of our most recent inspections and have positioned our people and our firm to continue to meet our commitments and live our purpose.

And we won’t stop here. No matter what challenges and opportunities lie ahead, we’ll continue to focus on living our values and maintaining our independence. We’ll keep leading with trust, transparency, and purpose. And we will continue to make quality our number one priority.

We thank you for your continued interest in our audit quality journey.

Tim Ryan
US Chair and Senior Partner

Wes Bricker
Vice Chair - US Trust Solutions Co-Leader

Kathryn Kaminsky
Vice Chair - US Trust Solutions Co-Leader

Find our 2021 Audit Quality report here
The future of work at PwC

Concurrent with the official reopening of all of our US offices in November 2021, we launched a new way of working, which is intended to give our people the flexibility needed to balance team, client, and personal needs. We were the first firm in our profession to provide our employees with the option to work virtually on a full-time basis.

We provided our people with extensive guidance and best-in-class training resources to put our new hybrid practices in action - whether they are working virtually, in-person, or a mix of both. We shared working practices to leverage firm-approved technologies and added new technology to many of our offices to support hybrid interactions between remote and in-person participants.

Our new way of working is particularly impactful in the midst of historic rates of voluntary employee turnover in job markets across the world. The “Great Resignation” has impacted organizations across all sectors, including the public accounting profession. This has led organizations, including our clients and our firm, to take meaningful steps to attract and retain top talent. It has also led organizations to consider changing processes and operating models and revamping strategic planning.

In response to increasing voluntary turnover rates, we took several key steps to further promote retention of our audit professionals, by not only providing them with greater flexibility in how they work, as described above, but also by finding more ways to recognize their contributions with meaningful rewards. We executed mid-year pay increases as part of our commitment to competitive pay, as well as mid-year promotions, in appropriate circumstances, to more quickly promote those professionals already demonstrating skills at the next level. We empowered our partners and professionals to award greater financial incentives to individuals whose exceptional contributions exemplify our values. We also introduced new programs to create opportunities for teams to get (and stay) connected and to continue to foster our culture of care and belonging.

We based our new way of working on the following:

• We will continue meeting our clients where they want to be met. This approach has been serving us well during the pandemic, and we will continue to do so going forward.

• We trust our people to find the best way to work for each situation, so we can continue to deliver quality and value while providing our people the support they need to learn and grow.

• Happier and healthier teams lead to enhanced quality and experience for our clients. What’s important is that work is done well — not necessarily where the work is done.

Throughout the pandemic we didn’t let up on our commitment to foster an inclusive environment that allows our people to reach their full potential. We doubled down and adapted to keep PwC a great place to work.

— Kathryn Kaminsky
Our system of quality management and continuous improvement process

At PwC, audit quality is our top priority. Our system of quality management is fundamental to achieving our purpose and delivering quality in our audits. We continue to invest in and reimagine our system of quality management, using data and technology to transform our risk-based approach, including enhanced real-time monitoring, to be responsive to developments in the auditing environment and regulatory landscape.

Our system of quality management guides our continuous improvement process, through which we invest significant time and resources to support and continually enhance audit quality. A positive impact of our investments in audit quality is a significant decrease in the number of issuer audits with deficiencies identified during PCAOB inspections.

The most recent PCAOB inspection report on our audit practice is dated September 30, 2021, and describes the PCAOB’s 2020 inspection of 2019 audits. In the report, only one of the 52 audits inspected was included in Part I.A. Further, the PCAOB’s most recent 2021 inspection cycle (covering 2020 audits) is substantially complete, and the preliminary results are similarly positive and continue to reflect the benefits of our quality actions. This is also consistent with the positive results of our most recent internal inspections and peer review completed in the latter half of 2021.

Over the past few months we have monitored and addressed the ongoing impacts of COVID-19 on our audits and issued guidance as needed, for example, related to when and to what extent virtual inventory observations may be appropriate.

We have also continued to reimagine the end-to-end audit experience by:

- providing additional guidance, examples, and tools to assist teams in, for example, maintaining client data in our independence systems and meeting planning sign-off deadlines;
- conducting ongoing Chief Auditor facilitated targeted workshops aimed at supporting teams in applying learning in various areas, as well as periodic reach-outs to teams performing PCAOB audits to discuss quality reminders;
- expanding the use of team members from Acceleration Centers (ACs) on public company audits – we provided AC team members with additional training, and shared working practices regarding the assignment of work and associated supervision, review, and integration of AC team members;
- launching our AC Innovation conference, where our AC team members learned more about innovative audit solutions; and
- accelerating the upskilling of our new associates and AC team members, providing them expanded skill sets to help manage the distribution of workload during 2021 year-end audits.
Quality in emerging markets has been a priority area for regulators for a number of years. In 2020, the Holding Foreign Companies Accountable (HFCA) Act was signed into law, which requires the identification of, and trading prohibitions for, issuers that use an audit firm that the PCAOB is unable to inspect or investigate completely for three consecutive years. In December 2021, the SEC voted to adopt final rule amendments implementing the mandates of the HFCA Act, and the PCAOB issued to the SEC its first HFCA Act determination report regarding registered public accounting firms headquartered in mainland China and Hong Kong. Quality audits across the PwC Network are vital to the US firm’s brand, and while the 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.

We have provided our group audit teams with additional guidance and shared effective working practices related to the supervision and review of component auditor work. We also continue to assist PwC Network member firms, including those operating in emerging markets, in promoting quality in PCAOB audits of SEC registered clients. This includes, for example, providing training materials specifically designed for PCAOB audits and providing access to resources with relevant experience, including our US firm leadership, who share learnings and leading practices on quality.
Our continued focus on maintaining independence and living our values

As a purpose-led, values-driven firm, we have a responsibility to serve our clients with quality and integrity and behave in a manner consistent with our code of conduct. As auditors, we are required to be independent from our audit clients in order to support our professional skepticism and objective conclusions. Acting with integrity and maintaining independence are the foundations for building trust.

We recently launched Personal independence at PwC on pwc.com, a public resource that explains the personal independence requirements applicable to PwC partners, employees, third-party contractors, and their immediate family members and what they need to do to comply and maintain personal independence.

It is only through openness and accountability that the business community can create greater economic value, provide more equitable opportunities, serve our communities more fully — and most importantly, build trust.

— Tim Ryan

Further, in preparation for the wrap-up of audit work and issuance of audit reports for calendar year-end companies, immediately followed by the launch of the next audit cycle, we reinforced to our teams the importance of monitoring independence and provided them with reminders related to independence matters, such as assessing the permissibility of and obtaining pre-approval before engaging in services, as well as addressing personal financial interests.

We also recently released our FY21 Purpose Report, which details PwC’s commitments to diversity, equity, and inclusion; operating responsibly in sustainable ways; and driving a human-led, tech-powered approach. As described in the report, we have added additional near-term goals to hold ourselves accountable to and accelerate progress toward our long-term aspirational goals focused on workforce representation, talent attraction and the makeup of our partnership. And while we have made progress, we acknowledge that there is still more work to be done. Our goal is to continue to make progress and be a leader in digital transformation, purpose and inclusion and building trust. We have a responsibility to ourselves and all of our stakeholders to continue leading—with transparency, humility and empathy—and together, we can drive sustainable outcomes for years to come.
Our role in the financial reporting ecosystem

Our role in the financial reporting ecosystem is not limited to the issuance of audit reports. Our people also spend substantial time actively participating in standard setting and regulatory efforts to enhance the quality and usefulness of financial and other information available to the capital markets. This includes interacting with directors and the investment community to hear stakeholder perspectives on financial reporting matters, to help inform our point of view, and to share their insights and feedback with regulators and standard setters.

In December and January, we held several virtual and in-person events for board members covering key matters relevant to year-end reporting, including emerging accounting matters and the evolving regulatory landscape. For more information, see the Governance Insights Center. We also regularly participate in investor outreach activities, for example, as a facilitator of the US Corporate Reporting Users’ Forum network, which provides users of financial reports with an open forum for learning about and responding to the many accounting and regulatory changes affecting corporate reporting. Further, in December, we hosted a cross-industry meeting for investors and analysts to discuss key matters relevant to year-end financial reporting, such as emerging accounting standards and evolving regulatory and global geopolitical matters.

In addition, we’ve released a variety of thought leadership publications and podcasts available to audit teams, clients, and other stakeholders related to standard-setting activity, regulatory matters, and other developments. This includes, but is not limited to, insights on key accounting and reporting issues relating to SPACs; digital assets, including cryptocurrency; and the impacts of expected US tax reform.

We address audit reports to the board and stockholders, and maintain active dialogue with both, gaining critical insight into the state of trust between providers and users of financial information.

— Wes Bricker
ESG

ESG is both a mindset and an opportunity to make a positive contribution to tackle the most important issues of our time, and as such represents an integral part of our strategy. Through The New Equation, we are able to leverage the capabilities and reputation built by our traditional assurance and tax reporting lines of service to deliver new and expanded permissible ESG trust solutions in areas including sustainability and climate-related risks; diversity, equity, and inclusion; and supply chain integrity.

Over recent months, we continued to deliver thought leadership to our clients and stakeholders through numerous publications as well as our recently launched Talking ESG podcast series and our ESG accounting and reporting fall webcast series.

Recent climate events such as the wildfires in California, water shortage in the western United States, and the floods in Europe have served to highlight the growing impact of climate change. We have provided our audit teams with additional guidance and tools to consider climate risk factors, including external factors and entity-specific factors and commitments, applicable to their clients and the impact to their assessment of the risks of material misstatement. Depending on the nature of a company’s business, climate-related risks may be a principal consideration in the determination of a critical audit matter (CAM) in an auditor’s report under PCAOB standards. However, it is less likely that a climate-related risk would be a CAM in and of itself since a CAM, as defined by the PCAOB standards, relates to specific accounts or disclosures that are material to the financial statements.

We continue to support our teams by providing materials and guidance to have timely, meaningful exchanges with their client’s Audit Committee regarding CAMs and ESG related matters.
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.