



Our continued focus on audit quality

January 2024 update



To our stakeholders

At PwC, we take immense pride in our commitment to and reputation for quality. This commitment is part of the makeup of our firm – it is embedded in our strategy, business, and culture – and is underpinned by our belief that the role of the auditor is critical to helping further the public interest by building trust in what matters to the capital markets. Quality is our number one priority, and it's reflected in our audit quality results.

Our commitment to quality is also reflected in our ongoing focus on monitoring progress and identifying opportunities for further enhancements. We have invested, and will continue to invest, significant time and resources into a continuous learning and improvement process that supports our teams in consistently maintaining independence, demonstrating ethical behavior, and delivering quality.

The actions we take to maintain audit quality are responsive to current macroeconomic events, standard setting and regulatory developments, and feedback from internal and external sources – including inspections and consultations. When making investments in audit quality, we consider matters impacting our clients, our people, our firm, the PwC Network, and the profession.

In this update to our annual Audit Quality Report, we provide timely insights into current developments impacting our audits and the results of our audit quality monitoring, including internal and external inspections. You will also read an update on our recent commitment to a series of bold, voluntary actions over the next several years to further enhance the quality of, and confidence in, the information that drives the capital markets.

As a leadership team and as a firm, we recognize that quality is the bedrock of our purpose and fundamental to our success, and that delivering objectivity and impartiality is a source of value to our stakeholders. Bringing value to the capital markets by consistently performing quality, independent audits is, and will continue to be, our top priority.

Thank you, as always, for continuing to engage with us on audit quality.



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

Current developments



Continued shifts in social and macroeconomic factors create potential uncertainty and disruption for our audit teams and clients. Meanwhile, the focus on climate-related disclosures continues to sharpen, with imminent reporting requirements under the EU's Corporate Sustainability Reporting Directive (CSRD) and California's new landmark climate disclosure legislation. Further, the rapid growth in the use of artificial intelligence (AI) has gained the attention of consumers, business leaders, and the highest levels of our government, as evidenced by the President's recent [AI executive order](#).

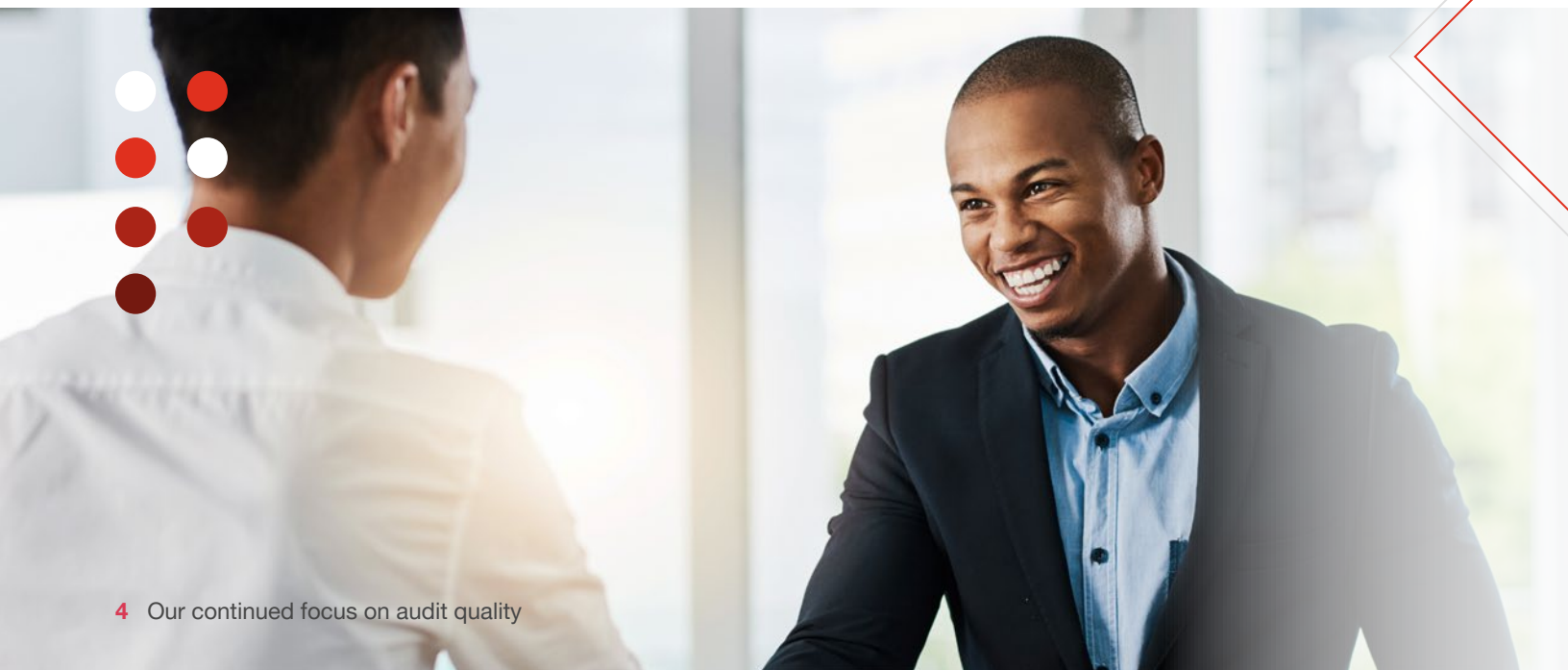
At the same time, audit and accounting standard setters and regulators are proposing and adopting new standards and regulations more rapidly than ever before. For example, in 2023, the PCAOB, [in its own words](#), "took more action on standard setting and rulemaking in 2023 than any year in the last 10 years." We continue to monitor and be responsive to these developments, including the anticipated adoption of new PCAOB standards in 2024, including those on a company's non-compliance with laws and regulations and a firm's system of quality control.



We have taken many actions to respond to current developments, including changes in the regulatory environment. In just the last few months, for example, we have:

- Issued guidance to our teams and clients regarding the SEC’s new cybersecurity disclosure rules;
- Provided timely insights on the continued evolution of environmental, social, and governance matters in our two podcast series “Talking ESG” and “CSRD spotlight”;
- Issued guidance to audit teams related to the consideration of increased uncertainties and associated risks resulting from the Middle East conflict and reached out to teams with more significant components in impacted areas;
- Established new requirements for our audit teams with respect to considering AI risks in an audit;
- Highlighted the PCAOB’s [Spotlight](#) – *Audit Committee resource* to our teams along with resources to facilitate meaningful discussions with our clients on the topics included;
- Provided guidance to our teams regarding determining and communicating critical audit matters based on input from and in consideration of engagement team consultations, internal and external inspections, stakeholder expectations, and an evolving economic environment;
- Accelerated the workpaper archive deadline for our public and non-public US engagements; and
- Provided tools and guidance for teams to further assess and estimate the impact of the PCAOB’s Other Auditors standard and revised ISA 600, *Group audits*, both effective for calendar year-end 2024 audits.

In addition, we have continued to provide our engagement teams with required auditing; accounting; and annual independence, ethics, and compliance training. As noted in our 2023 Audit Quality Report, we take steps to provide our people with sufficient time to complete training courses and to communicate and continually reinforce the understanding that learning assessments related to these trainings are required to be completed on an individual basis.



Internal and external inspections



Internal and external inspections are a vital input to our system of quality management. While we are proud of our record of profession-leading PCAOB inspection results, we continue to take proactive steps to assess and respond to the observations raised during the most recent inspection cycle, as described below.

Our 2022 PCAOB Inspection Report

The most recent PCAOB inspection report (our “2022 Inspection Report”), which has not yet been publicly released, describes the results of the PCAOB’s 54 inspections generally covering 2021 audits.

Number of PCAOB-inspected audits included in Part I.A

Year	Audits inspected	Audits included in Part I.A
2022	54	5
2021	56	2
2020	58	1

Part I.B

Part I.B of our 2022 Inspection Report includes seven audits and identifies deficiencies related to timeliness of certain required communications with the audit committee regarding the participation of other auditors, omission of certain required additional paragraphs in the audit report, accuracy of information in Form AP, and sufficiency of documentation of the substance of discussions related to audit committee pre-approval of certain non-audit services.



Part I.C

The new Part I.C of the PCAOB inspection report includes instances of potential non-compliance with SEC and PCAOB rules related to independence, identified through our own compliance procedures and the PCAOB's inspections. Part I.C of our 2022 Inspection Report includes 129 instances across 74 issuers identified through our own compliance procedures, and one instance identified by the PCAOB.

As acknowledged by the PCAOB in Part I.C, we have evaluated the instances of potential non-compliance included within that section. For each, the firm and the relevant audit committee determined that the firm's objectivity and impartiality were not impaired. In reaching conclusions about our independence, we follow the processes described on page 13 of our [2023 Audit Quality Report](#) to analyze potential independence policy exceptions to determine whether an exception to independence rules or standards has occurred, and if so, whether the firm remains objective and impartial. We discuss our conclusions regarding objectivity and impartiality with the audit committee of the relevant audit client.

Our overall independence compliance programs often go beyond regulatory requirements, as they are designed to reinforce our purpose and values as well as to mitigate the risk of violations of relevant rules and regulations. We continue to review and make modifications, as appropriate, to our independence compliance programs and related guidance based, in part, on our analysis of identified instances of potential non-compliance. Recent actions have included new and enhanced mandatory trainings and enhanced annual confirmations and certifications, including incremental self-reviews of investments recorded in our independence systems.

2023 Inspection cycle

Our FY23 internal inspections program is substantially complete, and of the 201 audit engagements subject to internal inspection, 97% were deemed compliant. In addition, the PCAOB's most recent 2023 inspection cycle (generally covering 2022 audits) is substantially complete. In both our internal and external inspections, we have noted a modest increase in observations related to executing routine and non-complex audit procedures in normal risk areas.

Based on our analysis to date of potential contributing factors we do not believe any of the observations raised are indicative of a systemic issue or broader issue in a particular audit area. As a learning organization, we took prompt actions to assess and respond to the nature of the matters identified, and we continue to monitor, assess, and respond to feedback to maintain and further enhance audit quality. Through guidance and various communications, we've reinforced to our teams the importance of consistent execution in our day-to-day work — from planning through completion of the audit. This includes both the careful preparation of audit work and the appropriate level of supervision and review throughout the audit. We've also encouraged our teams to seek additional opportunities to enhance experiential learning and team collaboration.

Voluntary actions to enhance confidence



Over the past few months, we have made significant progress related to our [recent commitment](#) to lead our profession with bold, voluntary actions across five foundational areas:

Accountability – With the involvement and direct input of leaders across both segments of our firm, we are developing an annual public certification for our assurance practice, to be signed by certain firm leadership. It will refer to the design, evaluation, and disclosure of information related to our system of quality management, including procedures related to ethics and independence. We have also completed several significant steps toward establishing compensation at risk provisions for firm leadership.

Quality – We are exploring potential enhanced risk-based procedures related to identifying and responding to the risk of fraud and performing a going concern evaluation. We are currently working toward piloting procedures to augment existing fraud inquiries, brainstorming, and whistleblower program evaluations, as well as additional risk assessment procedures to assess a company’s longer-term business viability. As part of these pilots, we plan to consider potential expanded communications with the audit committee. We are also considering enhancements to our audit report to make it even more transparent and informative.

Independence – We are in the process of establishing policies and practices to cease the provision of certain permitted “pure” consulting services to our SEC issuer audit clients, for example, providing advice and recommendations on company business strategies. We are not changing our approach to other types of permissible services such as audit, audit-related, and tax services.

Transparency – We are gathering and assessing feedback from numerous stakeholders regarding the form and content of our annual Audit Quality Report, including whether there are different or additional transparency data points that should be considered for inclusion in future reports.

Engagement – With insights from investors and directors, we have established a value proposition and begun designing key aspects of our investor center and audit committee institute. We have also increased our focus on existing and potential new activities at colleges and universities, including presentations to students and faculty, and planning additional investments in marketing the profession to attract new talent.

We are continuing to work toward these objectives and expect that each of the above areas will evolve over time. Throughout the process we will consider, as appropriate, stakeholder perspectives, as well as the impact of relevant standard setting and regulatory developments.

