June 7, 2024

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

RE: PCAOB Rulemaking Docket Matter No. 041

Dear Madam Secretary:

We appreciate the opportunity to comment on the proposing release, *Firm and Engagement Metrics*, included in Public Company Accounting Oversight Board ("PCAOB" or the "Board") Release 2024-002 ("the proposal"). Our purpose is to build trust in society and solve important problems. The primary way we fulfill that purpose is by providing quality, independent audits of financial statements and internal control over financial reporting (ICFR). We share the PCAOB's objective of promoting audit quality. It is and always will be our number one priority, and we are committed to transparency about our audit practice. In the US, we have published a voluntary annual *Audit Quality Report* (AQR)[1] for more than a decade, and for the past five years we have issued a mid-year update describing noteworthy developments following publication of the annual report. The AQR describes the actions we take as a firm to support and continually enhance audit quality, and the information we present aligns with how we manage our audit practice, including how we use data (which we refer to as "transparency data points") as part of those actions. We and other firms have invested significant efforts and resources to provide transparency, even in the absence of a regulatory requirement to do so. In our response to a prior Board's concept release in 2015,[2] we supported the Board's efforts to develop and seek public comment on a potential portfolio of quantitative measures related to public company auditing and continue to believe the topic warrants exploring.

However, a lack of ongoing outreach and engagement in the intervening time period appears to have unfortunately resulted in a proposal that we cannot support. We are concerned that the nature of the metrics and the manner in which reporting is proposed will ultimately result in a compliance exercise, with insufficient incremental benefit, rather than an opportunity to provide insights about a firm's audit practice through the eyes of firm leadership to audit committees, investors, and others. This is because the proposal is overly prescriptive and does not appropriately consider what is needed or meaningful and to whom it should be reported, nor does it strike an appropriate balance between any potential benefits and the costs and other challenges that result from providing static measures without appropriate context. As the PCAOB knows and acknowledges from its own experience of collecting extensive firm and engagement data, there is not one measure or a static set of measures that is fit for purpose for assessing quality or the

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1 The Appendix includes further discussion of what we communicate in our AQR and why, and we append to this letter a copy of our 2023 AQR and the subsequent January 2024 update. We publish both our AQR and a separate transparency report to comply with Article 45 (5)(e) of the European Union's Directive on Statutory Audit 2006/43/EC ("the EU Directive on Statutory Audits") in relation to our audits of public interest entities in Europe. In this letter, when we speak directly about what we as a firm publish in relation to audit quality, we refer to our AQR. When we make a recommendation, we use wider terms such as "quality/transparency reporting" and "quality/transparency report."

2 See the 2015 Concept Release on Audit Quality Indicators (AQIs) (the "PCAOB's 2015 Concept Release" or "PCAOB Release 2015-005"). Our response to this proposal builds on the initial feedback in our 2015 comment letter, a copy of which is appended to this letter.

PricewaterhouseCoopers LLP, 400 Campus Drive, Florham Park, New Jersey 07932
T: (973) 236 4000, F: (973) 236 5000, www.pwc.com/us

reliability of an audit report.[3] As a result, we are concerned that, in the overriding interest of providing blanket transparency, the Board is likely to inadvertently compromise rather than improve audit quality.

In particular, this reporting could detract from audit quality by diverting time and resources to the collection of data that (1) may not be useful to or used by audit committees or audit firms and (2) likely presents too high a risk of misinterpretation by other users, such as investors, instead of focusing the engagement team's attention on the appropriate resolution of audit and financial reporting issues. This is particularly true in relation to the proposal to publicly report engagement-level metrics on Form AP, where attempts to compare engagement-level data to the firm's overall metrics or to other firms' overall metrics are likely to be futile without additional context,[4] as engagement-level metrics are invariably linked to the nature of the issuer under audit. At the firm level, many, if not all, of the proposed metrics are likely to have insufficient informational value about audit quality given the significant variability across firms in terms of the size of their audit practice, the types of companies they audit, the technology and delivery models they utilize to perform audits, their organizational structure, and so on. Finally, the approach in the proposal – both in relation to the specific metrics proposed and the level of prescriptiveness in defining them[5] – is not consistent with how we manage and monitor our audit practice. In many cases, the metrics that are proposed are not relevant to how we view audit quality or our system of quality control (QC).[6]

By making clear that an audit firm will not be required to use these static, prescriptive metrics in its system of QC,[7] the PCAOB implicitly recognizes that each firm is in the best position to determine which metrics are most relevant to monitoring and maintaining quality for its practice, and that those metrics need to evolve over time as the firm's audit practice, use of technology, and the environment in which it conducts audits evolves. The proposal seems to directly contradict an important premise set out in the PCAOB's 2015 Concept Release that continues to be relevant: "by their very nature audit quality indicators [AQIs] must be capable of change over time to reflect advances in learning and changes in the way audits are conducted."[8]

Our concerns are discussed in more detail in the Appendix and include the following.

- Requiring public reporting of engagement-level metrics by auditors, rather than reporting directly to audit committees, could undermine confidence in audit committees and the PCAOB, who both

3 PCAOB Release 2024-002, page 135, states: "While we believe the proposed metrics would help reduce opacity in the audit market and reduce frictions in the information market, we note that the proposed metrics would not be direct measures of audit quality. Audit quality is an abstract concept, and there is no single comprehensive measure of audit quality."

4 PCAOB Release 2015-005, page 3, states: "Context – provided by each audit to which the indicators are applied and by the application of the indicators to the audit firm that conducts the audit (and perhaps other firms) – is essential to understanding their meaning and implications."

5 This includes, for example, the application of varying thresholds and definitions, such as all audit hours versus core engagement team hours and engagement partners versus all of the firm's partners and managers.

6 Our 2023 AQR includes over 20 transparency data points related to headcount, voluntary turnover, overtime, leverage, use of specialists, training, technical support, internal monitoring, restatements, and more. Although the information is similar to that included in the proposed firm-level metrics, the manner in which we calculate them uses the same information we use to identify resource needs and assign responsibilities and takes into account the structure of our audit practice and the way in which our leadership monitors performance, which does not align with what the PCAOB has prescribed in the proposal.

7 PCAOB Release 2024-002, page 13.

8 PCAOB Release 2015-005, page 14.

have responsibilities for direct oversight of audits and audit firms and have the context to properly understand those metrics.

- The PCAOB's prescriptive approach to form-based reporting at both the firm and engagement levels appears to advance an objective of uniformity in data across audit firms and audits, rather than recognize the significant variability in how firms are managed and audits are performed.
- In attempting to promote comparability and uniformity, the PCAOB has set out overly detailed calculations[9] with inputs that may not be appropriate, which will result in outcomes that are not comparable across firms or individual engagements and not understandable to investors.
- The proposal would require firms to incur costs and commit resources that are likely to be disproportionate to the speculative benefits to stakeholders – costs and resources that should otherwise be directed toward investment in new technologies (e.g., the development of new technologies and tools and implementation of responsible use AI) and meaningful activities designed to enhance audit quality.

Most importantly, the Board has not considered preferable alternatives that, in our view, would better serve stakeholders, including audit committees executing their statutory oversight role and fiduciary responsibilities. We strongly recommend further study of alternatives, including voluntary reporting and developments in other jurisdictions, as well as meaningful outreach and stakeholder engagement, before moving forward. For example, it would be beneficial for the PCAOB to reflect on existing responsibilities as well as what firms are already reporting today in formulating an alternate approach. Audit committees and the PCAOB have statutory responsibilities for direct oversight of auditors, a model that is appropriate because these stakeholders have the ability to engage directly with the auditor and obtain the relevant, detailed information required to reach informed conclusions on auditor performance. While we understand in principle that certain investors and investor-related groups may be seeking greater insight about audit performance to put an audit report in context, we do not support making engagement-level metrics publicly available, as suggesting that investors need or should have to consider such information to assess the reliability of audit reports could undermine confidence in auditors, audit committees, and the PCAOB itself.

More understanding about how data is being reported to audit committees and what quantitative and qualitative measures firms are communicating externally as part of their quality/transparency reporting is also warranted. The nature of data used by firms, and how it may be communicated publicly, varies based on their respective strategies, priorities, investments, and clients. Similarly, the nature and presentation of data used by engagement teams and audit committees related to audit performance varies based on many factors related to the complexity of the issuer's business, differences in systems, and the auditor's risk assessment. We stand ready to share our experiences with our AQR and the important discussions we have with audit committees, our Assurance Quality Advisory Committee, and member firms within our network to inform how we provide relevant and timely information about audit quality and our audit practice.

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9 Certain of the proposed metrics, at both the firm and engagement levels, are particularly problematic – either because they (1) are likely to present too high a risk that users will reach inappropriate conclusions, (2) lack informational value commensurate with anticipated cost to prepare, or (3) are defined in a complex manner that is inconsistent with how we (and likely other firms) manage and measure quality. Examples of the metrics that cause us the most concern are described in the Appendix.

The proposal has not been developed with appropriate stakeholder input or consideration of relevant developments related to reporting of metrics.

Anchoring this proposal to metrics initially explored nearly 10 years ago, without consideration of how voluntary reporting, audits, audit committee oversight, or regulation overall have evolved, results in a proposal that is not fit for purpose in today's environment and will ultimately need to be reconsidered before it is finalized. [10] We are particularly concerned that the Board has issued the proposal in a way that did not meaningfully allow those most impacted to share perspectives as the proposal was developed, which is then exacerbated by a minimal 60-day notice and comment period, significantly hindering those commenters' ability to adequately study and develop positions on complex and extensive new requirements. This lack of due process is contrary to the ACAP recommendations for the Board to consider the feasibility of requiring AQIs with a wide range of stakeholders. While the feedback to the PCAOB's 2015 Concept Release provided the Board with an opportunity to consider alternatives in moving forward, that feedback was not taken in a meaningful way. The landscape has changed significantly over the last decade and more, yet the proposal does not adequately consider such changes. The economic analysis also does not fully consider the costs and complexities that will ensue from the proposal, instead focusing more on speculative benefits to investors as a result of making more data available.

The proposing release highlights developments in several other jurisdictions related to the reporting of key performance indicators and AQIs; it also notes that "[t]he primary users of the metrics from these initiatives were audit committees, oversight bodies, and professional organizations."[11] However, as described further in the Appendix, the proposal does not adequately consider whether to take an approach similar to those jurisdictions' decisions to encourage, rather than require, public reporting in those jurisdictions, nor whether there would be merits in opting for a principles-based approach or allowing for departures from the specified calculations.

By reconsidering the proposal using the right overarching principles, the PCAOB can better evaluate whether to require reporting of metrics at the firm and engagement levels and to whom they should be reported.

Audit quality comprises many elements and related inputs, and, based on our experience, the relative importance of these may vary depending on their intended use by, and the needs of, the users of the information. We support enhancing transparency when it provides meaningful information to the capital markets, as long as the demonstrated benefits outweigh the costs and unintended consequences can be limited. To arrive at a more pragmatic solution that is capable of being implemented at scale, the PCAOB should evaluate its next steps in accordance with the following overarching principles.

- Communication of metrics should:
    - maintain or improve audit quality,

[10] We observe that the rulemaking proposal references the PCAOB's 2015 Concept Release and appears to be driven in part by the PCAOB's renewed focus on responding to the Department of the Treasury's Advisory Committee on the Auditing Profession's (ACAP) Final Report from October 2008. One of the ACAP recommendations was that the PCAOB, in consultation with auditors, investors, public companies, audit committees, boards of directors, academics, and others, "determine the feasibility of developing key indicators of audit quality and effectiveness and requiring auditing firms to publicly disclose those indicators" and, assuming that development and disclosure of indicators of audit quality are feasible, that the PCAOB be required to monitor these indicators.

[11] PCAOB Release 2024-002, page 19.

- provide meaningful information to enable intended users to understand matters related to audit quality, and
- be done at a reasonable cost.

- Communication of metrics should maintain or enhance the effectiveness of the interactions between auditors and audit committees.
- The information can provide greater insight about the audit but does not result in the firm communicating proprietary information.

The remainder of this letter and the accompanying Appendix describe preliminary suggestions in light of our significant concerns. We provide feedback in line with these principles that we intend to be constructive and informative for the PCAOB and other stakeholders as to useability and comparability, potential unintended uses, and possible alternatives to the proposed metrics. For example, while the individual firm and engagement metrics are interrelated to a degree, we identified different challenges when evaluating each metric as proposed. Complying with the proposed rules will require coordination across the firm, the network, and with other audit firms to fully assess the effort and potential challenges with compiling, and assessing the accuracy of, information needed to produce the metrics for all of the issuers we audit.

We recommend significant investment in broad stakeholder engagement and outreach, including pilot testing, before moving forward, to confirm that any final rulemaking is likely to achieve the Board's intended objectives.

In light of our significant concerns on the proposed reporting of engagement-level metrics on Form AP, we believe substantial engagement with audit committees is the necessary first step in moving forward. Given their oversight role as set forth by Congress in the Sarbanes-Oxley Act of 2002 (SOX) and the financial qualifications that the audit committee is required to have by law, audit committees should be the primary beneficiaries of any expanded reporting by audit firms, and, in particular, should be the intended user of any reporting that includes metrics specific to the audit engagement it is tasked to oversee. Dialogue with audit committees can provide additional information to inform the Board's further consideration of reporting of both firm and engagement metrics.

Alternatives that incorporate providing information to, and allowing the assessment by, audit committees would be more likely to provide greater benefits to investors and the capital markets, minimize unintended consequences (such as inappropriate conclusions being drawn from the reported information and public disclosure of sensitive, proprietary information), and would be consistent with both the PCAOB's remit and its objective of adopting standards that meaningfully improve audit quality.

An approach that starts with expanded auditor communications with audit committees about metrics is a preferable alternative because of the ability for robust engagement between auditors and audit committees. The audit committee owes a fiduciary duty to investors and is required to have the qualifications that would enable the audit committee to assess the information provided by the auditor.

A more appropriate approach would be for engagement-level metrics to be used to further enhance communications and interactions between auditors and audit committees who have direct oversight and routine interaction with auditors so that the necessary two-way dialogue can occur in the context of the specific engagement and the issuer's underlying facts and circumstances. In our view, an audit committee is better placed to engage directly with its auditor to understand the firm's approach to audit quality. The proposal does not appear to incorporate any feedback from audit committees beyond what was accumulated in response to the PCAOB's 2015 Concept Release to understand how they make judgments related to audit quality and auditor appointment and ratification. The proposal also makes no specific mention of work the SEC undertook in its own 2015 Concept Release exploring whether disclosures by audit committees could be enhanced.[12]

The PCAOB should engage specifically with the audit committee community to understand what information it uses today or would otherwise value in relation to audit quality. The economic analysis does not provide any evidence that there are information gaps in what is already provided by firms and the PCAOB today in their respective quality/transparency reports and inspection reports.

Although we do not purport to know what all audit committees might value, we have insights from our interactions with them as part of our audits, which we offer for the Board's consideration. Audit committees have access to information about firms in a number of ways that facilitate their oversight responsibilities. For example, audit committees of NYSE-listed companies are required by Rule 303A.07 of the NYSE Listed Company Manual to have charters that require them to obtain and review, at least annually, reports from the company's independent auditors describing the audit firm's internal QC procedures and other related topics. In addition, we share our annual AQR with *all* our audit clients' audit committees because we believe a dialogue with them about our audit practice (including transparency data points, results of PCAOB inspections, and actions we take to address observations related to audit quality) helps them discharge their oversight responsibilities.

We also support our engagement teams through guidance and templates in expanding that dialogue to include engagement-level metrics at the request of the audit committee. In general, we find that audit committees are more interested in understanding qualitative considerations about the composition of the engagement team and how the engagement team performs and manages work throughout the audit to supplement its understanding of our audit practice gained from our AQR. For example, when discussing our overall audit strategy[13] in the planning phase of the audit, we routinely discuss key elements of our audit approach, including the team and its collective experience, our planned use of specialists, centers of excellence, acceleration centers, and other staffing models, as well as our approach to technology. That is not to say, however, that they may not also benefit from understanding certain engagement-level metrics. In that regard, we would be supportive of a pilot that could include the audit committees of a diverse sample of issuers on a voluntary basis during which the PCAOB has the ability to interact directly with the audit committee or its chair to obtain feedback on nature, timing, extent, and usefulness of reporting. The pilot could seek feedback on what was excluded or what other information the audit committee would have liked to receive. There should be latitude for the auditor and the audit committee to agree on the nature, timing, and extent of the provision of such information. We believe efforts of this nature would be significantly more likely to help inform the development of new reporting that would be more consistent with the PCAOB's objectives and mandate, more effective, and come at a more reasonable cost.

Complementary actions by the PCAOB and the SEC would result in more relevant and decision-useful information for investors than what is proposed.

As noted above, given the audit committee's role in overseeing audits, the PCAOB could take steps to support enhanced communications with audit committees about audit quality – both in relation to the firm's overall approach and in the context of specific engagements. These communications could then serve as the basis for additional disclosure by audit committees. Disclosures by audit committees are the primary way in which they relay their judgments made in discharging their responsibilities to oversee management and the auditor to investors. To inform the appointment ratification vote, disclosures in annual company proxy statements indicate that some audit committees consider a variety of public and

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12 See the SEC's 2015 Concept Release on Possible Revisions to Audit Committee Disclosures (the "SEC's 2015 Concept Release" or "SEC Release 33-9862").

13 As required by AS 1301, *Communications with Audit Committees*.

non-public information when appointing their auditors, including public data regarding the candidate firm and its peer firms.

It is not, and should not be, the role or responsibility of the investor to directly oversee the auditor. If investors believe they do not have sufficient information to make voting decisions, this could be addressed by the SEC taking action to require an audit committee to disclose how it considered quantitative and qualitative factors in forming a view about the quality of the audit, and in making recommendations to appoint or reappoint the audit firm. This topic was last explored by the SEC in its 2015 Concept Release, which noted "[t]o the extent the audit committee uses such indicators or metrics in assessing the quality of the auditor and the audit, disclosure about the use and consideration of such metrics may provide useful information about the audit committee's process for assessing the auditor and determining whether to select or retain the auditor."[14] There were direct questions relevant to the reporting of firm and engagement metrics, which led to a robust comment file that should be considered by the SEC and PCAOB to serve as the basis for further public consultation if there is desire to advance such reporting.

In our comment letter responding to the SEC's 2015 Concept Release,[15] we expressed the view that it would be appropriate to require disclosures by the audit committee in the three broad categories discussed in the SEC's 2015 Concept Release: (1) audit committee oversight of the auditor, (2) audit committee process for appointing or retaining the auditor, and (3) qualifications of the audit firm and certain members of the engagement team selected by the audit committee. As indicated by one respondent to the SEC's 2015 Concept Release: "To the extent that SEC rulemakings will complement forthcoming PCAOB rulemakings, we welcome requiring enhanced disclosure of the audit committee's oversight of the auditor, the audit committee's process for selecting the auditor, and the qualifications of the auditor and its engagement team."[16]

Now is an opportune time for the SEC to revisit enhanced reporting by audit committees to provide investors with details about the information considered by the audit committee in exercising its oversight of the auditor and the audit engagement as a more appropriate alternative to engagement-level reporting on Form AP.

The PCAOB should seek detailed feedback from investors, audit committees, and firms on the content included or omitted from quality/transparency reports that are prepared today as a basis for determining which metrics may be feasible at the firm level and how they should be reported. A robust, multi-stakeholder dialogue is necessary to explore alternatives to the proposal.

Based on the principles previously described, we agree that some level of firm quality/transparency reporting – incorporating public reporting of the metrics a firm uses to manage and monitor quality and how those metrics have been derived – could provide useful information about firms. While challenging, we support exploring whether there is a subset of metrics that could be required that allow for both quantitative and qualitative discussion through the eyes of firm leadership, potentially publicly reported through a quality/transparency report.

As discussed more fully in the Appendix, a more robust understanding of current quality/transparency reporting practices will help inform the Board's consideration of a practical way forward. As the question of comparability versus informational value is complex, it is important to begin the process with an understanding of how firms are communicating today and why there is variability. The PCAOB's rulemaking and future multi-stakeholder dialogue should also be informed through an in-depth analysis

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14 SEC Release 33-9862, page 39.

15 A copy of our response to the SEC's 2015 Concept Release is appended to this letter.

16 See the AFL-CIO response to the SEC's 2015 Concept Release.

of information that is currently produced voluntarily and through quality/transparency reports, both within and outside the US. To inform any of the Board's further rulemaking, important discussions with a wide stakeholder group are necessary to fully evaluate what information could be compiled at a reasonable cost and presented in a meaningful way – including to whom and in what form – before moving forward.

Since the ACAP recommendations and the PCAOB's 2015 Concept Release, the auditing profession has sought to continue the dialogue on AQIs. Many firms, including ours, publish annual quality/transparency reports that give insight into the audit practice. Given lack of outreach and sufficient analysis of these reports, it is unclear whether perceived information gaps for investors and other external stakeholders would be resolved by expanding or enhancing the content or presentation of these reports.

Although the PCAOB staff appears to have referred at a high level to what has been voluntarily reported by certain firms, we believe further engagement with firms via a two-way dialogue is necessary to understand (1) how this reporting has evolved, (2) how firms address the interaction between firm-level metrics and any reporting of engagement-level metrics, and (3) how firms outside the US approach transparency reporting or other jurisdictional reporting related to audit quality, which may differ by jurisdiction.

In addition to better understanding the current reporting practices and potential information gaps, there are fundamental questions that should be explored through public roundtables, deeper discussion with the Standards and Emerging Issues Advisory Group (SEIAG) and Investor Advisory Group (collectively, "the Board's advisory groups"), and working sessions with firms and audit committees. For example:

- Are there certain observations from the PCAOB's inspection program and firms' root cause analyses that suggest certain metrics may have a stronger relationship with audit quality?
- Are there a smaller number of metrics that stakeholders agree should be presented at the firm level?
- Can enhancements be made to audit committee communications, including exploring whether communication of specific metrics would be useful?
- How would audit committees use these metrics, and could they report in their proxy disclosures on the metrics they considered?
- How can pilot testing inform the Board's approach, including in determining whether it is necessary to prescribe detailed calculations for any required metrics?
- How can the PCAOB and SEC work together toward a proposal that more appropriately takes into account an audit committee's important role in overseeing the auditor and its fiduciary duty to investors?

Challenges arising from the applicability of any rules addressing public reporting need to be evaluated during stakeholder engagement and likely reconsidered.

The challenges arising for firms that audit only a small population of large accelerated filers (LAF) or accelerated filers (AF) should be fully explored during outreach and stakeholder engagement. Based on feedback from member firms within our network who would be subject to these requirements, it is clear the costs for those firms to prepare extensive metrics will far exceed any benefits users might derive from them. In addition, based on how certain firm-level metrics are calculated, those firms would be primarily reporting on matters outside of the PCAOB's inspection remit (e.g., their non-issuer practice). There is also the potential for "de facto" reporting of engagement-level metrics as described further in the

Appendix, where a firm-level metric for a firm with a limited number of issuers de facto becomes an engagement-level metric.

We recommend the Board consider an alternative of requiring quality/transparency reporting and reporting of firm metrics only for registered accounting firms that issue audit reports for more than 100 issuers per year. This approach would be similar to the differential thresholds established in QC 1000, [17] in which the PCAOB has determined "incremental requirements of firms with larger PCAOB audit practices is appropriate and that the complexities inherent to large and complex firms are likely to give rise to quality risks for which the incremental requirements would be appropriate quality responses."[18] It stands to reason that these are the firms investor-related groups are most interested in understanding, given these firms audit a significant majority of the market capitalization of issuers reporting on Form 10-K, 20-F, and Form 40-F.

Inspecting firms' issuer audits and systems of QC is one of the most important tools the PCAOB has to protect investors. Accordingly, the PCAOB could itself increase its communications about its observations related to audit quality.

Investors' primary manner in which to understand the firms and potential issues that may compromise a firm's ability to issue informative, accurate, and independent reports is – and should continue to be – through understanding (1) the judgments made by the issuer's audit committee in overseeing the audit and appointing and re-appointing the auditor; (2) the results of the PCAOB's inspection program, including any publication of QC criticisms that the PCAOB has determined have not been sufficiently addressed in a timely manner or through PCAOB publications pursuant to Rule 4010;[19] (3) results of PCAOB and SEC enforcement actions; and (4) communications made by firms in their quality/transparency reports. In this regard, we expect the implementation of QC 1000 will result in a significantly expanded focus on firms' system of QC in PCAOB inspections.[20]

Rather than pursue public reporting of a lengthy list of metrics (in addition to other firm reporting[21] as separately proposed), we see merit in the PCAOB considering, based on its observations of firms and their systems of QC gleaned from its inspection and enforcement regimes, whether there are opportunities to communicate with stakeholders its observations on:

- Best practices related to firm governance and leadership and views on how certain metrics may be worthwhile to monitor with respect to quality;

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17 QC 1000, *A Firm's System of Quality Control.*

18 PCAOB Release 2024-005, page 66.

19 Rule 4010, *Board Public Reports,* permits the Board, at any time, to publish reports concerning findings and results of its various inspections. Such reports may include discussion of criticisms of or potential defects in QC of any firm or firms that were the subject of a Board inspection, subject to certain confidentiality provisions. Rule 4010 would allow the Board the opportunity to highlight any emerging measures or lack of response to quality risks that appear to cut across the audit profession.

20 In her statement on QC 1000, Chair Erica Williams noted that it "will ensure accountability by requiring an annual evaluation on QC system effectiveness, and annual reporting to the PCAOB, by firms that perform or have responsibilities with respect to engagements under PCAOB standards. That reporting must be personally certified by both the individual assigned ultimate responsibility and accountability for the firm's QC system as a whole and the individual assigned operational responsibility and accountability for the QC system. Simply designing elaborate processes on paper won't be enough. Firm leadership will have a personal stake in delivering results and additional incentives to fix problems quickly."

21 *Firm Reporting* in PCAOB Release 2024-003 ("the firm reporting proposal").

- Risks to quality that may emerge as a result of changes to firms' operational structures and how firms are mitigating those risks; and
- Root causes of inspection findings, as identified by both the PCAOB and firms, including whether information suggests that certain metrics or trends over time indicate incremental risks to quality. The Board could also explain how it believes it can take actions to reduce the reoccurrence of findings and quality issues more broadly.

These recommendations are premised on the Board continuing to progress its goal of enhancing inspections, including the objectives of increasing transparency in reporting inspection results and improving the timeliness of inspection reports.

Recent standard-setting process observations

We are increasingly concerned with the Board's pace of rulemaking, including its approach to interconnected topics, including those that have otherwise been dormant for some time, without appropriate outreach during the development of proposals and finalization of rulemaking. As an example, this proposal and the concurrent firm reporting proposal were issued in April 2024, providing a limited 60-day notice and comment period, which significantly hinders the ability of those most significantly affected by the proposals to adequately study and develop positions on complex and extensive new requirements. During this already limited comment period, the Board adopted two final standards (subject to SEC approval),[22] including QC 1000, which has implications for both this proposal on firm and engagement metrics and the firm reporting proposal. The PCAOB's *Strategic Plan 2022-2026* and subsequent Board speeches continue to signal the Board's commitment to "one of the most ambitious standard-setting agendas in the organization's history"[23] – but we question whether the Board's approach will undermine its goals to "[a]dopt standards that meaningfully improve audit quality" and "[e]ngage in robust dialogue with stakeholders."[24] Neither the semi-annual meetings of the Board's advisory groups (during which no feedback was sought on any of the key provisions of this proposal, the firm reporting proposal, or new provisions of QC 1000) nor the limited public comment on rulemaking are sufficient to enable the Board to develop effective standards that are capable of consistent implementation – which undermines the Board's goal of advancing audit quality.

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In summary, we support enhancing transparency when it provides meaningful information to the capital markets, as long as the demonstrated benefits outweigh the costs and unintended consequences (such as inappropriate conclusions being drawn from the reported information) can be limited. We have shown our ongoing commitment to communicate publicly in our AQR for the last decade.

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22 In addition to QC 1000, the Board also approved AS 1000, *General Responsibilities of the Auditor in Conducting an Audit* (PCAOB Release 2024-004). There are ways in which this proposal and the firm reporting proposal interact with QC 1000 and AS 1000 that require stakeholders to study and consider the effects in combination. In totality, stakeholders will also need to review over 600 pages of rulemaking to determine the nature and extent of feedback to the SEC as part of its approval process. Among other topics, we expect commenters to raise concerns about new or significantly changed requirements in those standards that appear in the version of the rule adopted by the PCAOB but were not described in the proposals.

23 PCAOB Strategic Plan 2022-2026, page 10.

24 PCAOB Strategic Plan 2022-2026, page 10.

However, we do not support the proposal based on concerns that it is overly prescriptive and does not give sufficient consideration to what is needed or meaningful, to whom it should be reported, and the costs required to produce this information. Creating a new regulatory regime – without considering whether what is in place already could serve as the basis for wider application – is likely to create additional cost and disruption in the ecosystem for little apparent benefit for the Board's stakeholders, including investors.

Importantly, although we highlight specific concerns related to certain of the proposed metrics in the Appendix, given the volume of the proposal and the limited time in which to develop our response, we have not had sufficient time to fully vet all of the data, assumptions, and calculations that would be necessary to conclude with certainty whether we could support any specific firm- or engagement-level metric as proposed. In this case, it is particularly problematic due to the issuance of lengthy, intersecting standards in the middle of the 60-day comment period, as discussed in our standard-setting observations. We may therefore have additional comments for the Board as our analysis of the proposal continues.

We[25] appreciate the opportunity to provide input and would be pleased to engage with the Board and its staff on this topic. In light of our actions around transparency over the last decade and the interactions we have with many stakeholders, we stand ready to help in any appropriate way. Please contact Brian Croteau at brian.t.croteau@pwc.com or Tim Carey at d.timothy.carey@pwc.com regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Attachments: 2023 Audit Quality Report (AQR), January 2024 update to 2023 AQR, PwC response to the PCAOB's 2015 concept release, PwC response to the SEC's 2015 concept release

[25] Reference to "we" and "our" in this letter are to PricewaterhouseCoopers LLP, a US member firm of the PwC global network. References to the "PwC global network" are to the PwC network, which consists of firms that are separate legal entities. Firms in the PwC network are members in, or have other connections to, PricewaterhouseCoopers International Limited (PwCIL), an English private company limited by guarantee. PwCIL does not practice accountancy or provide services to clients. The PwC network is not one international partnership, and PwC member firms are not otherwise legal partners with each other. A member firm cannot act as an agent of PwCIL or any other member firm and cannot obligate PwCIL or any other member firm. Similarly, PwCIL cannot act as an agent of any member firm and cannot obligate any member firm. While this response has been developed by a US member firm, we have solicited feedback from other member firms within our network that would also be subject to the proposal to inform our response.

Appendix

A more robust understanding of current quality/transparency reporting practices will help inform the Board's consideration of a practical way forward.

Our approach to communicating about audit quality is tailored and presented "through the eyes of firm leadership"

We routinely provide important information to the PCAOB, other global regulators and policymakers, audit committees, and the public at large. In the US, we have published a voluntary annual *Audit Quality Report* (AQR) for more than a decade, and for the past five years we have issued a mid-year update describing noteworthy developments following publication of the annual report. The information we present aligns with how we manage our audit practice and explains how we support audit quality. The qualitative and quantitative information in the AQR collectively provides insight through the eyes of firm leadership into how the culture and leadership of our firm, developments or trends related to audit performance, and the operation and effectiveness of our system of quality control (QC) relate to audit quality.[26]

Each year we undertake efforts aimed at identifying opportunities to increase the transparency of the AQR through additional or enhanced qualitative and quantitative information. Our AQR is neither formulaic nor prepared at random. This reporting is intended to satisfy three main objectives.

1. To provide a discussion and analysis that enables the public to understand our audit practice through the unique perspective of our firm's leadership

   This reporting supplements more detailed, two-way dialogue between our engagement teams and audit committees.

2. To provide stakeholders with what we term "transparency data points" as well as context within which the transparency data points should be understood and analyzed

   Our reporting of the transparency data points has grown over time, taking into account how we use data to manage and monitor our audit practice. Our 2023 AQR includes over 20 transparency data points related to headcount, voluntary turnover, overtime, leverage, use of specialists, training, technical support, internal monitoring, restatements, and more. It also indicates any changes in the manner in which those transparency data points are calculated or presented year over year.

3. To provide information regarding trends in this data over time, so that readers of the information can consider, with relevant context, the likelihood that past outcomes may be indicative of current and near-term future direction

Our annual updates to our AQR consider a multitude of factors, including, for example, feedback received from internal and external stakeholders, comparison to other external reporting from our firm and other firms, changes in the environment in which we and the companies we audit operate, matters impacting the profession and our network, and changes within our audit practice and firm (e.g., changes to our delivery model or the technology used by our engagement teams). We incorporate early top-level involvement from firm leadership and our Assurance Quality Advisory Committee in identifying the key themes and other matters that should be included in the report. We consider whether new transparency data points are needed and whether changes to how we calculate or present them are warranted.

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[26] Doing so also aligns with the approach used for other disclosure frameworks that provide quantitative and qualitative indicators (e.g., the SEC's approach to requiring management's discussion and analysis in public company annual reports).

Our AQR also communicates information specifically related to our system of QC, including the results of external and internal monitoring and a conclusion on whether it is designed appropriately and operating effectively to provide reasonable assurance that the quality objectives prescribed by the relevant QC standards (including those of the PCAOB) have been achieved. Further, it describes the framework utilized by the PwC global network to integrate quality management into how each member firm runs its business, manages risk, and supports engagement teams in performing quality work.

This transparency is important to the work we do to promote reliable financial reporting through the issuance of informative, accurate, and independent auditor's reports. We have included our AQR in our public response to the past several PCAOB inspection reports and also maintain the information on our public website, in addition to sharing the AQR directly with all our audit clients' audit committees.

We are aware that at least 7 other US annually inspected firms (or approximately half of the firms that audit a significant majority of the market capitalization of issuers reporting on Form 10-K, Form 20-F, and Form 40-F) publish voluntary reports about audit quality, although we acknowledge there is variability in how they do so. This voluntary reporting can promote competition on quality. The choices a firm makes about the nature and extent of information to include in its own quality/transparency report can be considered by an audit committee in its oversight, including whether to select or retain an auditor, and by investors in determining whether such information (or the lack of transparency) results in a perceived risk that should inform decision-making. For our firm and others, we observe there is significant discussion in existing quality/transparency reports about areas where firms are making investments to enhance quality and how their external and internal inspection results are informing such actions.

We therefore welcome the PCAOB reinvigorating this topic with its stakeholders to determine how to move forward with more widespread mandatory reporting for the benefit of its stakeholders. However, without sufficient dialogue between investors, audit committees, and firms that produce reports similar to our AQR, it is unclear whether there are information gaps in what is already provided and whether there is any opportunity to expand or enhance what is already done today to meet their expectations (for example, to achieve greater comparability in the metrics included in each firm's report).

Comments from investor representatives at the November 2022 Standards and Emerging Issues Advisory Group (SEIAG) meeting suggest that certain investors and investor-related groups calling for additional audit firm reporting were unaware of the qualitative and quantitative information firms are already providing.[27] We and other firms have invested significant efforts and resources to respond to provide transparency, even in the absence of a regulatory requirement to do so. Accordingly, those making recommendations for more or different information should be asked to describe how similar information is being utilized and, with some level of specificity, what it is they would find incrementally useful, and why.

The PCAOB's rulemaking and future multi-stakeholder dialogue should be informed through an in-depth analysis of information that is currently produced in quality/transparency reports; the PCAOB could then seek detailed feedback from investors, audit committees, and registered accounting firms on the content included or omitted from such reports. Creating a new regulatory regime – without considering whether what is in place already could serve as the basis for wider application – is likely to create additional cost and disruption in the ecosystem for little apparent benefit for the Board's stakeholders, including investors.

[27] See SEIAG meeting recording, including discussion by CFA Institute representative Sandra Peters during the afternoon session beginning at 25:30.

We also believe it is necessary to continue to allow judgment for firms to communicate externally based on those metrics that are most relevant to how they manage and monitor audit quality. The holistic manner in which the metrics are presented – surrounded by qualitative information about the firm's strategy and governance and leadership – is essential to placing those metrics in an appropriate context.

Accordingly, consistent with the overarching principles at the beginning of this letter, any mandatory reporting should provide greater insight about the audit from the perspective of the firm and its leadership and maintain or enhance the effectiveness of the relationships and interactions of auditors and audit committees. The presentation on a standardized form of a static set of metrics calculated using various thresholds and terms that are not in any way tailored to the nature of the firm or its audit practice, and without sufficient context, does not meet these principles. Based on their nature and the manner in which they are required to be calculated, a likely unintended consequence of the proposed metrics is that reporting them in a siloed manner on Form FM and Form AP will ultimately result in a compliance exercise with little informational value rather than a tool to engage with stakeholders in a transparent way.

The proposing release notes that "consideration of the metrics in combination, together with any additional context a firm may choose to provide, would help users interpret potentially ambiguous data."[28] In contrast to this view, the Board is proposing to limit the number of characters a firm could use to provide context to the metric in the forms to be submitted to the PCAOB. Given the complex and nuanced discussions related to metrics, in the unfortunate event the PCAOB were to proceed notwithstanding our concerns and recommendations, we anticipate providing narrative in Form FM such as the following, potentially with respect to every firm metric: "We do not believe any one metric or even a combination of metrics is necessarily indicative of audit quality, nor is it useful or productive to speculate on the questions reviewers of this information may have on each metric for every audit. We further discuss this metric in our Audit Quality Report, along with the measures we believe are better indications of our audit quality."

Further evaluation of reporting frameworks in other jurisdictions could significantly help inform the PCAOB's process and alleviate concerns related to disparate reporting to multiple regulators and the public.

The proposing release highlights developments in several other jurisdictions related to the reporting of key performance indicators and AQIs, seemingly to justify public reporting of specific metrics. What is not explored, however, is that each jurisdiction is pursuing reporting of metrics in a different way and is at a different stage of development. Each jurisdiction has selected a complement of metrics based on its view of what information may give insight related to quality. The PCAOB is attempting to justify individual metrics based on certain jurisdictions' use but has not fully considered the context in how they are being used or the process that has been undertaken in those jurisdictions, which results in a haphazard approach. Most notably:

- Most of the jurisdictions cited identify the local oversight body, audit committees, or audit firms as the intended users and do not require public reporting of metrics. Canada, a jurisdiction cited by the PCAOB for nearly all of the proposed metrics, "has not mandated the use of metrics," per the release.[29] The Canadian Public Accountability Board (CPAB) along with two other professional organizations developed a non-authoritative Audit Committee Guide to Audit Quality Indicators that encourages the use of AQIs to "augment communication about audit quality among the key stakeholders: audit committee, management, and external auditors."[30] In the United Kingdom, a jurisdiction cited for several of the PCAOB's proposed metrics, the

[28] PCAOB Release 2024-002, page 6.

[29] PCAOB Release 2024-002, page 21.

[30] Audit Committee Guide to Audit Quality Indicators, page 5.

Financial Reporting Council (FRC) requires public reporting of certain firm-level metrics; however, engagement-level metrics are "shared confidentiality [sic] between firms and specific audited entities."[31]

- In addition to Canada, other jurisdictions cited do not require reporting of metrics, but rather encourage reporting to audit committees. For example, in Singapore, a jurisdiction cited for several metrics, the Accounting and Corporate Regulatory Authority (ACRA)'s revised AQI Disclosure Framework is "available for voluntary adoption by audit firms for audits of financial statements of listed entities in Singapore."[32]
- Not all jurisdictions take the same approach to defining how metrics should be calculated or the qualitative information that should accompany the metrics. For example, the FRC's Firm-level Audit Quality Indicators (AQIs) Definitions Note provides guidance regarding certain aspects of each metric and examples for certain metrics. In it, the FRC indicates that firms are expected to include narrative "where the firm has not followed one of the definitions in this note"[33] – allowing flexibility. In Singapore, ACRA's Guidance to Audit Firms provides detailed calculations to "guide audit firms to prepare AQI data consistently."[34] In contrast, the CPAB's Audit Committee Guide to Audit Quality Indicators is noticeably less detailed in terms of scope and specific calculations and indicates that "it is essential that qualitative information be provided to the audit committee for context."[35]

Member firms within our network have raised specific concerns about scalability, since the reporting requirements would apply to any firm that audits even one large accelerated filer (LAF) or accelerated filer (AF). Other concerns include:

- Compatibility with reporting in other jurisdictions (including to meet local reporting requirements) – if the PCAOB moves forward in line with the proposal, firms may publicly report firm metrics on similar topics (e.g., workload) under more than one framework, but the underlying methods to calculate those metrics may differ significantly from the method proposed by the PCAOB (e.g., due to different reporting periods or locally defined employment models or standard workweeks). This would force such firms to bear unnecessary costs to collect and prepare additional data sets,[36] with no demonstrable benefit to potential users beyond what those firms are already required to report. Moreover, having multiple sets of publicly available information would be confusing for users of that information who are not likely to understand the nuances in the different calculations.
- Potential misinterpretation – firms that audit a small number of LAFs and AFs will be burdened with having to collect a significant amount of information to support reporting on firm metrics required by the PCAOB, and certain metrics that are not limited to the issuer audits will not really be providing transparency about the issuer practice and could be misinterpreted (e.g., when trying to compare a non-US member firm with a very small issuer practice to a member firm with a larger issuer practice).

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31 Consultation Document: Firm-level Audit Quality Indicators (June 2022), page 5.

32 Audit Quality Indicators and Industry Average.

33 Firm-level Audit Quality Indicators (AQIs) Definitions Note (March 2023), page 3.

34 Guidance to Audit Firms on ACRA's Audit Quality Indicators Disclosure Framework (2020 revised), page 2.

35 Audit Committee Guide to Audit Quality Indicators, page 18.

36 This consequence is also likely to arise as a result of the PCAOB's requirement for Form FM to include data as of the year ended September 30. Other jurisdictions may prescribe different reporting dates or may allow flexibility to report as of a date of their choosing (e.g., to align to the firm's fiscal year end).

Additionally, non-US firms in certain jurisdictions will be unable to provide certain information as contemplated by this proposal as a result of compliance with local laws regarding data privacy and professional confidentiality,[37] raising issues contemplated by Rule 2207. The Board's proposal does not adequately consider this possibility, making a conclusory assertion that it "do[es] not foresee a realistic possibility that disclosure of the metrics, either at the firm or engagement level, would conflict with applicable law outside the U.S. As a threshold matter, we do not believe that any of the proposed metrics would call for the disclosure of personally identifiable information. The proposed engagement-level metrics would entail reporting additional information about the engagement partners of audits subject to engagement-level reporting, but the name of the engagement partner is already publicly available and the additional information is not of the sort typically protected by law."[38] We strongly disagree with this assertion, as it falls well short of justifying the attempt to require non-US firms to violate local laws. Indeed, the proposed expansion of mandatory disclosures directly increases the likelihood that a firm may be legally barred from providing the relevant information (see also the point regarding "de facto" engagement-level metrics), a point confirmed in our discussions with member firms in our network. Any determination of whether a conflict of law exists and prohibits disclosure must be made at the local level and requires a reasoned, fact-intensive, jurisdiction-by-jurisdiction legal analysis. The Board appears not to have made any attempt in that regard, and the lack of engagement with a broad set of stakeholders has resulted in the Board developing a proposal that creates unnecessary risk of legal conflicts. We strongly urge the Board to maintain the well-established rulemaking history that recognizes and respects non-US firms' distinct legal obligations and preserves the right for firms to assert a conflict of law. There is a long rulemaking history that should not be undermined by this proposal.

Our recommendation that the Board consider an alternative of requiring quality/transparency reporting for registered accounting firms that issue audit reports for more than 100 issuers per year could mitigate these concerns.

The experience outside the US may also be relevant to helping the PCAOB achieve its objectives of implementing such a significant change in reporting. Our member firms have also highlighted best practices in their jurisdictions related to the use of metrics:

- Outreach and pilot testing is helpful to refine the approach to these communications. For example, the FRC states that it "undertook informal outreach to support the development of this consultation. We met [Audit Committee Chairs], investors, audit firms, professional bodies, academics, regulators both in the UK and abroad, and held a number of roundtables."[39] Further, the FRC has implemented a pilot program to privately collect AQI data from in-scope firms with plans for the FRC to "publish indicative ranges of AQI data collected from the pilot in due course, without publishing firm-specific data."[40]
- In some cases when firm-level metrics are reported to the local oversight body, that oversight body presents a summary with trends in metrics in an annual report to help users of those metrics have context (versus attempting to make individual comparison on their own). This is a similar concept to what we suggest with respect to the PCAOB increasing communication regarding its observations about quality across the profession. In other cases, that local oversight body reviews how the firm monitors and addresses risks related to the metrics as part of their annual inspection of the firms' systems of QC.
- Changes to the calculation or presentation of the metrics are made over time. For example, in 2020, ACRA revised its AQI Disclosure Framework, "taking into account feedback from audit

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37 This could be the case, for example, when a firm has a small number of issuers, and the reporting of firm metrics could result in potentially being able to identify the underlying issuers.

38 PCAOB Release 2024-002, page 115.

39 Consultation Document: Firm-level Audit Quality Indicators (June 2022), page 6.

40 Firm-level Audit Quality Indicators (AQIs) Definitions Note (March 2023), page 3.

> firms and [Audit Committees], to ensure that the indicators can better meet the needs of the [Audit Committees]."[41] Similarly, in 2023 the FRC amended its list of AQIs "after further discussions with the firms likely to be in scope on the practicality of producing metrics."[42]

Similar to the need to conduct outreach with audit firms, audit committees, investors, and other stakeholders, the PCAOB's proposal, as well as any path to implementation, should be informed by further engagement with regulators in these other jurisdictions to better understand the rationale behind decisions already made as to the intended audience for metrics, scope and method of calculation, approach to changes over time, and so on. In our view, leveraging the learnings from these experiences has the potential to reduce risk and create value in the public reporting of firm-level metrics that far exceeds any that could be provided by an accelerated "trial and error" approach.

Requiring public reporting of engagement-level metrics by auditors, rather than reporting directly to audit committees, could undermine confidence in audit committees and the PCAOB, who both have responsibilities for direct oversight of audits and audit firms and the necessary context to understand those metrics.

We do not support public disclosure by auditors of engagement-level metrics in any form, including on Form AP. Audit committees and the PCAOB have statutory responsibilities for direct oversight of auditors, a model that is appropriate because these stakeholders have the ability to engage directly with the auditor and obtain the relevant, detailed information required to reach informed conclusions on auditor performance. They also have the contextual understanding of this information through the benefit of a robust two-way dialogue. By definition, the audit committee's dual role to oversee not only the integrity of the issuer's accounting and financial reporting process, but also the auditor's performance, places them in a unique position to safeguard audit quality and enhance confidence in the audit of the issuer's financial statements. Required communications with audit committees enable the audit committee to appropriately challenge the auditor's judgments throughout the performance of an audit and engage in a way that promotes quality real time – complementing the firm's system of QC. Investors ultimately benefit from the audit committee's efforts when their oversight helps to promote informative, accurate, and independent audit reports. The proposal does not suggest that there are pervasive concerns about audit committees failing at their fiduciary duty to investors, nor has the SEC stated this to be the case. This calls into question the need for costly, overly prescriptive regulation.

While we understand in principle that certain investors and investor-related groups are seeking greater insight about audit performance to put an audit report in context, we do not think making engagement-level metrics available provides appropriate insight into the engagement. Investors would not have the benefit of two-way dialogue with the audit firm throughout the audit, as is afforded to audit committees who are better placed and, as is required by law, have the qualifications to make judgments related to audit quality and auditor appointment and retention. Providing information once a year up to 35 days after the audit is completed misses the mark if the effort is aimed at promoting quality. And, as the PCAOB knows and acknowledges from its own experience of collecting extensive firm and engagement data, there is not one measure or a static set of measures that is fit for purpose for assessing quality or the reliability of an audit report.[43]

The proposal also does not adequately consider the fundamental role of PCAOB inspections and the Board's ability to provide timely and meaningful communications to its stakeholders about its

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41 Audit Quality Indicators and Industry Average.

42 Firm-level Audit Quality Indicators (AQIs) Definitions Note (March 2023), page 22.

43 PCAOB Release 2024-002, page 135, states: "While we believe the proposed metrics would help reduce opacity in the audit market and reduce frictions in the information market, we note that the proposed metrics would not be direct measures of audit quality. Audit quality is an abstract concept, and there is no single comprehensive measure of audit quality."

observations related to audit quality based on the outcomes of its inspections and its enforcement actions. The PCAOB's open access to people and information from firms gives it a unique perspective that enables it to give appropriate context about trends it is observing in relation to firm governance and leadership. From that perspective, it also can identify quality risks that should be carefully considered and addressed.

If the goal of metrics reporting is for investors to find trends or speculate as to audit quality issues in isolation, that would completely undermine the role of the PCAOB itself and suggest a lack of trust and accountability for audit committees and others with direct responsibility for audit oversight. Our comments should not be taken to suggest that audit quality is consistent across all firms or that inspections should not lead to enforcement to address poor audit quality when the underlying conduct warrants. However, suggesting that investors need or should have to consider such information to assess the reliability of audit reports could undermine confidence in audit committees and the PCAOB itself. Each of these parties should be held accountable for doing its job properly in the first instance.

The practical challenges of requiring discussion of metrics on Form AP should not be underestimated.

We are concerned that requiring auditor disclosure of a prescriptive set of engagement-level metrics on Form AP would negatively impact audit quality and the two-way communications with audit committees. To illustrate:

- While it is reasonable to expect that upfront, qualitative discussions would take place with respect to the audit strategy as part of planning, significant effort at the end of the audit would also be necessary to collect the data to calculate the metrics proposed to be included, particularly from other auditors who generally have their own data collection and systems of QC. Estimation of this data would likely be necessary (which would then be needed to be updated before Form AP is filed).
- Audit committees would presumably want to understand and analyze the detailed calculations and whether their engagements are outliers when compared to the firm's reported metrics before they are filed in Form AP – this discussion would only be possible after an engagement is complete and the supporting workpapers have been archived.

All of this dialogue, including necessary steps to confirm the accuracy and completeness of information included on Form AP, as well as the development of any contextual information, would be required to be completed so that Form AP can be filed no later than 35 days after the date of the auditor's report. This is not practicable and, more importantly, will require engagement teams to redirect time and resources away from fundamental audit work to the collection of data during one of the most critical times of the audit. This is particularly troublesome as it is unclear whether the proposed metrics would even be considered useful by the audit committee. Should the Board not reconsider its proposed requirement to report engagement-level metrics on Form AP, the Board must revisit whether it is appropriate that any error in Form AP, regardless of materiality, requires the form to be amended, unlike any other aspects of public company reporting. In our view, this position results in unnecessary costs without incremental value to investors and other stakeholders – which will likely be exacerbated by the expansion of information to be included on Form AP and the inability to use estimates in calculating the metrics.

The PCAOB's prescriptive approach to form-based reporting at both the firm and engagement levels appears to advance an objective of uniformity in data across audit firms and audits, rather than recognize the significant variability in how firms are managed and audits are performed.

We do not believe the PCAOB should move forward with the set of metrics it has proposed, including in relation to firm reporting. Engagement between the PCAOB, investors, auditors, and audit committees could lead to development of ways in which the metrics may be tailored and refined to be informational, comparable, and relevant.

The nature of data used by firms, and how it may be communicated publicly, varies based on their respective strategies, priorities, investments, and clients. Similarly, the nature and presentation of data used by engagement teams and audit committees related to audit performance varies based on many factors related to the complexity of the issuer's business and the auditor's risk assessment. As the PCAOB acknowledges, "some of the most important elements of a high-quality audit, such as application of due care and professional skepticism, are not capable of being measured and quantified directly."[44] Nonetheless, the PCAOB's proposal would establish a single, static set of metrics with the intent that those metrics could be used to understand the work performed. The proposal suggests a broad range of benefits, including allowing investors to more "efficiently and effectively make decisions about ratifying the appointment of their auditors and allocating capital."[45] Notwithstanding the PCAOB's acknowledgement, the intended use of these metrics inappropriately suggests a "one-size-fits-all" approach is appropriate for conducting or evaluating work that is grounded in concepts related to, and performed by professionals that are held accountable for, exercising due professional care and professional judgment.

The PCAOB and investors have in various forums indicated general support for the use of the proposed metrics in academic studies, presumably to draw correlations between firms and audits that are "outliers" to breakdowns in audit quality as represented by, for example, inspection results or restatements of financial statements. Although the proposing release cites numerous academic studies with respect to specific proposed metrics, the PCAOB caveats that "while the extant literature may draw conclusions regarding a particular metric's relationship to publicly available proxies for audit quality, this does not imply that a proposed metric would provide any new insights to investors and audit committees incremental to the insights already provided by the publicly available proxies for audit quality."[46]

The PCAOB explicitly acknowledges "the potential misimpression that any set of metrics can comprehensively measure audit quality,"[47] that "proxies, such as years of experience, auditor workloads, and percentages of audit hours attributable to more senior members of the audit team, which can only partially capture these concepts"[48] such as application of due care, and that "numerical values may provide different signals in different contexts."[49] While the inevitable increase in academic research may be useful in some respects, we are not convinced that studies of the proposed set of static metrics, which will lack the necessary context described above, will provide any new information that would be needed or cost-effective compared to other tools and approaches to reasonably reach a meaningful conclusion about audit quality.

For example, one firm may use advanced technology to perform work in areas unrelated to a significant risk, critical accounting estimate, or critical accounting policy, over time driving a decrease in overall hours incurred by the engagement team. An academic study of the audit hours and risk areas metric is

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44 PCAOB Release 2024-002, page 136.

45 PCAOB Release 2024-002, page 137.

46 PCAOB Release 2024-002, page 150.

47 PCAOB Release 2024-002, page 6.

48 PCAOB Release 2024-002, page 6.

49 PCAOB Release 2024-002, page 6.

unlikely to take that into account, leading a user to believe that the time spent by the partner and manager in areas related to a significant risk, critical accounting estimate, or critical accounting policy is "above average." Users of the study are unlikely to be able to, nor should they have to, assess whether a difference from expectation resulting from the auditor's use of technology is reasonable.

While challenging, we support exploring whether there is a subset of metrics that could be required that would potentially provide sufficiently useful insights to merit the associated reporting burden. Any such metrics need to allow for judgment in how they are calculated based on the nature and circumstances of the firm and the audit and the ability to provide appropriate context to them.

In attempting to promote comparability and uniformity, the PCAOB has set out overly detailed calculations with inputs that may not be appropriate, which will result in outcomes that are not comparable across firms or individual engagements and not understandable to investors.

Certain of the proposed metrics, at both the firm and engagement levels, are particularly problematic – either because they (1) are likely to present too high a risk that users will reach inappropriate conclusions, (2) lack informational value commensurate with anticipated cost to prepare, or (3) are defined in a complex manner that is inconsistent with how we (and likely other firms) manage and measure quality. While we continue to analyze the metrics and their underlying calculations, examples of the metrics that cause us the most concern include:

- **Quality performance ratings and compensation (firm level)**

  While quality does affect compensation, it is not the sole determinant (others include, for example, changes in job responsibilities and individual goals), and presenting this as a single metric creates the misperception that the year-over-year change in a partner's compensation is attributable only to that partner's quality performance rating. This is likely to result in too high a risk that users will reach inappropriate conclusions, regardless of additional context provided. Further, comparison of this metric across firms is highly dependent on those firms consistently (1) defining and assessing quality performance for individual partners, and (2) structuring partner compensation. Expected variations in how firms (even within the same network) assess quality performance, structure partner compensation, and hold partners accountable for quality suggests the metric will likely lead to inappropriate and inaccurate assumptions about the metrics reported and lack any meaningful comparability or use.

- **Audit firms' internal monitoring at the firm level, specifically the proposed metrics reflecting engagements where a "deficiency" was identified**

  The proposed definition of "engagement deficiency" in QC 1000 and used in the proposal[50] is particularly broad, such that the reported metric would include, without distinction, a range of deficiencies not segregated by significance. For example, this metric would include both audits with deficiencies of such significance that it was concluded the engagement team did not obtain sufficient appropriate evidence to support the opinion (i.e., a failure to comply with professional standards), as well as audits with deficiencies that do not relate directly to the sufficiency or appropriateness of evidence obtained by the engagement team (e.g., a failure to comply with firm policies and procedures). Presentation of such a broad range of deficiencies into a single metric without distinction can easily lead a user to inappropriately conclude that the firm has significant quality issues and negatively impact their confidence in the reliability of the firm's audit reports, particularly as those matters requiring remediation would be resolved prior to publication of the metric. Internal monitoring is purposefully designed to address firm policies and practices in a more holistic way than external inspections. By inspecting completed engagements,

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[50] PCAOB Release 2024-002, page 95, footnote 153.

opportunities for enhancement are identified and addressed through guidance, tools, communications, training, and more.

- **Audit firms' internal monitoring at the engagement level, specifically the proposed metrics reflecting engagements where a "deficiency" was identified**

  In addition to the concerns in the previous bullet regarding the firm-level internal monitoring metric, we have concerns regarding the reporting proposed at the engagement level. In particular, the results, which relate to the "previous engagement,"[51] are reported to the public after completion of necessary remediation, if any. This suggests it would be possible to assess the implications of the identified deficiency on the quality of the audit and the reliability of the issuer's financial statements without understanding the severity of the deficiency and whether any remediation was required. At best, it will be a challenge for users of this information to understand how this should impact decision making; at worst, reporting of this metric could cause investors to unnecessarily lose confidence in the reliability of audited financial statements.

- **Industry experience (firm and engagement level)**

  Industry experience is one of many important considerations in the assignment of engagement team members, including specialized skills or experiences, previous experience with audits of similar size and complexity, geography, other job responsibilities, the complement of other resources on the engagement team, and more. These considerations are built into our firm's system of QC to support quality audits, so we understand in principle why such a metric may be perceived as meaningful. However, the broad definition of "industry experience," the extended period in which it would need to be measured (i.e., throughout an individual's entire career), and the complex manner in which the prescribed industries would need to be identified and remapped over time (for example, as industries converge or diverge) will make it challenging and costly to calculate. Additionally, it is not useful on its own and could also unfairly diminish confidence in the audit work performed, as firms are not required to disclose the nature of their client portfolios by industry, nor do they disclose how the resources "counted" in the reported metric are utilized (e.g., what, if any role, the individuals have on the audits of companies within those industries).

- **Audit hours and risk areas (engagement level)**

  Discussion on risk areas is an important part of our dialogue with audit committees. However, natural variations in how hours incurred are captured and collected, and complications related to allocating hours that relate to multiple audit areas and tracking changes that occur throughout the audit cycle (e.g., the identification of new significant risks) will inevitably result in incomparable and inconsistent results. There is an unavoidable manual aspect to capturing time incurred, as individuals are responsible for tracking and capturing their time in the firm's systems. Some firms may issue guidance in an attempt to drive consistency, but it will ultimately be the responsibility of the engagement team and individual to report time by audit area consistently, which in our experience is a challenging and significant additional administrative burden for those teams and individuals, particularly for engagement teams with components in multiple jurisdictions and audit firms and for those engagement team members with broad, wide sweeping responsibilities. Further, in our experience, these additional administrative tasks could easily become a distraction from other important audit work; over time, we have made efforts to limit such tasks to those of the greatest importance and value. This concern is compounded by the fact that reflecting the percentage of hours incurred in these areas, particularly when presented as a single percentage, does not provide meaningful information regarding "the extent to which partners and managers focused on areas that present a higher overall risk of material

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[51] PCAOB Release 2024-002, page 95.

misstatement to the financial statements."[52] There is no barometer to assess whether the hours incurred in these areas (particularly when inconsistently reported) is "sufficient." The metric lacks vital context as to the nature of the work performed, the potential for complexities associated with the issuer's financial statements that may not be publicly disclosed, changes in the level of risk or work performed year over year, the role of the partner or manager in that work, the use of a firm's proprietary technology, etc. In addition, the metric could disincentivize efficiency, resulting in increased costs.

- **Restatement history, specifically the proposed firm metric reflecting revision restatements**

  As noted within the proposing release, a "revision restatement occurs when an immaterial error in previously-issued audited financial statements, that is material to the current period financial statements, is corrected by an issuer in the current period comparative financial statements by restating the prior period information and disclosing the revision."[53] Requiring the disclosure of these instances in the same context as reissuance restatements[54] could inappropriately suggest that there are potential implications to the quality of the audit performed, despite the fact that, under the PCAOB's standards, as stated in the auditor's report, the auditor plans and performs the audit to "obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud."[55] We do not believe it is appropriate to present this information in the context of audit performance. This information is already collected for use by market participants through other means that pose less risk of misinterpretation.[56]

- **Workload (firm level and engagement level), specifically the metrics for partners (excluding engagement partners), managers, and staff**

  As proposed, the firm-level metric includes the average weekly workload for every partner and manager, and staff of the firm who "participate in audits, whether the audits are performed under PCAOB standards or other auditing standards,"[57] and, in this context, "[p]articipation in audits means any involvement."[58] The engagement-level metric, on the other hand, introduces minimum thresholds in determining members of the "core engagement team."[59] In both cases, we expect that these metrics will include time incurred by individuals with significant job responsibilities other than providing audit services – for example, individuals who provide tax reporting and compliance services to other clients. Including these individuals dilutes the value that could be derived from metrics related to workload, as peak periods for these other services and activities will mask meaningful trends in the workload of other members of the engagement

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52 PCAOB Release 2024-002, page 80.

53 PCAOB Release 2024-002, page 102.

54 In our 2023 AQR, we disclose, for the three most recent fiscal years, the percentage of issuer audit client annual financial statements that were not restated and the percentage of our reports on an issuer's ICFR that were not reissued or withdrawn.

55 Paragraph .09(d) of AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*

56 For example, Ideagen Audit Analytics offers a Financial Restatements Database that allows users to "identify financial restatements by severity – revision restatements vs. reissuance restatements."

57 PCAOB Release 2024-002, page 31.

58 PCAOB Release 2024-002, page 31.

59 PCAOB Release 2024-002, page 33. This difference in threshold will also impact comparability of engagement-level metrics to the firm-level metric.

team whose primary responsibility is performing audit work. Importantly, similar metrics in other jurisdictions exclude these individuals from the calculation.[60]

Even when we could support reporting a metric related to a particular topic, firms need to be able to exercise judgment in how those metrics are calculated, whether publicly reported at the firm level or reported to the audit committee at the engagement level. The most obvious concern with the static and prescriptive nature of the proposed metrics is that they do not take into account the dynamic nature of the audit profession. Each year, there are significant developments (e.g., in delivery models, technology, standards) that impact the way audits are performed, and, in turn, what metrics are most relevant and how they should be calculated or presented to provide the greatest informational value.

The reporting of certain metrics related to engagement deficiencies identified by the firm's internal monitoring also circumvents the confidentiality provision of SOX.

The PCAOB's proposed metrics at the firm and engagement level related to engagement deficiencies identified by the firm's internal monitoring circumvent important confidentiality provisions established by SOX. The PCAOB suggests that those confidentiality provisions apply only to deficiencies identified by the PCAOB in its inspection program – specifically that "firms would be required to report information about the nature of an engagement deficiency only at the engagement level; therefore, the proposed disclosure would not include PCAOB-identified 'criticisms of or potential defects in' the firm's QC system that are nonpublic under Section 104(g)(2) if addressed to the Board's satisfaction within 12 months of an inspection report. Furthermore, the proposed metric concerns solely internal quality reviews and does not require disclosure of investigation or inspection information subject to Section 105(b)(5)(A). For these reasons, as well as the additional reason that firm-level reporting would consist only of summary data, Sections 104(g)(2) and 105(b)(5)(A) would not apply to the proposed firm-level metrics."[61]

This narrow interpretation gives insufficient weight to the intent of Congress to provide appropriate confidentiality safeguards to encourage robust exchanges of information and perspectives between the firms and PCAOB and support an inspection process that afforded audit firms the opportunity to make changes to the firm's system of QC to enhance audit quality. By requiring public disclosure of the proposed firm and engagement metrics of any deficiency identified by the firm's internal monitoring (and without any differentiation in terms of the severity of the deficiency), which together could reveal matters related to the effective design or operation of a firm's system of QC, the PCAOB would undermine the intent of these confidentiality safeguards without any meaningful benefit to audit quality.

The proposal would require firms to incur costs and commit resources that are likely to be disproportionate to the speculative benefits to stakeholders – costs and resources that could otherwise be directed toward investment in new technologies and meaningful activities designed to enhance audit quality.

In analyzing the PCAOB's proposal, we were very careful not to prioritize concerns related to cost of compliance over more salient concerns related to the intended use and perceived value of providing these metrics for public consumption. However, it is important to note that we expect that our firm, firms within our network, and other firms throughout the profession that conduct audits of LAFs and AFs will incur significant costs to collect, validate, calculate, and prepare the metrics for disclosure. A firm may also be required to develop and implement new information systems to capture detailed information necessary to report metrics that are not currently used to manage and monitor their audit practices or comply with their system of QC. This burden will be particularly challenging for smaller firms that audit a

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60 Page 12 of the FRC's Firm-level Audit Quality Indicators (AQIs) Definitions Note (March 2023) indicates that the population excludes "specialists located outside the audit practice," among other exclusions such as "staff from offshore delivery centres or equivalent."

61 PCAOB Release 2024-002, page 96, footnote 155.

small number of LAFs and AFs but will nevertheless be required to compile data related to their entire firm in the manner prescribed by the PCAOB.

The economic analysis is not sufficiently detailed with respect to costs, which we anticipate would be substantial.

The PCAOB's economic analysis lacks sufficient detail regarding the costs of the proposal. Among other problems, the baseline was not fully established. For example, consider the following statement:

> Information gathered by staff in 2018 and 2019 pursuant to PCAOB oversight activities indicate that U.S. GNFs [global network firms] generally had identified and were tracking performance metrics at both the firm and engagement level. At the firm level, U.S. GNFs generally tracked PCAOB inspection history, restatements, voluntary turnover rates/retention rates, partner to staff ratios/professionals by level, average partner workload, and investment in audit quality. At the engagement level, U.S. GNFs generally tracked distribution of engagement hours during the year, partner workload and utilization, partner years of experience (by industry, level, or issuer), engagement leverage, engagement milestone compliance, involvement in pre-issuance review programs, and use of IT and other specialists. One firm tracked audit hours performed at SSCs.[62]

Statements such as this highlight the need for further analysis of how the detailed calculation and data used to develop the metrics the firms "tracked" align with the prescriptive calculation in the proposal. Crucial details, such as whether the metrics include all audit hours across an engagement or all partners and managers across the firm, can significantly affect the cost and resources necessary to prepare a metric. The release states: "Though their practices may have evolved since then, we believe they would need to gather additional information (e.g., SSC hours) or adjust their calculations."[63] That is a significant understatement.

The potential benefits discussed in the proposal are vague and not directly related to audit quality or reliable financial reporting and do not appear to be weighed against potential misuse of the information and the risk of misunderstanding.

Further, the Board has not sufficiently justified the reason for the proposal in its economic analysis. Overall, there is insufficient description as to how this information will meet the broadly asserted needs to aid in "investors' ability to more efficiently and effectively ratify the appointment of the auditor and allocate capital."[64] More specifically, it does not sufficiently support statements such as:

- "there is a risk that auditors will not supply an efficient level of assurance to the market"[65] – Further description would suggest that investors could use this information to assess "whether "auditors are efficiently allocating their time and resources."[66]

  We have significant concerns with suggestions that investors should be expected to assess the allocation of firm time or resources to ratify auditor selection or, more troubling, to make decisions related to capital allocation. Further, we find that this creates a juxtaposition within the proposing release – on one hand suggesting that firms may not "efficiently" allocate time or resources to audits today (i.e., perform too much work, notwithstanding the PCAOB's statements

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62 PCAOB Release 2024-002, pages 125-126.

63 PCAOB Release 2024-002, page 136.

64 PCAOB Release 2024-002, page 127.

65 PCAOB Release 2024-002, page 127.

66 PCAOB Release 2024-002, page 128.

with respect to trends in audit quality),[67] and on the other hand introducing proposed requirements for data collection that will significantly increase administrative burden on audit firms and engagement teams, and, in turn, increase the cost of an audit without any measurable benefit to audit quality or experience.

- "there is a lack of incentive for firms to meet the market demand for accurate, standardized, and decision-relevant information."[68]

  Our firm and several others already prepare and distribute voluntary quality/transparency reports to meet these expectations. The controls and processes related to the accuracy and relevance of information, including transparency data points, in our annual AQR are monitored as a component of our system of QC. While the economic analysis acknowledges these reports exist, it does not assess whether investors or other stakeholders are aware of their existence (and, to the extent they are not aware, whether that is due to a lack of interest or diligence on the part of investors rather than a lack of information publicly available today) or whether they find the information contained within to be useful.

The economic analysis also stops short of providing sufficient detail regarding the perceived benefits. Statements suggesting that improved monitoring by investors and audit committees could "improve audit efficiency"[69] and "lead to lower audit fees, improved audit quality, and improved financial reporting quality"[70] or that mandatory disclosure of the proposed metrics "could improve governance, accountability, and overall quality control within the audit firm"[71] are exceptionally broad and speculative, wholly discount the extent to which an audit firm's leadership already considers these matters in making decisions regarding the firm's governance and strategy, and fail to adequately take into account the fact that an audit firm's system of QC may already use metrics that are suitable to the circumstances unique to the firm's audit practice. Although the economic analysis explores at length how improved financial reporting quality could benefit the capital markets, it does not sufficiently explain how the proposed metrics could lead to improved financial reporting quality. As stated in the economic analysis: "While we believe these studies are indicative of the potential impacts improved financial reporting quality may have on capital markets […] the studies do not indicate the degree to which the disclosure of firm and engagement metrics would impact financial reporting quality in the first instance. Therefore, the magnitudes must be treated as illustrative examples, rather than point estimates, of the potential benefits of the proposal."[72] The economic analysis does not assess in any meaningful way the potential impact of misuse of the metrics (e.g., attempts to establish "bright line" measures of audit quality) – simply stating "[t]he outcomes of misinterpretation or misuse are difficult to predict because they would be rooted in complex aspects of human psychology."[73]

Lastly, although the economic analysis includes reference to academic literature related to each of the proposed metrics, the analysis is focused on the metrics as broad concepts (e.g., engagement team's involvement and workload), not on the specifics as to the calculation and presentation of those metrics. While we agree with those studies in theory that information regarding matters such as the involvement of partners and managers on the audit is useful, we question whether it is necessary for the PCAOB to be so prescriptive in the calculation of the metric. It does not appear that the economic analysis included this consideration, other than to suggest that comparability is paramount.

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67 For example, PCAOB Spotlight: Staff Update and Preview of 2022 Inspection Observations (July 2023), and Chair Williams Statement on Rise in Audit Deficiency rates (July 25, 2023).

68 PCAOB Release 2024-002, page 127.

69 PCAOB Release 2024-002, page 139 and page 142.

70 PCAOB Release 2024-002, page 139 and page 142.

71 PCAOB Release 2024-002, page 141.

72 PCAOB Release 2024-002, page 148.

73 PCAOB Release 2024-002, page 173.

Stakeholder engagement and outreach, including pilot testing, is critical to better inform the Board's economic analysis and an appropriate way forward. While this would necessarily extend the period between proposal and adoption, we believe that it would benefit the end result, significantly reducing costs and the need for future rework.

Greater stakeholder engagement is needed to substantiate the economic analysis and explore alternatives.

Based on analysis performed and discussions held to date within our firm and across our global network, we have concluded that compliance with the proposal will result in significant costs and resources that may need to be diverted from other actions. These actions include the development of new technologies and tools and implementation of responsible use AI that are directly aimed at enhancing the quality of our audits. With excessive precision and no mechanism to reflect the impact of firm strategy, its system of QC, and the nature of the firm's audit practice and client portfolio, the PCAOB's proposed metrics lack scalability and will ultimately lead to less meaningful comparability, particularly given the dynamic nature of the auditing profession. The PCAOB has not sufficiently articulated why a uniform approach to information is better than information that is prepared through the eyes of firm leadership, nor fully considered the potential for unexpected costs or consequences and unintended uses when the information is provided in the manner proposed. As previously stated, any engagement-level metrics should be reported only to the audit committee, and the proposal should allow for judgment in how they are calculated based on the nature and circumstances of the firm and the audit, as well as the ability to provide appropriate context.

Further, while the economic analysis acknowledges that the proposal will have a greater economic impact on smaller firms, it is important to emphasize that smaller firms have a greater likelihood of experiencing, in preparing firm-level metrics, costs that are drastically disproportionate to the value provided to a relatively small number of investors (it could, in fact, be limited to investors in a single LAF or AF). This is exacerbated by the fact that these firms may also operate in other jurisdictions that require the reporting of metrics that are similar to, but not the same as, those required by the PCAOB. The PCAOB should explore ways to "right size" the scope of the proposal, by either increasing the threshold for those required to report firm-level metrics or by allowing these smaller firms to report or refer to similar firm-level metrics that are already prepared in accordance with the requirements of their local oversight body. We fear that, unless the PCAOB takes a measured approach in this regard, this level of required firm-level reporting (in addition to other significant new rules and disclosures such as QC 1000) will drive smaller audit firms out of the market for issuer audits, making it more challenging for smaller issuers to obtain a quality, cost-effective audit.

We expect there will be incremental costs and complications that arise if and when we begin compiling information in this manner. Again, we strongly recommend that, at a minimum, the PCAOB conduct further outreach to audit firms and consider a pilot of the proposed requirements to avoid any significant disruption in the delivery of quality audits or undue uncertainty in the market due to unexpected results upon the first year of compliance.

Further, while we do not support the proposal, we believe the PCAOB would need to extend the period between the adoption date and effective date if it were adopted to take into consideration the efforts required by firms to comply, in particular, the time needed to establish practices and processes that support the reporting of accurate and reliable information.

Our focus on audit quality

2023 Audit Quality Report

pwc

Contents

To our stakeholders

Another year, another series of unpredictable events and unexpected challenges with the potential to shift priorities and shake convictions. Yet, as a firm and as individuals, we have remained steadfast in our purpose and our commitment to quality. By embedding our long-held values into every aspect of our business, we were able to maintain our focus on what matters, respond to issues as they developed, and minimize the disruption to our people and our clients.

While we are incredibly proud of our firm's record on audit quality, we are constantly seeking feedback to inform how we reinforce our foundation for audit quality and how we adapt our audit quality efforts to address possible issues. We also continuously assess the impacts of changes in the business environment, profession, workforce, and workplace to direct the actions we take today that affect the future of our people, our firm, our profession, and the capital markets.

Through our role in serving our clients, we help further the public interest by building trust in what matters to the capital markets – **it's what puts the "P" in certified public accountant**.

Each year, the expectations of our stakeholders grow, and the demand for information and insights from auditors increases. This is reflected in an unprecedented level of standard setting and the growing pace of regulation – including that related to the use of technology and data in corporate reporting and auditing – which show no sign of slowing down.

We recognize and accept our responsibility to lead change to meet those expectations because **confidence in the role of auditors is critical**.

We spend considerable time, effort, and resources in helping to shape the future of corporate reporting and auditing in a way that builds trust in the capital markets. We also continue to take appropriate measures to prepare our people and clients for changes in the environment in which we operate. This includes significant investments in the skills of our people and capabilities of our firm in areas including artificial intelligence and sustainability. It also includes significant investments to develop a platform to power the next generation audit – continuing to harness the power of our award-winning technology to drive audit quality and efficiency while maintaining an appropriate focus on establishing practices and controls to manage associated risks.

To our stakeholders

In this report, you will read more about these investments, as well as our efforts to increase interest in the profession, enhance our people experience, engage with our stakeholders, and support our audit teams in delivering quality. You will also read about other important aspects of our audit quality progress over the past fiscal year, such as our recent internal and external inspection results, and how we address risks to independence and objectivity.

There is so much to look forward to in the years to come. We recently committed to a series of voluntary actions to invest in our profession over the next several years and across five foundational areas – accountability, quality, independence, transparency, and engagement. This includes, but is certainly not limited to, undertaking efforts to provide greater transparency to our stakeholders around audit quality and conflicts of interest.

On page 44, read about the bold actions we are taking to lead the profession in enhancing confidence in the independent audit, and to deliver on the promise of the New Equation.

We are, as always, pleased to engage with you on our continued progress. **At PwC, we know that future success hinges on having trust in what matters**. Trust is vital to the health of our organization, our profession, and our communities. Because of this, audit quality is – and always will be – our number one priority.

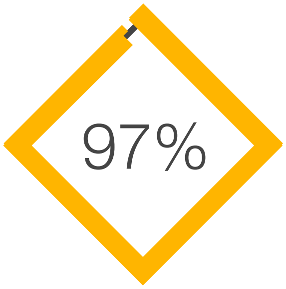
Tim Ryan
US Chair and
Senior Partner

Wes Bricker
Vice Chair
US Trust Solutions
Co-Leader

Kathryn Kaminsky
Vice Chair
US Trust Solutions
Co-Leader

FY23 Year-in-review

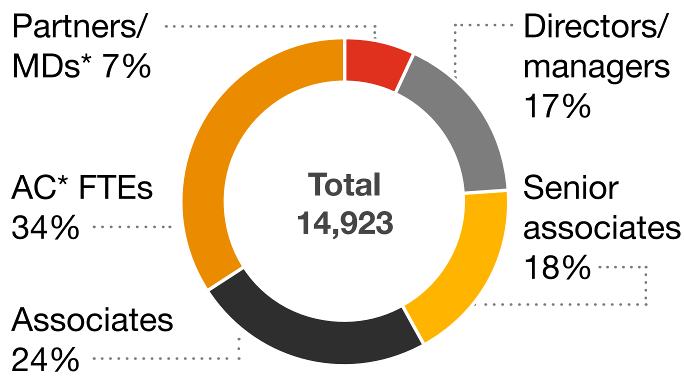
Audit professionals surveyed who report:



Receiving consistent messaging on the importance of audit quality

Understanding the firm's audit quality objectives

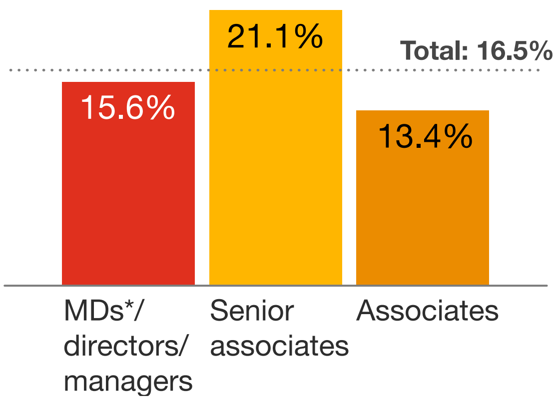
Audit team members by level



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

	Employees	Partners
Women	49%	25%
Racially/ethnically diverse individuals	41%	20%

Average annual voluntary turnover rate



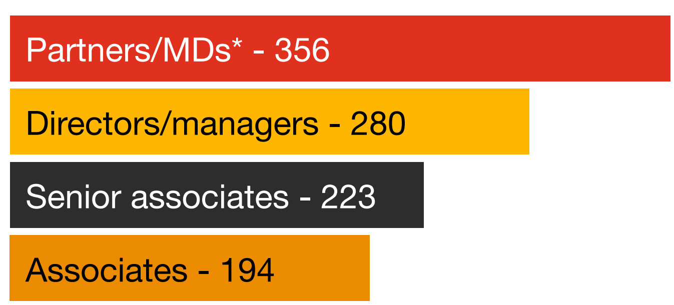
87 hours

Average training hours completed per audit professional

82%

People Engagement Index

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



*MDs - Managing Directors, AC - Acceleration Centers

17%

of audit hours provided by specialists

1:6.0

Ratio of partners/MDs* serving in technical support roles to total partners/MDs

2021 PCAOB inspection report

2 Audits included in Part I.A

56 Audits inspected

1,800+

Number of engagements supported by Centers of Excellence

2,000+

digital assets available to audit teams on the Digital Lab

10M & 1.5M+

Thought leadership views and streams, respectively

Leverage ratio for audit team members

Partners/MDs* to all other audit team members (excluding ACs)

1:7.9

97%

Compliance rate of audit engagements selected for internal inspection

200

Number of audit engagements subject to internal inspection

160+

Number of pre-issuance reviews

99.1%

of reports on a company's internal Control over financial reporting that were not reissued or withdrawn

99.6%

of issuer audit client financial statements that were not restated

Our culture and values

Trust Solutions

Our[1] global strategy – The New Equation – embodies our commitment to operate as a multidisciplinary firm. As part of The New Equation, we organized our operating model into two segments – Trust Solutions and Consulting Solutions – built around the ways in which we serve our clients, helping them as they seek to build trust and deliver sustained outcomes. Our multidisciplinary model is the foundation from which we build, and draw upon, the deep technical knowledge and industry experience, diverse backgrounds and perspectives, and distinct skills of professionals across the firm to further our commitment to quality and benefit our people and stakeholders.

Our 2023 Trust Survey of business leaders, consumers, and employees found that **91%** of business executives say their ability to build and maintain trust improves the bottom line.

Trust is key to business success. Our Trust Solutions segment harnesses the power of our people and technology to deliver the audit, assurance, and tax services our reputation is built upon, as well as a growing range of services in other areas of reporting (e.g., digital assurance and transparency and sustainability reporting). As part of the largest Trust Solutions practice in the world, our audit professionals draw on our broad bench of non-audit specialists to enhance their own skills and gain unique perspectives. Further, by involving specialists from both segments of the firm in performing risk assessment, designing and performing audit procedures, and evaluating audit evidence, our audit teams are able to more effectively focus audit effort and provide more value to management and the audit committee, especially during times of change or uncertainty. This ready access to specialists in areas such as climate, human capital, digital assets, cybersecurity, valuation, and tax will continue to support the quality of our work as the environment in which we and our clients operate becomes increasingly complex.

Tomorrow takes trust is PwC's groundbreaking commitment to embed trust-based principles into the core of today's and tomorrow's businesses. It includes the Trust Leadership Institute, a premier executive leadership forum that brings together leading insights on personal, organizational, and societal trust.

> "For trust to touch every part of your business, it will require everyone, from leadership down, working together to help drive it forward.
>
> **Tim Ryan**

Our purpose and values

Our purpose is to build trust in society and solve important problems.

We expect our professionals to exhibit the core values underlying our purpose, as these values define the expectations we have for working with each other and our clients:

As a firm, we continue to lean into our purpose to live our values. We're proud of what we've accomplished against the backdrop of uncertainty and complexity over the past few years – but we know there's more that needs to be done, and we're committed to continuing this work. In our annual Purpose and Inclusion Report, we share how we're investing in and progressing against our aspirations to help support diversity, equity, and inclusion within our organization; drive change in society and advance equity outside of our firm; embrace collaboration to solve significant societal challenges; and enable a more sustainable and equitable planet.

Tone at the top

We are a purpose-led and values-driven organization, and the role the firm plays has always been underpinned by the need for trust and our ability to deliver quality services, valuable insights, and meaningful solutions. 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.

The leaders of our firm recognize that our brand and professional reputation are built on delivering quality. As a result, topics such as quality, ethical behavior, and accountability are an ongoing focus of our leadership communications, which are used to reinforce our commitment to our purpose and values and the importance of audit quality to the success of our firm. For example, in practice-wide and firm-wide webcasts and during career milestone events and training, our leaders share real-life experiences that illustrate and encourage expected behaviors. With each opportunity, our leaders reinforce the critical importance of ethical behavior to our purpose and brand, to our success as individuals and as a firm, and to the strength of the profession. Key messages are communicated to our people by our Senior Partner and our leadership team and are reinforced by engagement partners.

Percentage of audit professionals surveyed who report:

Receiving consistent messages about the importance of audit quality from both sector and firm leadership

97%	97%	98%
FY23[2]	FY22	FY21

Understanding the firm's audit quality objectives

99%	96%	97%
FY23	FY22	FY21

"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

Demonstrating ethical behavior and acting with integrity and objectivity are critical to our business strategy and success. Our people are expected to make ethical decisions guided by our purpose and grounded in our values.

We recognize that we operate in a complex environment with competing demands and expectations and the potential for actual or perceived conflicts of interest. We strive to do the right thing whether we're dealing with clients, our stakeholders, or each other. We firmly believe, and we make it clear to our people, that no client, fee, or opportunity is worth compromising our values or independence.

Independence is a hallmark of our profession, and professionals across both segments of our firm understand the value of demonstrating objectivity in all of the services we provide.

Ethics

Our purpose and values are the basis of the PwC Global Code of Conduct and its US companion. Each provides a frame of reference that underpins the high standards of ethical behavior expected of all our people.

We empower everyone at PwC, regardless of their position or tenure, to act as an ethical leader. This is enabled by a clear tone from the top. Our senior leadership regularly sets the expectation that we act with integrity and deliver quality products and services. Our leaders serve as ethical role models, inspiring our people to put our purpose and values front and center – consistently sharing a clear vision of who we are and what we stand for. We also provide multiple ways for people to ask questions, obtain policy guidance, or voice concerns, including a dedicated Compliance Resource Center for personal independence questions and an Ethics HelpLine, through which concerns may be reported anonymously, if preferred.

We require our partners and employees to complete training on our policies, including integrity, independence, information security, record-keeping, and fair competition, during our required new hire, new manager, new partner, and annual training. Acceleration Center (AC) audit team members (see page 23) receive similar training appropriate to their role on an annual basis.

Compliance with these policies, and the laws that provide the foundation for such policies, is confirmed during our required annual compliance confirmation process. We monitor our compliance programs to confirm they are operating as designed and effective at meeting legal, regulatory, and firm requirements.

> “Given the nature of auditing work, it takes people who take our purpose to heart.
>
> **Wes Bricker**

Independence and objectivity

As auditors, our stakeholders expect us to be independent, in both fact and appearance, to support our ability to exercise professional skepticism and draw objective conclusions. Our independence policy is based on the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA code) and is supplemented to comply with the requirements of US standard setters and regulators.

Our independence systems and processes:

- track the entities for which independence is required;
- enable assessments and approvals for providing permissible non-audit services;
- automate the recording of certain security transactions;
- facilitate the assessment and monitoring of joint business relationships;
- facilitate the evaluation, pre-approval, and monitoring of securities and other financial arrangements held by partners, employees, and others to whom independence rules apply;
- support independence-related consultations; and
- document our professionals' annual confirmation of compliance.

Our systems and processes also support the monitoring of independence compliance, including facilitating the process of sending engagement independence confirmations, generating the documentation necessary to evidence the confirmation process, and testing individual independence compliance.

To further mitigate potential independence risk in the execution of non-audit services and to enhance audit committee pre-approval communications, our process for reviewing and authorizing certain non-audit services for Securities and Exchange Commission (SEC) issuer audit clients includes:

- the review and assessment of the scope of services for permissibility by an independence specialist;
- the review of the related audit committee pre-approval communications, when certain criteria are met; and
- the performance of pre-engagement independence coaching sessions and independence in-flight reviews for certain engagements.

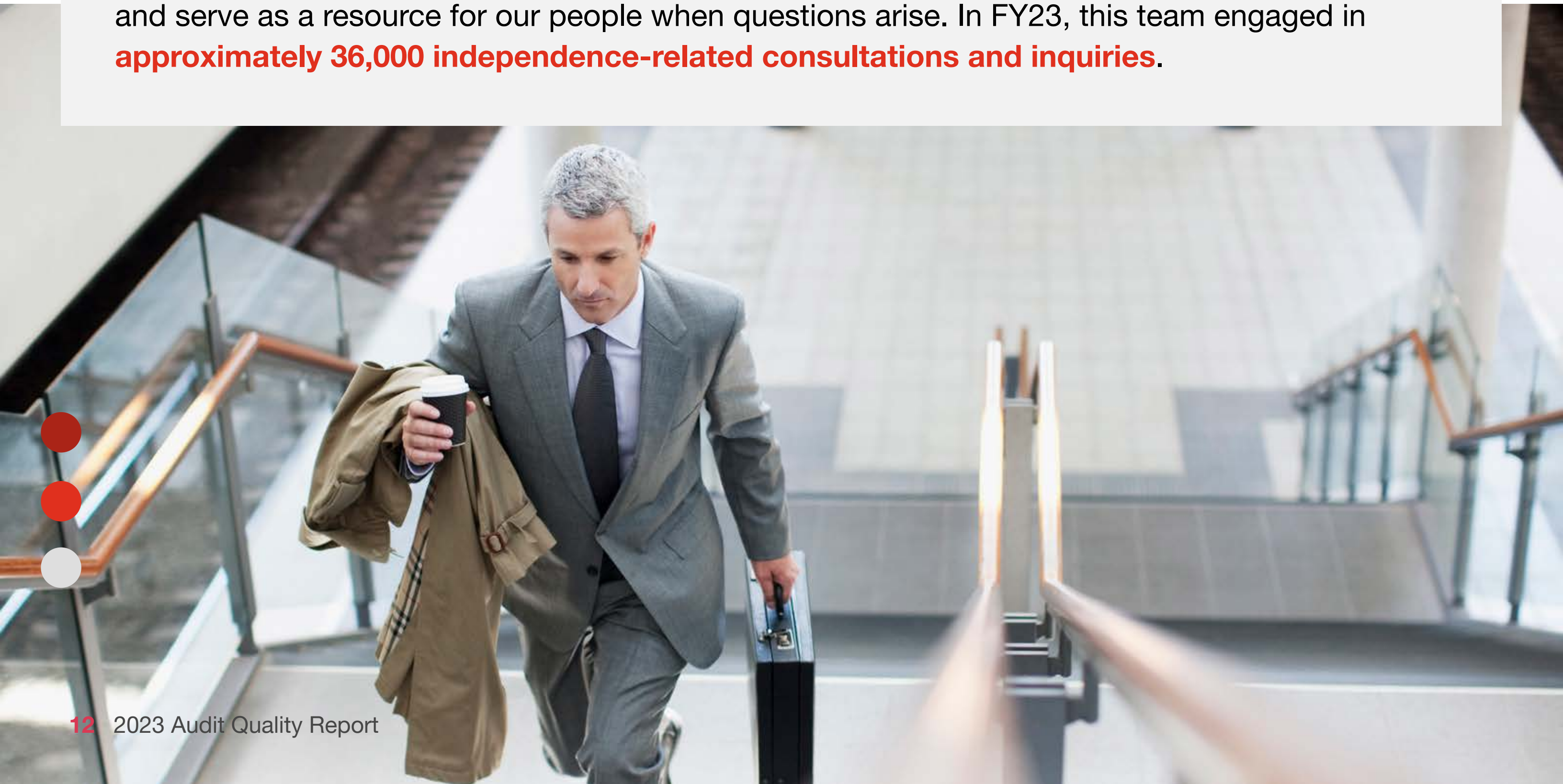
To support the implementation of our processes and reinforce the individual behaviors necessary to maintaining independence, our audit team members are required to take training courses tailored to their level and the services they provide. Compliance with our independence policies is confirmed during our required annual compliance confirmation process.

In addition, accountability reflects our purpose and values, and is responsive to the heightened expectations of stakeholders. Accordingly, we have an accountability framework that identifies specific actions and behaviors that are expected of each partner and employee to comply with independence policies and regulatory requirements related to personal, service, and other relationships. The accountability process involves multiple discussions/coaching held with the partner/employee to reiterate on the continued importance of maintaining independence, including additional training where needed. The framework includes consequences when exceptions occur, which may include financial impacts or impact on a partner/employee's continued service/employment with the firm. These are determined based on behaviors and circumstances that contribute to the firm's risk including considering any recurring patterns or negative behavior. We remain focused on continually promoting awareness of the requirements and our policies, emphasizing the importance of compliance, and implementing processes, controls, and technology that facilitate compliance by our partners and staff.

Our overall independence compliance programs, including the policies, systems, processes, and controls described earlier, 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 the relevant rules and regulations.

We have a team of independence specialists (**14 partners** and **297 employees**) who, with the support of the ACs, are responsible for maintaining our overall independence compliance programs.

Specialists from this team are also involved in developing our independence training courses and serve as a resource for our people when questions arise. In FY23, this team engaged in **approximately 36,000 independence-related consultations and inquiries**.



Our independence compliance programs periodically identify exceptions to our independence policies related to financial, service, and other relationships. These independence policy exceptions typically result from the inadvertent failure to follow the firm's processes. In some cases, they result from a service provided or relationship that existed during a period when the firm was not required to be independent or was subject to different independence requirements under which the service or relationship was not prohibited. For example, if management of a private audit client informs us of its decision to go public, in addition to evaluating the permissibility of ongoing services and relationships under the independence standards that apply to public companies, we assess the permissibility of previously completed services and relationships as appropriate under the independence standards.

When a potential independence policy exception is identified, the matter is analyzed carefully with the firm's independence specialists to determine whether an exception to independence rules or standards has occurred. If it is determined that such an exception has occurred, an analysis is completed to determine whether the firm remains objective and impartial. The nature of the exception, including its duration, the relevant mitigating factors, and the overall impact on the firm's objectivity and impartiality are communicated, in writing, and discussed with those charged with governance at our audit client so that we can obtain their perspective. If we or those charged with governance conclude we are not objective and impartial, we would not be able to continue the audit relationship. In certain situations, the firm and/or the firm's clients may consult with the regulator related to the matter.

We continue to review and make modifications, as appropriate, to our independence compliance programs or related guidance based, in part, on our analysis of exceptions identified.

"Leaders must trust their teams, and teams must trust their leaders in return. This kind of trust is earned through many small acts of honesty and courage over time.

Kathryn Kaminsky

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 industry knowledge and 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 audit quality. On audits of SEC issuers, lead audit partners and quality review partners are required to rotate off engagements every five years, and certain other audit partners every seven years. Furthermore, we maintain rotation policies for partners and other senior personnel on audit engagements not subject to the SEC rotation requirements.

Accountability and incentives

Partners are evaluated based on their contributions towards our strategic agenda and their individual goals, inclusive of quality and use of technology. All partners, including lead audit partners, quality review partners, auxiliary partners, and specialist partners are subject to our accountability program, which 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, individual quality results, the firm’s performance, and the partner’s overall performance. Through audit quality teaming awards, we further recognize and incentivize partners who exhibit outstanding behaviors with respect to audit quality consistent with our strategy and values, for example, demonstrating preparedness for inspection and positive interactions during inspection, or managing particularly challenging matters, including delivering difficult messages in an exceptional manner. Our audit partners are not evaluated or compensated for selling non-audit services to their audit clients.

Our non-partner professionals are eligible to participate in our annual performance bonus plan based, in part, on the achievement of quality goals and objectives.

When necessary, partners, managing directors, and directors/managers are required to implement a responsive action plan to address quality issues. Each plan is approved by the partners to whom they report along with other members of our Trust Solutions leadership team. Implementation of each plan is monitored to confirm agreed-upon actions are undertaken.

Considerations in undertaking an audit engagement

Our approval processes govern the acceptance of new audit clients and continuance of existing audit clients 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 process requires approvals by lead audit partners, quality management partners, and sector leadership. For existing client continuance assessments, the extent and level of approval depend on the nature of the client and results of the required risk assessment. Additionally, an event-driven reassessment of our relationship with the client is performed when certain events occur, or become known, that were not considered at the time of the latest assessment.

Our approval processes consider business, litigation, and reputational risks, as well as expectations with respect to our professional performance, and are updated as needed to reflect evolving societal and economic circumstances. We consider that the basis for performing a quality audit includes the availability of resources with the right skills, experience, and capacity. We accept new or continue existing audit relationships only 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.

Before agreeing to accept new or continue an existing audit engagement we also consider whether the amount of audit fees is commensurate with the expected level of effort.

In addition to the considerations above, we continue to evaluate trends impacting our clients and engagement teams. For example, to the extent our existing or potential clients are participating in or express an interest in activities that associate them with distributed ledger technology or crypto assets, including cryptocurrency and non-fungible tokens, we conduct acceptance and continuance consultations with our teams. These consultations have helped us mitigate risks in our client portfolio associated with these matters.

Our role in the financial reporting ecosystem

In the US, the capital markets and the auditing profession benefit from a strong regulatory environment, which includes the SEC and the Public Company Accounting Oversight Board (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. As the capital markets continue to evolve, so does the profession and our role in the financial reporting ecosystem.

As of July 2023, over **700** of our audit clients were SEC registrants,[3] representing over **$13 trillion** in market capitalization. **Over 25%** of Fortune 500[4] companies are our audit clients.

We audit approximately **two-thirds** of mutual funds based on assets under management (AUM) and over **three-quarters** of exchange traded funds based on AUM[5].

Active participation in regulatory and standard setting activities

Standard setters and policy makers across the globe have significantly increased the volume and scope of their activities over recent years, and, given the ambitious strategic plans and agendas from the SEC, PCAOB, and others, this trend is likely to continue for years to come. We play an active role in initiatives designed to enhance the quality and usefulness of financial and non-financial information available to the capital markets, both directly as an individual firm and in collaboration with others in the profession through working with the Center for Audit Quality (CAQ). Subject matter specialists in our firm spend **tens of thousands of hours** contributing as leaders and members of working groups, committees, and advisory boards of the CAQ, standard setters, and other organizations working toward this purpose.

In July 2023, the PCAOB proposed rule changes related to an auditor's consideration of a company's potential noncompliance with laws and regulations, including fraud. As described in our related In depth, the changes, if adopted, would impact the scope of the audit by significantly expanding the auditor's objectives related to compliance beyond what has traditionally been addressed in a financial statement audit. Our comment letter includes our perspectives on the proposal and feedback for consideration, including recommendations for greater stakeholder outreach.

Our US Chair and Senior Partner, Tim Ryan, serves as the Chair of the CAQ Governing Board and is also a member of the Board of Trustees of the Financial Accounting Foundation. Our Vice Chair – US Trust Solutions Co-Leader, Wes Bricker – serves as Chair of the board of XBRL International and on the AICPA's Board of Directors, and is also a member of the CAQ's Advisory Council. In addition to Wes, Roz Brooks, US Public Policy Leader, is a member of the CAQ's Advisory Council. Other experienced individuals, including our National Office leader, Tim Carey, are members of certain committees of the CAQ. Brian Croteau, our Chief Auditor, is a member of the PCAOB's Standards and Emerging Issues Advisory Group (SEIAG) and the SEIAG's Emerging Issues in Auditing subcommittee. Tom Barbieri, our Chief Accountant, serves as a member of the Financial Accounting Standards Board's (FASB) Financial Accounting Standards Advisory Council.

Thought leadership

Through presentations, client interactions, publications, podcasts, videos, and webcasts, we foster quality reporting by keeping our audit teams, clients, and other stakeholders informed of standard-setting activity, regulatory matters, and other developments.

In FY23, our National Office released or updated over **190 publications, podcasts, and webcasts** covering a wide variety of topics, including insights on key accounting and reporting issues relating to, for example, the SEC's new cybersecurity disclosure rules; the Inflation Reduction Act; macroeconomic and geopolitical events; and environmental, social, and governance (ESG) related matters, including global reporting proposals and frameworks. In addition, **23 of our accounting guides** were expanded or updated for new content. During the year, our publications were viewed **nearly 10 million times**, and users streamed our podcasts, webcasts, and videos **more than 1.5 million times**.

In line with our commitment to support the quality of information reported to the capital markets, we continue to improve the user experience on viewpoint.pwc.com. For example, we recently eliminated barriers to allow seamless access to both our US interpretative guidance and US authoritative guidance at no charge.

Listen to Wes Bricker share key takeaways from conversations with today's top business leaders in his revamped LinkedIn series "Business Today with Wes"

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. The Center also strives to strengthen the bridge between investors, directors, and corporate management as we provide insights to help companies address evolving expectations and regulations.

We share perspectives and insights with directors and investment professionals through various events and other mediums such as training sessions, webcasts, videos, and publications, so they can improve their oversight and investment decisions.

For example, we:

- conduct individual board and audit committee educational sessions to enhance the board's understanding of contemporary issues, sharing our research, latest activities, and practical insights;
- engage with the investment community through individual outreach and convening investors to learn and discuss emerging standards and regulations that impact financial reporting;
- issue frequent publications that give corporate directors, executives, and investors timely, fresh perspectives on topics including macroeconomic and corporate governance trends;
- host forums for corporate directors and audit committees to share perspectives and practices with peers;
- provide, through webcasts and publications, the need-to-know highlights for audit committees to oversee financial reporting;
- issue quarterly audit committee newsletters that spotlight potential agenda meeting topics and the latest financial reporting and committee developments;
- publish key findings from our Annual Corporate Directors Survey and C-suite Executives Survey; and
- host a multi-day annual forum for board and audit committee members to discuss the latest governance topics.

Over the past year, the Center hosted our annual forum for board and audit committee members that reached **more than 210 directors** representing **more than 350 companies** and produced multiple webcasts that reached **over 11,000 external attendees**.

Members of the Center also presented virtually or in person at **more than 450 client meetings or other events**.

Lastly, the Center issued **nearly 40 director-focused publications** on important governance matters, in addition to the thought leadership released by our National Office.

For more information on the Governance Insights Center, see its dedicated page on pwc.com.

While we engage in a wide variety of governance and investor activities, we place a significant focus on the audit committee because it has the primary responsibility for oversight of an issuer's financial reporting process, as well as the appointment, performance, and independence of the external auditor. Through timely, meaningful exchanges, our audit teams obtain the perspectives of their clients' audit committees and fulfill their professional responsibilities to communicate certain items to them (see page 43). We encourage audit committees to ask candid questions and engage in an open dialogue to help foster an environment of accountability and to enhance audit quality. We also frequently share observations regarding other matters related to the audit committee's roles and practices, such as observations regarding the company's management and governance of financial reporting.

Non-audit services

With the combination of our established understanding of our clients and the environments in which they operate and our range of capabilities, we are well positioned to deliver permissible trust solutions to our clients. These services, including tax compliance and reporting, digital assurance and transparency, and ESG reporting, address issues by which organizations are increasingly measured by stakeholders.

As described on page 11, our protocols and monitoring processes are designed to address the risks to independence from providing non-audit services to our audit clients that may impact our objectivity and impartiality and often go beyond regulatory requirements. Further, we continuously assess whether a permissible service presents unnecessary risks, including related to our objectivity and impartiality and take action as appropriate to decline or cease the provision of such service. The majority of our non-audit services revenue comes from clients with whom we have no audit relationship.

The growth of data, technology, and the demand for information

The ability to produce, collect, process, and analyze an increasingly vast array of financial and non-financial data at faster speeds has shifted how investors measure a company's value and how companies track and report performance. It has dramatically accelerated the pace at which market participants make decisions and implement plans – further raising expectations regarding the availability and reliability of information. With this backdrop, the demand for information related to a company's ESG impact continues to intensify, and companies are turning to technology to help transform huge quantities of ESG data into investor-grade reporting. Our role, in line with our purpose, continues to evolve in response to these unprecedented changes.

We continue to give our audit teams the training, guidance, tools, and support they need to assess and respond to related audit risks. For example, our audit teams are required to complete specific procedures to evaluate and document cybersecurity and climate-related risks, leveraging enhanced guidance, including illustrations of common risks and controls. They also have ready access to and support from our National Office, Digital Assurance & Transparency and sustainability specialists who have deep, relevant experience across industries. As new issues emerge that impact the audit, such as the SEC's proposed climate-related disclosures or the use of artificial intelligence (AI), we provide timely guidance and training to our audit teams.

We are harnessing the power of data and technology to drive quality throughout all phases of the audit. For example, our teams use sophisticated data visualization and analytics tools to facilitate risk assessment and perform full population analysis in areas such as revenue (see page 34). Further, data and technology play a key role in our development of the next generation audit (see page 45).

With respect to AI in particular, we have issued guidance and thought leadership to our teams and clients regarding the new and emerging risks presented by the use of AI as compared to traditional automation solutions. In addition, while we have introduced machine learning into certain aspects of our audit work, we continue to explore how we can use other forms of AI within the firm, including in our audits, business operations and system of quality management. We recognize the significant change AI will bring to our clients and our audits, and we are investing in upskilling all of our people to offer them the capabilities they need for a world that is increasingly being shaped by AI.

> "We are more agile and resilient today than we were yesterday. And, while there never seems to be a good time to take on significant change, it forces us to be better.
>
> **Tim Ryan**

We've provided a wide range of thought leadership to aid our clients and other stakeholders. For example, in FY23, our National Office published insights from our recent US investor survey: Focus on sustainability and observations on recent climate-related disclosures, a podcast on SEC comment letter trends on climate disclosures, and updated our Crypto assets guide. In addition, our subject-matter specialists shared insights and perspectives in forums ranging from conferences to individual client meetings, as appropriate, and we've provided our audit teams with materials and guidance to support timely, meaningful exchanges with our clients' audit committees.

Our active participation with key stakeholder organizations means we are helping shape the future of corporate reporting. For example, as companies face intensifying pressure to report ESG factors, such as climate impact, we have contributed to relevant reporting metrics through the PwC Network's representation on the Sustainability Accounting Standards Board (SASB) and the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We also engaged with the SASB to develop an ESG XBRL taxonomy and guidance on tagging ESG information in a structured data format.

As a purpose-driven organization, we lead by example. For example, this year we released our first TCFD report.

The use of reliable and consistent structured data in corporate reporting is an important step in making it easier to perform data analysis and gain deeper insights for better decisions, which is why we believe our work with the SASB and ongoing involvement with XBRL International is particularly significant. Read more about how XBRL helps companies achieve trust and efficient financial reporting on pwc.com.

We also continue to expand our capabilities and the industry-focused trust solutions we offer related to, for example, sustainability and climate-related risks, digital trust and transparency, digital assets, and XBRL. Over the past year we've issued numerous review and examination reports on select ESG data to provide additional confidence to the users of the data.

Even as we work to solve the problems of today, we are also looking to the future to prepare for the issues that will change the landscape of information used by the capital markets and find new and enhanced ways to build trust.

Our people

A career performing audit work at PwC can be rigorous, challenging, complex and ever-changing. We are committed to delivering a meaningful experience that supports development for our people and the skills to serve their professional goals.

The pace of developments in standards and technology, combined with stakeholder expectations that are higher than ever, is transforming how we perform our audits and requires that we bring together an audit team of individuals with diverse skills, backgrounds, and perspectives. Our recruiting efforts reflect these needs, and we continue to adapt how and where we source talent.

We're actively working to promote interest in the CPA profession and build the future talent pipeline. For example, this year we introduced Destination CPA, which is a program for accounting students in their sophomore or junior year of college pursuing 150 hours. This three-day in-person immersive experience is intended to highlight the value and versatility of earning the CPA credential and the impact it has on one's career. Find more information on pwc.com.

Our hiring standards include a structured interview process with behavior-based questions built from The PwC Professional framework (see page 25), an assessment of academic records, a review of relevant prior experience (if applicable), and background checks. In FY23, we hired **approximately 1,900 entry-level** and **over 350 experienced audit professionals**, respectively, and **nearly 1,800 audit interns** to supplement our workforce.

Number of audit team members[6] by level

	FY23	FY22	FY21
Partners/managing directors	1,121	1,125	1,082
Directors/managers	2,470	2,537	2,693
Senior associates	2,635	2,339	2,238
Associates	3,591	3,383	3,891
AC full-time equivalents[7]	5,106	4,007	2,487
Total	14,923	13,391	12,391

The ACs represent a global talent pool of people who work seamlessly with other team members to complete audit procedures for both public and non-public audits. By integrating AC audit team members, we can manage workloads to meet the needs of our clients, while also creating opportunities for our audit professionals to take on more challenging work earlier in their careers and provide value-add insights to our clients. As fully integrated members of the audit team, AC audit team members are able to leverage their experience performing audit work on a wide range of clients and their familiarity with advanced digital tools to appropriately scale and automate certain audit procedures and project management-related tasks – freeing up time for other team members to focus on more complex or judgmental matters.

Our people experience

With our My+ people strategy (My+), we are working toward a future at PwC where:

- there is increased emphasis on growth and development;
- rewards and benefits are customized;
- well-being is further stitched into our daily experiences; and
- there is flexibility to support our people as their lives and needs shift over time.

We aim to deliver a distinct experience for our people through My+. Attracting, retaining, and developing top talent is fundamental to our ability to deliver quality services and help build trust. Technology is at the core of our people strategy and supports a personalized experience with customizable learning, benefits, and well-being tools.

Investing in our individual leadership development is a critical component of our My+ strategy. My Feedback is a new tool that provides a simple way to give upward and peer feedback to help individuals improve the effectiveness of their people leadership skills. In addition, this year we launched our Leaders in Action series featuring distinguished thought leaders talking about the human dimensions of leadership and coaching – courage, inclusion, and resilience.

Professional growth and development

Throughout their career, our audit professionals are provided with career development opportunities; virtual and in-person classroom training, on-demand learning; as well as on-the-job real time coaching and development. We have also directed significant focus and investments into the growth and development of AC audit team members. This includes our audit professionals completing strategic tours at the ACs, engagement leader/team visits to ACs, and alignment of training on and offshore to drive consistent integration, quality, execution, and skill enhancement.

The composition of our audit teams provides newer team members the opportunity to work with more seasoned team members, which promotes meaningful on-the-job training. Judgment is honed by observing how seasoned auditors approach issue identification, management, and resolution.

Audit partners' average years of experience at PwC US

24	23	23
FY23	FY22	FY21

To help provide a strong foundational start for all of our first-year associates, their formal training takes into consideration the evolving expectations of associates. This summer we launched a revamped, in-person leadership program, Trust Solutions Start, to bring all of our entry-level hires together in advance of multi-day technical training. This is followed by ongoing small group sessions that reinforce key learnings, enhance development, and drive quality. This year we also launched a reimagined first-year associate experience that enables our newest joiners to focus their first year at the firm on building their network and honing their skills through client and project work as they receive ongoing feedback and coaching without the pressure of a peer-relative performance assessment at year end.

Achieving a professional credential supports our firm's commitment to quality through consistent examination and certification standards. We offer programs, like the While You Work CPA Acceleration Program, that are designed to provide a path for eligible individuals to obtain additional credit hours and a master's degree while working at PwC. Obtaining a CPA credential is an important element of our audit professionals' career progression and a prerequisite for promotion to audit manager. Our people are incentivized with a bonus to achieve their credential early in their tenure.

> "As a leader you can't go at it alone. You're only as good as the team around you and how well you develop that team, and that team develops you.
>
> **Tim Ryan**

In 2023, 50 individuals out of the 67,000 who sat for the CPA exam were recognized by the AICPA for achieving exceptional results on the CPA exam; **8 were from our firm.**

The PwC Professional framework

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

The PwC Professional framework assesses skills and competencies, which are expressed as observable behaviors across five dimensions. It also includes specific quality dimensions to guide our non-partner audit professionals 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. The performance of audit team members, excluding partners, are assessed against the dimensions of the PwC Professional framework.

Each non-partner audit professional is aligned to a Development Team composed of a Relationship Leader, Career Coach, and Talent Consultant. Relationship Leaders play a primary role in the professional growth of our non-partner audit professionals by providing mentoring and career support by continuing to review and discuss progression against the dimensions.

Diversity, equity, and inclusion

At the core of building trust and delivering sustained outcomes is our strategy to advance diversity, equity, and inclusion to further build on a culture of belonging. Bringing people from different lived experiences and educational and professional backgrounds together creates a strong diversity of thought and experience that enhances the quality and value of our work and improves the audit experience for our people and our clients. It starts with an inclusive workplace that drives equitable opportunity within the firm from recruitment to partnership – supporting all of our people so that every person has opportunities to grow to their full potential and achieve professional success in a way that's important to them.

We are proud of the progress we have made in continuing to attract diverse talent into the firm as well as our commitment to enhance the experience of our diverse professionals throughout their career journey. At the same time, we acknowledge that there is still more work to be done, and we continue to challenge ourselves to bring equity, trust, and purpose into every aspect of our business.

For more information about our commitment to diversity, equity, and inclusion, refer to our Purpose and Inclusion Report.

"

A big part of my responsibilities is to help our people come together in new ways – in diverse and inclusive teams – to better serve our clients.

Kathryn Kaminsky

As of FY23, women and racially/ethnically diverse individuals comprise 49% and 41% of our employees, respectively.

The diversity of our partners has increased from 18% women and 10% racially/ethnically diverse individuals in 2013 to 25% women and 20% racially/ethnically diverse individuals in 2023.

Our 2023 new internal admission partner class was 33% women and 29% racially/ethnically diverse individuals.

As of July 1, 2023, our US Leadership Team is 38% women and 38% racially/ethnically diverse individuals, and our Board of Partners is 38% women and 33% racially/ethnically diverse individuals.

Our employees named us one of **Forbes Best Employers for Diversity**.

Our web application, Bias Analyzer, created by our Technology Impact Office, is recognized among Fast Company's first-ever **Next Big Things in Tech** class of honorees.

We received a top score on the 2023 **Disability Equality Index** survey, a joint initiative of Disability:IN and the American Association of People with Disabilities

The Human Rights Campaign Foundation designated us one of the **Best Places to Work for LGBTQ+ Equality**, with a 100% on the 2022 Corporate Equality Index.

See more of our awards at pwc.com

Rewards, benefits, well-being, and flexibility

Our rewards strategy is designed to recognize the growth and impact of the individual, including their contributions to deliver quality and value and drive The New Equation. We took steps this year to refine our rewards strategy to provide more predictability for our employees and to support pay equity.

We offer an array of benefits – including retirement plans, life insurance plans, parental leave, vacation, and more – that are competitive and flexible, and provide our employees with choices to meet their needs at every stage of their life. Our personalized benefits platform offers our employees enhanced support to help select providers, manage costs, and get one-on-one help when it's needed.

Through Be well, Work well – PwC's investment in well-being – we continue to offer enhanced tools and resources to help our employees feel empowered and supported to put their well-being first. This year we increased our mental health benefits and extended the length of paid parental leave for all parents. We also rolled out new vacation tools to make it easier to plan and take uninterrupted time off.

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

	FY23	FY22	FY21
Partners/managing directors	356	349	342
Directors/managers	280	295	260
Senior associates	223	256	248
Associates	194	220	224

Providing our people with the ability to meet their professional and personal commitments is a critical component of our people experience. We offer a variety of virtual and flexible work options to meet individual needs along with the leading technologies, guidance, resources, and time to stay connected with colleagues and clients.

Under My+ we are reinforcing our culture of listening so that each of us continues to have meaningful and real-time opportunities to develop as leaders. We introduced Team Polling and Team Health Index tools to provide our partners with more visibility into the performance and perspectives of their teams – including data relating to workload, well-being, and the overall people experience. Equipped with this information, partners have greater ability to assess who may need more support, action feedback timely, and help each team member have a rewarding experience.

Global People Survey

In Spring of 2023, the PwC Network administered the Global People Survey, which among other components, measures 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.

Our PEI in FY23 for the US Trust Solutions practice was **82%**. We believe this result reflects our continued commitment to the development and well-being of our people, and our unwavering focus on our purpose and values.

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 people highly sought after in the external market. Our voluntary turnover can fluctuate based on several factors, including external market demand. The experience of our people can have a significant impact on turnover, and we remain focused and committed to realizing the full potential impact of our My+ strategy on our people experience.

Average annual voluntary turnover rate of audit professionals by level

	FY23	FY22	FY21
Managing directors/directors/managers	15.6%	23.5%	15.3%
Senior associates	21.1%	34.8%	34.3%
Associates	13.4%	22.9%	22.0%
Total	16.5%	26.4%	23.2%

Continuing education

Continuous learning is a fundamental aspect of our culture. Learning that occurs through on-the-job supervision, review, and mentoring is supplemented through participation in virtual and in-person classroom, and on-demand training programs. The way we deliver training continues to evolve through the restructuring and digitizing of content – both to make it more accessible and to align with what audit work is done, by whom, when, and how.

Our National Office Learning Team collaborates closely with firm leadership so training is responsive to developments impacting our audits – including changes in the profession and our practice – and feedback obtained from:

- our National Office on new accounting and auditing standards and financial reporting developments, our internal inspections process, and consultations on accounting and auditing matters;
- observations from our PCAOB inspections and peer reviews;
- surveys and focus groups with engagement team members; and
- other inputs related to monitoring quality.

We take measures to reinforce the importance of learning to an individual's professional development, including providing our audit professionals with sufficient time to complete training courses specifically targeted to their role and experience level. These courses integrate auditing and accounting concepts and use simulation-based activities for a more effective learning experience. This year we introduced MyLearning, a simplified learning platform available to our people that aggregates required, recommended, and elective learning in one place, enabling more transparent access to skill development aligned to career goals.

Our partners, managing directors, and directors/managers also receive industry-specific training and training related to new or revised professional standards and regulations and other practice or financial reporting developments, when applicable. AC audit team members are provided training that is aligned to the training provided to other audit team members performing in a similar role. As the responsibilities of AC audit team members expand, they are provided additional training relevant to those expanded responsibilities.

In addition, we offer audit team members training on non-technical topics, such as project management, issues management, auditing while working remotely, and working in virtual teams. Several years ago we began digitally upskilling our workforce, building digital IQ regarding data wrangling and visualization and automation. We continue to provide numerous learning tools to support the digital acumen of our audit teams, expand the use of digital solutions on audits, and foster a mindset of continual improvement and innovation - and as described on page 20, this year we have committed to an additional significant investment to upskill our people on AI. Similarly, we are upskilling our audit professionals on ESG-related topics through a variety of training programs and events.

Completion of required auditing; accounting; and annual independence, ethics, and compliance training is a component of individual performance. Required auditing and accounting training courses include a learning assessment as part of the overall learning experience, which requires the participant to earn a passing score to be granted credit for course completion. We take steps to communicate and continually reinforce the understanding that assessments are required to be completed on an individual basis.

The amount of required 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 changes in response to 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. Our audit professionals must meet the minimum continuing professional education requirements for licensure. The average annual training completed per audit professional significantly exceeds those minimum annual requirements. Failure to complete required 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.

Average training hours completed per audit professional:

87	84	78
FY23	FY22	FY21

Assurance Quality Advisory Committee

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

The AQAC provides perspectives and advice to Trust Solutions leadership on aspects of the business, operations, culture, governance, and risk management approach that are reasonably expected to impact audit and assurance quality. Over the past year, the AQAC has been a valuable resource for our leadership team, providing insights as we look around the corner to anticipate issues during these uncertain times and as we embark on our new people strategy. The AQAC also continues to provide perspectives to our leadership team regarding the standard setting and regulatory environment and our business/growth strategy, including as it relates to ESG and digital assets. The establishment of the AQAC in 2020 made us the first firm with both a Board that includes external members and an independent advisory committee focused on quality.

Russell (Russ) Golden, Chair

Russ has extensive experience related to technical accounting matters, having served as Chairman of the FASB from July 2013 to June 2020. Prior to his role as FASB Chair, Russ served as the Technical Director overseeing the FASB's accounting standards and technical application and implementation activities and as Chair of the FASB's Emerging Issues Task Force.

Alan Beller

Alan is a recognized thought leader on securities and corporate law, capital markets, accounting and auditing, and corporate governance matters as a Senior Counsel at Cleary Gottlieb Steen & Hamilton LLP. Alan is also a Director at the Value Reporting Foundation. Previously, Alan served as the Director of the Division of Corporation Finance at the US Securities and Exchange Commission and as a Senior Counselor to the Commission.

Joanne Wakim

Joanne has a strong track record of leadership in the capital markets having served as Chief Accountant at the Federal Reserve Board's Division of Supervision and Regulation. Joanne has also worked to advance international initiatives, having served as a member of the Basel Committee Accounting Experts Group. She also previously served on the staff of the FASB.

Our audit approach

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.

Rooted in our core values, Tomorrow's audit, today reflects our view of the future – people-led, enhanced by powerful technology, and digitally amplified. While technology is a key part of how we're reimagining and revolutionizing the audit experience, it's our people – with their unique blend of audit and digital acumen – that set us apart.

Driven by a quality-first, purpose-always mindset, our people deliver an audit 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, further integration of AC audit team members, and centralized execution by our COEs, we are able to appropriately scale and standardize.

Specialization: Our audit teams have relevant industry and technical knowledge, 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.

We have an ongoing process to assess our audit approach, including the technology and tools used by our teams, so that it continues to align with our strategy and drive audit quality.

FY23 Developments

Over the past year we have addressed various auditing, accounting, reporting, and other practice matters, including the following:

- Delivered guidance and various resources to highlight accounting, reporting, and auditing considerations related to the uncertain economic environment, including the potential for:
  - new risks or changes to risks of material misstatement due to error or fraud, along with our audit procedures designed to address them;
  - changes in business processes and internal controls over financial reporting;
  - ramifications to financial statement disclosures and accounting policy conventions; and
  - changes in the identification and description of critical audit matters.
- Performed targeted reach-outs, facilitated by members of our Chief Auditor and Quality Management networks, to support audit teams in responding to the impact of current economic events, and where applicable, risks associated with SPAC and de-SPAC transactions.
- Provided immediate and continued guidance and support to audit teams in considering potential liquidity, accounting, and disclosure risks presented by recent bank failures and related events.
- Enhanced our guidance related to, for example:
  - auditing loan risk ratings, including assessing the homogeneity of the population;
  - auditing the implementation of ASU 2018-12, Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts;
  - auditing crypto-related assets and liabilities, specifically risk assessment and testing strategy considerations;
  - considerations related to the enactment of OECD Pillar Two global minimum tax;
  - identifying other firms or persons not employed by our firm and considering whether and how they should be included in audit committee communications and Form AP disclosures; and
  - climate-related risk considerations.
- Provided guidance designed to assist our teams in understanding AI and considering the audit impacts when AI is used in our clients' environments.
- Updated our guidance and tools to reflect the impact of various new and updated standards related to risk assessment, auditing estimates, use of specialists and pricing information, engagement quality review, and supervision and review.

Our audit technology

We continue to build trust through innovative and business-driven products that are human-led and tech-powered, focused on the end-to-end audit experience, and centered around Aura.

Aura, the PwC Network's cloud-based audit platform, is used globally across all of our audits (**more than 100,000 auditors** across the PwC Network use Aura), driving quality and consistency on a world-wide basis.

Aura

Exchanging quicker

+ Data acquisition

- Secure data extraction
- Secure document exchange
- Real-time audit status dashboards

Our **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. Our **digital document sharing tools** allow clients to quickly and securely share documents and deliverables.

Analyzing deeper

+ Risk assessment

- Data-driven risk analysis
- Guided scoping of accounts
- Multilocation analysis/ visualization
- Dynamic process flowcharting

Auditing smarter

+ Audit execution

- Automated testing
- Full population analysis
- Web-based testing platforms
- Reporting and insight sharing

Our 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.

Our audit teams use sophisticated tools to securely extract or receive key pieces of client data for assessment and analysis in Aura. They can easily navigate between numerous content-themed visualization dashboards and detailed data schedules, facilitating a data-driven risk assessment and prompting more focused audit analysis and testing. For example, audit teams can access specialized tools to perform full revenue population analysis at the transaction level; analyze investment portfolio data and price testing results; and analyze full journal entry data sets to identify patterns and journals with specific characteristics.

Our existing tools are designed to support the application of leading audit practices based on the data and process maturity of their clients. As the data and technology used by our clients continues to change, we continue to expand our capabilities, harnessing the power of data to further enhance our audit quality.

Our technology innovations occur within our central innovation and technology team, as well as within specific industry-aligned teams who are empowered to innovate with their respective client base in mind, leveraging our platforms as appropriate. In FY23 we continued the advancement and enhancement of functionalities in various solutions, both broad-based and industry-specific, to drive quality and improve the experience. We also began migrating our underlying applications to a new platform that better aligns with our future technology vision (see page 45).

In addition, we improved the project management dashboards and quality checks in Aura – making it easier for our teams to prioritize and monitor the status of audit-related tasks and identify where updates to audit documentation are needed – and offered new tools that:

- facilitate streamlined and efficient processing of external audit confirmations, including preparing, sending, monitoring, and receiving electronic and paper responses;
- utilize cognitive technologies and regression analysis to assist in revenue testing;
- simplify, standardize, and automate aspects of information technology general controls testing for change management;
- standardize, centralize, and automate testing of configurable controls; and
- automate the extraction and review of data, including new data capabilities related to investee fund financial statements on fund of fund audits.

By combining their digital skills, technical knowledge, and professional judgment with our leading technology and world-class methodology, our audit teams deliver a quality audit and end-to-end digital experience at scale. When needed, a network of local professionals with advanced digital skills and training is available to support our audit teams in identifying and adopting the most impactful tools and automations for their engagement.

People-led innovation

Our digitally skilled audit teams build on our base data analysis and other technological capabilities to dig deeper into their client's data, surfacing audit-related matters, and providing relevant perspectives and insights. Our teams can also tap into the proficiency of our digital support professionals to aid in the development and enhancement of automation solutions. These automations reduce time-intensive routine tasks, allowing more time for performing analysis.

Digital Lab, our unique technology-sharing platform, has been integral to our innovation journey, centralizing automations, learning, and digital communities. Digital Lab allows audit team members to find, enhance, and share digital assets to enhance efficiency and audit quality. In FY23, our audit team members were able to leverage their digital core skills and training with **over 2,000 digital assets** available in the Digital Lab to drive audit quality.

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 in using or building technologies to support the audit. We use security technology and processes so confidential data is shared only on a need-to-know basis. Our Security Operations Center is tasked with monitoring and managing the global security systems that 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.

Our audit teams

We are committed to putting the right people with the right skill sets in the right place at the right time. In assigning our audit team members, we leverage our talent sourcing platform, which provides visibility into their experiences and interests. Our audit teams are composed of individuals who bring the right blend of technical capabilities and industry knowledge to deliver quality and value to our clients. In a complex, increasingly digitized business environment, this often means considering the convergence of industries, and our agile approach to assigning audit team members allows us to leverage our broad bench of audit professionals across industries to meet our clients' audit needs.

Listen as Kathryn Kaminsky shares perspectives on making the most of today's evolving workplace on this episode of her LinkedIn Series "Candid Career Conversations with Kathryn Kaminsky"

During FY23, we continued to enhance our delivery model to drive quality and improve the audit experience. For example, we expanded the work performed and reviewed by our AC audit team members on both public and non-public audit engagements. We also expanded the offerings from our Centers of Excellence in various areas, such as investments, income tax, and inventory. As our audits have become increasingly “distributed,” we’ve provided our audit teams with relevant training and project management tools and guidance to address topics, including behaviors and working practices, in areas such as building relationships across the team and supporting effective coordination, supervision, and review.

Leverage ratio for audit team members

	FY23	FY22	FY21
Partners/managing directors to all other audit team members (including ACs)[8]	1 to 12.5	1 to 11.1	1 to 10.6
Partners/managing directors to all other audit team members (excluding ACs)	1 to 7.9	1 to 7.5	1 to 8.3

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.

Centers of Excellence

Audit professionals in our Centers of Excellence (COEs) apply specialized skill sets to scope 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, the COEs further drive standardization and quality and are able to develop unique perspectives that bring additional insights and value to our clients through our audits.

COE audit professionals perform procedures in numerous audit areas, such as cash and cash equivalents, accounts receivable, investments, deferred income taxes, payroll, and more. There are also industry-specific COE teams focused on testing of internal controls and performing substantive work in areas including insurance premiums and claims, bank loans and deposits, and broker dealer revenues and operating expenses. **Over 1,800 of our audit engagements** were supported by the COEs in FY23, and, collectively, the scope of services for these engagements has increased compared to FY22.

Other resources

Specialists

Our audit teams utilize our broad network of multidisciplinary specialists to better understand our clients' businesses, identify and address relevant risks, stay informed on developing matters, and obtain insights related to the audit. Our teams combine experience across a broad range of capabilities to address various accounting and auditing areas, 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.

Percentage of audit hours provided by specialists[9]:

17.1%
FY23

17.5%
FY22

17.6%
FY21

The National Office

Similar to the rest of our Trust Solutions practice, our National Office is aligned to the industries in which our clients operate, enabling these resources to effectively bring specialized knowledge and experience in a broad range of technical accounting, auditing, and financial reporting matters to audit teams and clients across all sectors. National Office resources provide informed perspectives on client-specific matters, play an active role in standard setting and regulatory activity, and deliver thought leadership to our stakeholders. Our National Office also includes resources who, with the support of the ACs, are responsible for keeping our policies and guidance in these areas current.

Our policies identify matters that require National Office consultation and are updated as appropriate. Additionally, audit teams are encouraged to voluntarily consult with the National Office whenever they believe they could benefit from additional insights. In FY23, our National Office conducted thousands of consultations with our audit teams on topics ranging from the accounting and auditing impact of the uncertain economic environment to the application of accounting standards to client-specific facts and circumstances.

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/managing directors serving in technical support roles[10] to the total number of audit partners/managing directors:

1 to 6.0	1 to 5.9	1 to 6.0
FY23	FY22	FY21

The ratio of our partners/managing directors serving in technical support roles to the total number of audit partners/managing directors is based on our periodic evaluation of our technical support resource needs and leverage model and is intended to ensure sufficient, 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.

> “At PwC, our National Office is a strategic asset, not a roadblock. We’re industry aligned, responsive, transparent, and at the forefront of emerging issues - all to make sure our teams and clients never have to go it alone in quickly addressing complex matters.
>
> **Tim Carey, National Office Leader**

Chief Auditor Network

Our Chief Auditor Network provides our audit teams on-the-ground support focused on advancing audit quality. They leverage their in-depth knowledge of our methodology and their industry-specific auditing experience to:

- support the design of effective and efficient audit approaches, reinforcing key learning points and guidance based on continuous feedback from inspections and other practice monitoring activities;
- provide advice through consultations and facilitation of targeted workshops with audit teams as they plan their audit procedures, leveraging data analysis and other leading practices;
- perform targeted outreach to audit teams addressing quality reminders and recent developments (e.g., the uncertain economic environment, IPOs/De-SPAC transactions, new accounting and auditing standards);
- support AC audit team members through mentoring and training as well as facilitating interactive sessions focused on key audit topics and other reminders; and
- support audit teams in the integration of AC audit team members.

Through these activities, the Chief Auditor Network helps drive audit quality and provides leaders with insights on the practice environment and overall audit quality trends.

Quality Management Network

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

The design of the 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 (including 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.

Percentage of issuer[11] audit client annual financial statements that were not restated:[12]

99.6%	99.8%	99.7%
FY23 (7 restated)	FY22 (4 restated)	FY21 (4 restated)

Percentage of reports on an issuer's internal control over financial reporting that were not reissued or withdrawn:

99.1%	99.3%	99.1%
FY23 (5 reissued or withdrawn)	FY22 (4 reissued or withdrawn)	FY21 (5 reissued or withdrawn)

Our audit process

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

Using data either obtained via automated data extraction or provided by our client via our digital document sharing tools, and with the knowledge obtained in understanding the business, our audit teams analyze large volumes of data and transactions to identify risks inherent in the financial statements. With the help of our data visualization, analytics, and auditing tools, they apply advanced data science, visualization, and guided risk assessment to analyze full populations and focus work on areas of relevant risk.

This deep, data-driven risk assessment influences the controls we select for testing and guides our substantive audit response. It begins in the planning phase of the audit and continues through the issuance of our report. Aura 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. With Aura, our audit teams are able to develop a more precise audit plan that specifies risk levels, controls reliance, and substantive testing. The timely involvement of more experienced audit professionals, including partners, during planning and risk assessment facilitates the appropriate consideration of materiality, audit risk, and planned response. Establishing audit planning milestones supports our audit teams in better allocating and managing resources and avoiding late surprises by performing audit work earlier in the audit cycle.

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 expect all components of our audits to meet US standards and satisfy our own quality objectives and to that end, we continually refine how we use the work of component auditors and the level of our involvement in their work. Our global digital collaboration tools also streamline, standardize, and automate real-time communication and collaboration between group and component audit teams. This includes secure document exchange, enhanced status tracking, and issue management capabilities between group and component audit teams.

In 2022, both the PCAOB and International Auditing and Assurance Standards Board (IAASB) released changes to their auditing standards to strengthen requirements that apply to audits involving component auditors. For example, the changes add specificity to the expectations for the group auditor's supervision and review of the work of component auditors and new requirements related to two-way communications and engagement leader oversight. The changes go into effect for calendar year-end 2024 audits, and we are in the process of enhancing our policies, guidance, tools, and working practices applicable to group audits, as well as developing related training for our audit teams.

Smart dashboards show the impact of scoping decisions and progress of the audit more quickly. Our audit teams leverage our real-time project management dashboards to drive further transparency regarding status and automatically flag and track 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.

Throughout the audit, we stay connected with our clients to anticipate and resolve complex issues and discuss relevant emerging topics and data trends. We also communicate with audit committees on a timely basis. 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 applicable, 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;
- audit observations and insights related to 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.

Looking to the future

As the world evolves, assurance will continue to be one of the most important tools to help build confidence in the quality of information used by market participants. In fact, PwC's recent investor survey shows stakeholders trust reported information more if it's subject to an independent audit. At PwC, we are taking steps to deliver on the promise of the New Equation – combining people and technology to inspire and lead the profession and further build trust in the capital markets.

Taking action to lead the profession

Our role as auditors is to build trust in information that drives the capital markets – its accuracy, reliability, and consistency. As the needs and expectations of users of independent audits continue to evolve and information flows grow increasingly complex, PwC is committing to a series of bold actions in the following areas over the next several years that will further enhance confidence in the independent audit:

Accountability – we will implement tangible measures to demonstrate to our stakeholders that the leaders of our firm are accountable for audit quality, which will include firm leadership compensation at risk and public leadership certifications on our system of quality management.

Quality – we will execute a series of initiatives to enhance confidence in audit quality with a focus on fraud and going concern and to explore enhancements to the audit report through more expressive content.

Independence – we will cease the provision of certain types of permitted "pure" consulting services that would typically fall under the "other" category in the proxy statement for our SEC-registered audit clients. We are not changing our approach to other types of permissible services that typically fall within the audit, audit-related, or tax buckets of the proxy statement.

Transparency – we will continue to increase the level of transparency over key aspects of audit quality performance, including enhancing our audit quality report and communicating information related to our policies and practices with respect to potential conflicts of interest.

Engagement – we will execute a series of initiatives to enhance engagement with key sets of stakeholders, including potential talent, audit committees and investors, including investing time to raise awareness of careers in accounting.

We're approaching these actions in phases – starting with accountability – and expect that each will evolve over time as we consider standard setting and regulatory developments and emerging practice matters.

Expanding our technology platforms to power PwC's audit capabilities

As part of The New Equation strategy, the PwC Global network is investing $1 billion in our audit tools, technologies and methodologies globally to further standardize, simplify, and automate our audit work to drive quality and enable our teams to deliver a faster and better experience for our clients. With the benefit of a first-of-its-kind relationship with Microsoft, we will leverage the latest cognitive technologies such as generative AI. This is another step on our innovation journey that included the digital upskilling of all of our people and the building of a culture of human-led and tech-powered innovation that has helped shape the profession.

Through this multi-year, tech-enabled transformation of our assurance business, we will redefine how our audit is executed and experienced. It's about more than just technology. The program is underpinned by a human-centered design approach. Our innovation team includes **hundreds of Trust Solutions professionals** who, working with others across the PwC Network, are focused on developing the next wave of innovation. This team leverages internal and external learnings from our community of solvers – thousands of audit practitioners and hundreds of engagement teams – to focus on the needs of our stakeholders and identify new ways for our people to work with one another and with clients to enhance quality.

We are designing, developing, and deploying new ways of securely ingesting and using data to identify risks, detect anomalies, and surface insights, with built in digital checks that enhance audit quality. Intuitive, guided experiences and workflows will help our people and clients complete the right tasks at the right time, adapting and scaling in response to the needs and complexities of each engagement.

A new cloud-based platform will not only support our people in providing efficient, robust, and independent assurance across financial and non-financial information, helping to build trust in what matters to our stakeholders, but will also serve as a virtual meeting place where our people can come together to collaborate and work, and where we can meet our clients to share information, updates, and insights. It will redefine how we digitally enable the ways we work and elevate the experience for our people and our clients in the process. It will accelerate the pace of innovation, enabling us to be responsive to the needs of stakeholders while focusing relentlessly on maintaining audit quality.

"As accountants, we should leverage technology – alongside our emotional intelligence, judgment and professional skepticism – to deliver something bigger with a more efficient, effective process and better analysis and insights.

Wes Bricker

In June 2023, PwC won the [Digital Innovation of the Year Award] at the International Accounting Forum and Awards for progress in the use of emerging AI tools across our Network.

Our approach to quality management

Global Network

“PwC” is the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services. 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 that 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.

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 any member firm’s exercise of professional judgment.

The governance bodies of PwCIL are:

- The Global Board, which is responsible for the governance of PwCIL, the oversight of the Network Leadership Team and the approval of Network standards. The Board does not have an external role. The Board is composed of 20 members. Two are appointed as external, independent directors, and the other 18 Board members are elected by partners from member firms around the world every four years.
- The Network Leadership Team, which is responsible for setting the overall strategy for the PwC Network and the standards to which the member firms agree to adhere.
- The Strategy Council, which is made up of the leaders of the largest member firms and regions of the Network, agrees on the strategic direction of the Network, and facilitates alignment for the execution of strategy.
- The Global Leadership Team, which is appointed by and reports to the Network Leadership Team and the Chairman of the PwC Network. Its members are responsible for leading teams drawn from member firms to coordinate activities across all areas of our business.

Quality across the PwC Network

Quality audits across the PwC Network are vital to the US firm's brand. The PwC Network has established a Quality Management for Service Excellence (QMSE) framework, which integrates quality management into how each member firm runs its business, manages risk, and supports engagement teams in performing quality work.

The QMSE framework introduces an overall quality objective that is focused on member firms, including ACs, having the necessary capabilities and deploying its people to consistently use its methodologies, processes, and technology to deliver quality audits in an effective and efficient manner. To help member firms achieve this objective, the PwC Network invests significant resources into the continuous enhancement of quality across the Network, including maintaining a strong quality infrastructure, supported by skilled, experienced individuals and underlying tools and technology at both the Network and member firm level. The PwC Network's Global Assurance Quality organization aims to support member firms in promoting and monitoring quality by making available practical tools and guidance.

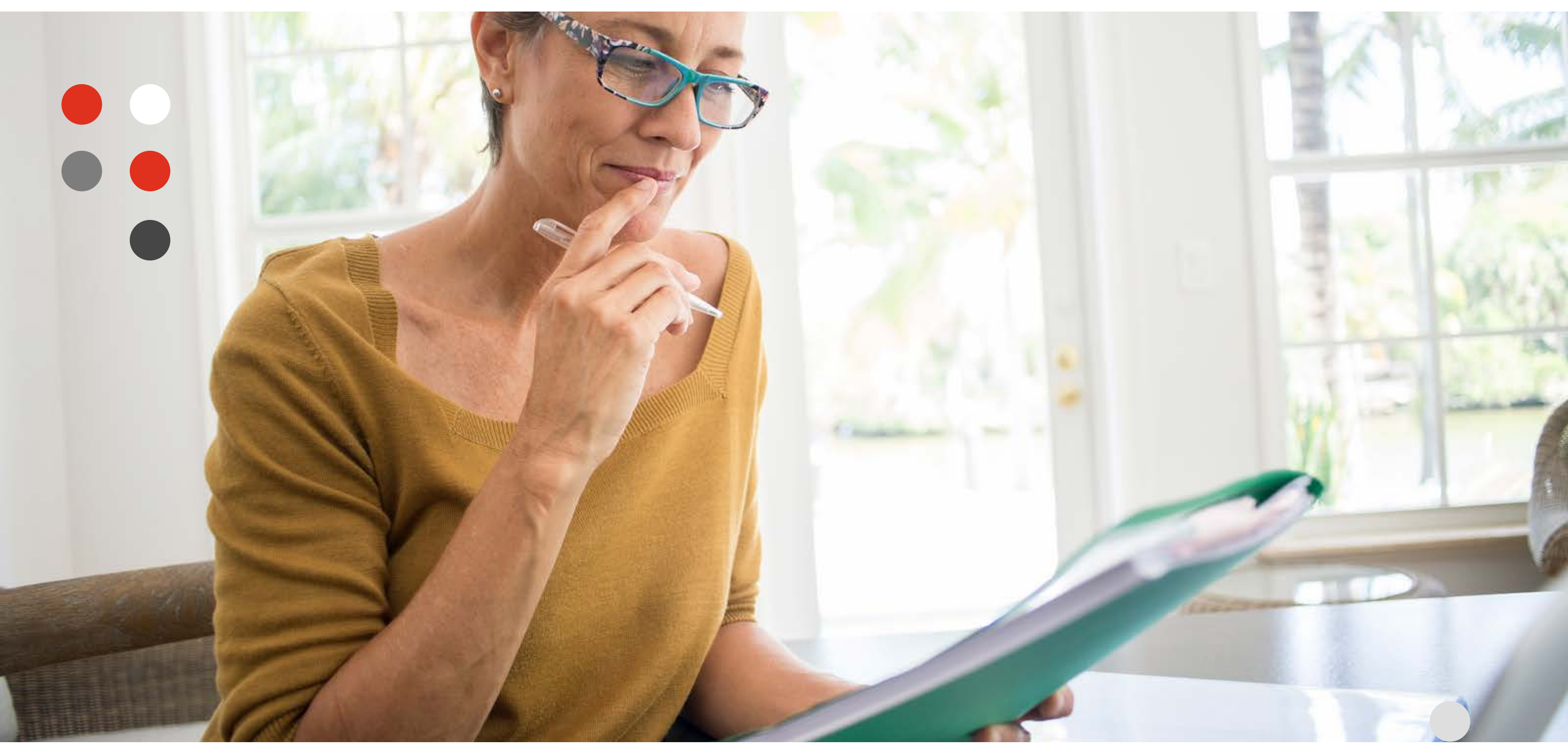
Each member firm designs, implements, and operates its own system of quality management to achieve the overall quality objective and a series of underlying quality management objectives set forth in the QMSE framework. In addition, each member firm is responsible for monitoring its system of quality 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 the overall quality objective is achieved.

The PwC Network coordinates an inspection program to periodically review certain elements of the member firm's system of quality management as well as the member firm leadership's own assessment of the effectiveness of its system of quality management and determination of whether the overall quality objective is achieved.

In addition, each member firm executes 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 or related services reports. These reviews assess whether an engagement was performed in compliance with applicable professional standards and engagement-related policies and procedures. These reviews are planned and executed, and findings are assessed, using guidance and a range of checklists and tools developed at the Network level. The results of these reviews are reported to member firm leadership who are responsible for analyzing the results of the inspections along with the findings identified from all sources of information, performing root-cause analysis, and implementing remedial actions as necessary.

PwC US partners receive information about the results of the Network inspection program, to consider, when applicable, in planning and performing their audit work.

We also assist member firms in promoting quality in audits performed under US auditing standards. This includes, for example, providing training materials specifically designed for PCAOB audits, in addition to annual US accounting and auditing standards update training, and providing access to experienced resources who share learnings and leading practices on quality. At the audit team level, we have provided our group audit teams with guidance and shared effective working practices related to the supervision and review of component auditor work.



Our system of quality management

Our system of quality management is designed to meet the requirements of relevant quality control standards of the PCAOB, IAASB, and AICPA and the PwC Network's QMSE framework. The evolution of our system of quality management aligns to the enhancements prescribed by International Standard on Quality Management 1 (which we implemented as of the December 15, 2022 effective date), which has positioned us well to adapt to future regulatory developments, such as the new quality control standard proposed by the PCAOB in November 2022, and expected to be finalized in 2023.

Leveraging technology and data, we take a proactive, risk-based approach to 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, including harnessing data and using technology to monitor audit quality on a real-time basis.

Our system of quality management identifies risks and includes controls in the following functional areas:

- Organizational structure, including tone at the top and leadership's responsibility related to quality
- Practice environment
- Acceptance and continuance of clients and engagements
- Independence, integrity, and objectivity
- Personnel management, including training, assignment, and evaluation
- Engagement partner and QRP assignments
- Engagement performance, including technology used in our audits and review and supervision
- Participation by Network firms
- Monitoring, including internal inspections and root cause analyses of findings
- Administration, including design and maintenance of quality management policies and procedures

Annually, the design and operating effectiveness of our system of quality management over our audit practice is evaluated by our Inspections Group. 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 the quality objectives prescribed by the relevant quality control standards and the PwC Network's QMSE framework have been achieved.

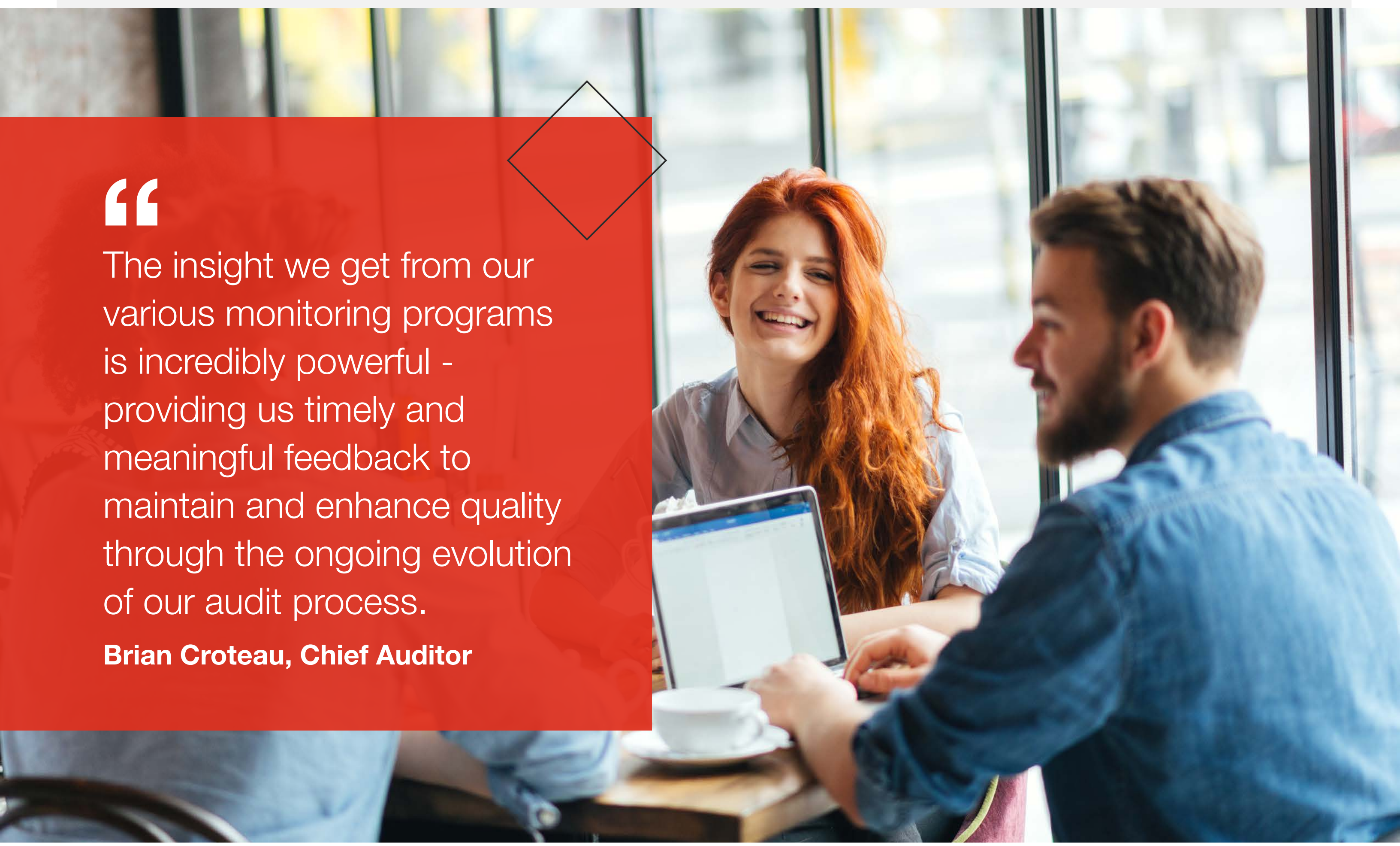
Monitoring

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

Each year we reassess the scope and areas of focus of these reviews, taking into consideration factors such as changes in professional, regulatory, and/or firm policy requirements, recent inspection results, environmental considerations, the results of other monitoring procedures, and knowledge gained by those charged with supporting audit teams' quality efforts. An individual engagement may be selected for one or more pre-issuance reviews in a cycle. For example, consistent with the prior year, certain of the selected engagements were subject to two pre-issuance review programs: with one focused on planning procedures and the other on execution-related audit activities.

In FY23, our Inspections group completed **more than 160 pre-issuance reviews across more than 130 engagements in varied sectors** (more than 140 reviews performed in FY22).



> "The insight we get from our various monitoring programs is incredibly powerful - providing us timely and meaningful feedback to maintain and enhance quality through the ongoing evolution of our audit process.
>
> **Brian Croteau, Chief Auditor**

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 audit engagements subject to internal inspection:[13]

200	178	183
FY23[14]	FY22	FY21

Under the firm's internal inspections program, audit engagement partners are generally selected for inspection every three to five years. The frequency of selection reflects, in part, a balance with 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 Inspections group oversees all aspects of the internal inspections program, including its design and execution. The group monitors audit quality, drives consistency in our inspections process, and delivers insights into areas for continued focus. This group, along with support from audit professionals and specialists (if applicable) with relevant industry or technical experience, executes the annual inspections. **Approximately 750 audit professionals** will participate as reviewers in the 2023 internal inspections of 2022 audit engagements.

The Inspections group communicates inspections observations and results to the audit practice. Further, the Inspections group works with other groups in the National Office and firm leadership to identify actions we could take to continue to enhance quality. These actions may include releasing additional guidance and training, updating tools, modifying audit methodology, and targeted messaging from leadership.

Compliance rate for audit engagements selected for internal inspection:[13]

97%	99%	97%
FY23[15]	FY22	FY21

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 states in the most recent inspection report, its “selection of audits for review does not constitute a representative sample of the firm’s total population of issuer audits.” As a result, the findings cannot be used to draw conclusions about the frequency of deficiencies throughout a firm’s portfolio. The PCAOB’s approach is designed to be weighted towards targeting items of interest to their regulatory purposes. There are inherent differences in the purpose and methods used by the PCAOB to select audits for inspection compared to those used for our internal inspections.

The most recent inspection report on our audit practice is dated November 4, 2022 (our “2021 Inspection Report”) and describes the results of the PCAOB’s 56 (or approximately 3% of our issuer audits) inspections generally covering 2020 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 I.A includes discussion of deficiencies identified by the PCAOB in its inspection of issuer audits. Only two audits are included in Part I.A of our 2021 Inspection Report – reflecting profession-leading PCAOB inspection results for the second year in a row. The PCAOB’s 2022 inspection cycle (generally covering 2021 audits) is substantially complete, and the preliminary results are also positive.

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

Year	Audits inspected[16]	Audits included in Part I.A[17]
2021	**56**	**2**
2020	58	1
2019	60	18
2018	55	14
2017	55	13

Part I.B of the PCAOB Report

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 2021 Inspection Report identified deficiencies related to the completeness of workpapers, audit committee communications related to others involved in the audit, and Form AP information.

Part I.C of the PCAOB Report

Beginning with the 2022 PCAOB inspection report, the new Part I.C will discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. This includes instance(s) of noncompliance identified by the PCAOB and instance(s) of noncompliance identified by the firm, specifically by our independence compliance programs described on page 11. Each instance of noncompliance is further analyzed as described on page 13 to conclude on whether our impartiality or objectivity was impaired.

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. 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.

In July 2023, the PCAOB made public portions of Part II of our 2019 Inspection Report related to Policies for Financial Holdings Disclosures, specifically with respect to the rate of managers who had not reported financial relationships within the five-day time period required by firm policy. The instances of noncompliance with our policy were identified by our selective testing of individual compliance. Further analysis performed upon identification determined that there was only one instance of a manager's noncompliance with our policy that resulted in a regulatory exception for the relevant period, and that exception did not relate to the provision of audit services by an individual holding impermissible securities. We take personal independence compliance very seriously. In response to the PCAOB's criticism as well as part of our continuous efforts to enhance compliance in general, we have taken and will continue to take meaningful and substantive actions to improve the rate of compliance with our policy to report financial relationships within five business days.

The PCAOB determined that it is satisfied with the actions we took to address observations contained in Part II of our 2020 inspection report (which generally covered our 2019 year-end audits). The 12-month period for us to address the comments made in Part II of our 2021 Inspection Report expires on November 3, 2023.

Peer review

Our most recently completed peer review was conducted by Grant Thornton LLP for the year ended June 30, 2021, and covered audit and attest engagements that are not subject to permanent PCAOB inspection, including engagements performed under the Government Auditing Standards; a compliance audit under the Single Audit Act; audits of employee benefit plans; an audit performed to satisfy requirements of the Federal Deposit Insurance Corporation Improvement Act (FDICIA); audits of broker-dealers; and examinations of service organizations (SOC 1 and SOC 2 engagements). In the peer reviewer's opinion, the system of quality control in effect for the firm's accounting and auditing practice applicable to engagements that are not subject to PCAOB permanent inspection for the year ended June 30, 2021 has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of pass. The report is publicly available.

Global developments

The Holding Foreign Companies Accountable (HFCA) Act was enacted in 2020, and in December 2021, the PCAOB issued to the SEC its first HFCA Act determination report regarding registered public accounting firms headquartered in mainland China and Hong Kong. In December 2022, the PCAOB announced that its Board determined it secured complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong and released its 2022 HFCA Act determination report vacating its December 2021 determinations.

In May 2023, the PCAOB released inspection reports detailing findings from their inspections of PricewaterhouseCoopers in Hong Kong and KPMG Hauzhen LLP in mainland China. PCAOB inspectors identified numerous deficiencies at these audit firms. PCAOB Board Chair Erica Williams stated "As I have said before, any deficiencies are unacceptable. At the same time, it is not unexpected to find such high rates of deficiencies in jurisdictions that are being inspected for the first time. And the deficiencies identified by PCAOB staff at the firms in mainland China and Hong Kong are consistent with the types and number of findings the PCAOB has encountered in other first-time inspections around the world." The PCAOB is continuing to demand complete access in mainland China and Hong Kong moving forward, and inspectors have begun fieldwork for 2023's inspections.

The PCAOB's 2022 determinations reset the three-year clock for compliance and as a result, the SEC continues to allow trading in the securities of issuers engaging these audit firms. The Board does not have to wait another year to reassess its determinations.

We recognize the need for effective and consistent global oversight of member firms. 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 certain markets. We welcome continued dialogue with the SEC and PCAOB on this important issue.

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 factors related to other elements of our system of quality management 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 and relevant guidance.

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 sector 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.

Continuous learning and improvement process

Our continuous learning and improvement process is an ongoing process 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 our analyses of quality drivers. As part of this process, we rapidly respond, developing and implementing actions to address the opportunities identified. The enhanced guidance and tools and the additional communications, training, targeted workshops, and reach-outs described throughout this report reflect our commitment to advance audit quality – our number one priority.

Legal and governance structure

Legal structure and ownership of the firm[18]

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.[19]

Governance structure of the firm

The firm's Senior Partner serves as 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, 2023

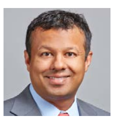
Tim Ryan**
US Senior Partner

Joe Atkinson
Vice Chair—US Chief Products and Technology Officer

Wes Bricker
Vice Chair – US Trust Solutions Co-Leader

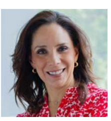
Roz Brooks
US Public Policy Leader

Martyn Curragh
US Chief Financial Officer and Head of Portfolio Strategy



Neil Dhar
Vice Chair – US Consulting Solutions Co-Leader

Paul Griggs
Vice Chair – Markets and My+ Sponsor



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

Jenny Koehler
Strategic Growth and Business Development Leader

J.C. Lapierre
US Chief Strategy and Communications Officer

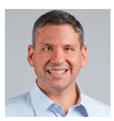
Christine Lattanzio
US Partner Affairs Leader and Chief Administrative Officer

Mark Mendola
Vice Chair – US Managing Partner

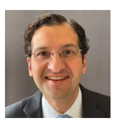
Shannon Schuyler
US Chief Purpose and Inclusion Officer

Yolanda Seals-Coffield
Chief People Officer

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

*Also a member of the PwC Network's Global Leadership Team.

**Also a member of the PwC Network's Strategy Council.
Tim Ryan is also a member of the Network Leadership Team.

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 or other matters 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.

The Board 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 1, 2023, there are 20 members of the Board in addition to the firm's Senior Partner:

Members of the Board of Partners and Principals as of July 1, 2023

Tim Ryan, Senior Partner

Tyson Cornell, Chair

Julie Allen

Puneet Arora*

Dallas Dolen

David Foss

Bernadette Geis

Kevin Healy

Jennifer Kennedy

Laura Martinez

Scott Moore

Shawn Panson

Carol Pottenger, External Director

Robert Sands

Lisa Sawicki*

Earl Simpkins

Gurpreet Singh

Ignacio Toussaint

Derek Townsend

Ellen Walsh

Karen Young*

*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 Trust Solutions 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, Board Admissions Committee, Governance 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 This report was prepared to provide our stakeholders with relevant information related to our US audit practice during our most recent fiscal year. References to the firm, our, and we in this document specifically relate to PricewaterhouseCoopers LLP. The scope of this document pertains solely to the PwC US firm registered with the PCAOB.

2 Our fiscal year ends June 30th.

3 In this context, "SEC registrants" excludes insurance company separate accounts/annuity products, employee benefit plans, and investment companies other than business development companies.

4 FORTUNE 1000 is a registered trademark of Fortune Media IP Limited and is used under license. FORTUNE and Fortune Media IP Limited are not affiliated with, and do not endorse products or services of, PricewaterhouseCoopers LLP.

5 As of June 2023. Exchange-traded funds (ETFs) include open-end ETFs, exchange-traded notes, and exchange-traded managed funds. Mutual fund statistics include open and closed-end mutual funds and open-end ETFs. Fund of funds are excluded.

6 "Audit team members" includes audit professionals and audit team members located at the ACs (also referred to as "AC audit team members"). "Audit professionals" refers to our core audit and private company services professionals at the associate level or above. Specialists, including Digital Assurance & Transparency, are excluded. Short term assignees from third parties or other PwC member firms are also excluded.

7 Our Acceleration Centers are located in the US, India, Argentina, Mexico, Malaysia, and the Philippines. The AC full-time equivalent was adjusted in the current year to reflect an estimate of average utilization for these resources. Without this adjustment, the AC FTE is 3,319, 2,444, and 1,617 for FY23, FY22, and FY21, respectively.

8 The leverage ratio with ACs was calculated using an adjusted AC FTE, which now reflects estimated average utilization for these resources. If the AC FTE was not adjusted, the leverage ratio with ACs would be [1 to] 10.9, 9.7, and 9.8 for FY23, FY22, and FY21, respectively.

9 The percentage of audit hours provided by specialists includes the hours incurred by AC audit team members that performed work under the direct supervision of the specialist.

10 Technical support roles exclude Quality Management (see page 41) and independence specialists (see page 12).

11 Issuer audit clients comprise SEC registrants and registered investment companies.

12 The percentage of issuer audit client financial statements that have not been restated has been updated to reflect only restated annual audited financial statements. If restated quarterly unaudited financial statements are included consistent with the prior year presentation, these percentages would be 99.2% (15 restated), 99.7% (6 restated), and 99.7% (5 restated), for FY23, FY22, and FY21, respectively.

13 The number of audit engagements subject to internal inspection and compliance rate includes both issuer and non-issuer audit engagements.

14 Includes inspections completed as of June 30, 2023 and an estimate of the number of inspections to be completed during the remainder of the 2023 internal inspection cycle.

15 The FY23 compliance rate is for internal inspections completed as of June 30, 2023.

16 Includes two and six interim reviews inspected by the PCAOB for 2021 and 2020, respectively, none of which were included in Part I.

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

18 The description of the legal and governance structure presents an overview as of June 30, 2023 with updates to reflect the July 1, 2023 US Leadership Team and Board of Partners and Principals composition. Although we are modifying certain aspects of our legal structure, these modifications will not change the leadership team reflected herein, and our governance processes will function similarly. This report covers fiscal year 2023, and updates regarding our revised structure will be reflected in our Audit Quality Report that covers fiscal year 2024. In our revised legal structure, as of July 1, 2023, each of the following US-based entities provide services to clients: PricewaterhouseCoopers LLP, PwC US Tax LLP, PwC US Business Advisory LLP, PwC US Consulting LLP, PricewaterhouseCoopers Advisory Services LLC, PwC Product Sales LLC, PricewaterhouseCoopers LLP (a Puerto Rico entity) and PricewaterhouseCoopers Corporate Finance LLC.

19 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.

Our continued focus on audit quality

January 2024 update

pwc

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.

Read our 2023 Audit Quality Report here.

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

Listen to our podcast where firm specialists share insights on the financial reporting ecosystem's impact on the capital markets and how preparers can get engaged.

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.

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

September 29, 2015

RE: PCAOB Rulemaking Docket Matter No. 041: *Concept Release on Audit Quality Indicators*

Dear Madam Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") *Concept Release on Audit Quality Indicators* (the "Concept Release"). We support the Board's efforts to develop and seek public comment on a potential portfolio of quantitative measures related to public company auditing (commonly referred to as "audit quality indicators," "indicators," or "AQIs"). We commend the Board and its staff for continued outreach on this topic, including convening a public roundtable about the Concept Release.

In this letter, we offer our views regarding certain aspects of the Concept Release. Our views are organized into the following sections:

- Overview
- The term "audit quality indicator"
- Engagement-level audit quality indicators
- Firm-level audit quality indicators

Overview

Our views are informed by our involvement in various AQI initiatives in recent years, which have included discussions about the potential uses of AQIs with audit committees and academics. These efforts encompass pilot testing and our participation on the Center for Audit Quality's (the "CAQ") task force on AQIs. Our pilot testing included, in part, the CAQ's set of potential AQIs introduced in the April 2014 paper the *CAQ Approach to Audit Quality Indicators* (the "CAQ Approach").[1] In addition, since 2011 we have voluntarily disclosed in our annual quality report, *Our Focus on Audit Quality* (the "Annual Audit Quality Report"),[2] certain firm-level measures that provide additional information about our audit practice and our investment in and focus on quality. We have continued to expand and enhance our disclosures, increasing the number of measures (which since 2013 we refer to as Transparency Data Points) based on the positive feedback we have received from stakeholders. We plan to

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[1] The CAQ Approach is available at http://www.thecaq.org/docs/reports-and-publications/caq-approach-to-audit-quality-indicators-april-2014.pdf?sfvrsn=2
[2] A copy of our most recent report *Our Focus on Audit Quality* is available at http://www.pwc.com/us/en/audit-assurance-services/publications/our-focus-on-audit-quality.jhtml.

continue to enhance such disclosures in our 2015 Annual Audit Quality Report. Similarly, we use quantitative measures to monitor certain aspects of our system of quality control and to assist us in identifying potential root causes of audit findings.[3] Our experience and involvement in these efforts has provided us some insights into the benefits and challenges of using quantitative measures, as well as the cost of producing and reporting these measures.

Audit quality comprises many elements and related inputs, and based on our experience, the relative importance of these may vary depending on their intended use by, and the needs of, the users of the information. Also, as stated in the Concept Release, "[t]he effort is new, and by their very nature audit quality indicators must be capable of change over time to reflect advances in learning and changes in the way audits are conducted."[4] As a result, different users will likely value different indicators and the indicators will most likely need to continuously evolve. Due to these factors, and the newness of the effort, more study is most likely needed to determine which measures, if any, could be viewed as having a relationship to audit quality, and the extent thereof. We, therefore, agree with the Concept Release, which states, "[t]he indicators are meant to be a tool. As such, they have inherent limitations that have to be recognized if they are to be effective. They are not algorithms, benchmarks, or safe harbors against enforcement or other claims, and they do not lead directly to formulas for determining the quality of a particular audit or whether an auditor has met its obligations."[5] We also agree with the statement that "[t]he reason AQIs cannot be used in any of these ways is that analysis of AQI data almost always requires a context."[6] While we agree AQIs at a minimum require adequate context, even a comprehensive suite of audit quality indicators that is accompanied by sufficient context is only a contributing factor in considering audit quality as certain elements of audit quality do not lend themselves to being evaluated quantitatively (such as due care and professional skepticism). As a result, even after further study, we may learn that there are limited relationships to audit quality but the indicators may still contribute to transparency that allows for a more informed discussion related to audit quality.

As a result of the factors above, we support a market-based approach. We believe audit committees should receive engagement-level AQIs as they are in the best position to consider the context, including the two-way dialogue needed, to determine whether any response is warranted. This context may also include communication of certain firm-level AQIs to audit committees. Under this approach, audit committees would select which AQIs are communicated to them. This will allow audit committees to tailor the set of AQIs to those that aid them in their auditor oversight role.

We also support the public communication of firm-level AQIs in audit firm transparency or quality reports and believe that market participants over time will influence audit firms as to which measures are relevant to them. Under a market-based approach, the PCAOB serves an important role in developing examples of AQIs for the market participants to consider and to encourage the use and further development of AQIs. Our rationale for these views is discussed in the following sections.

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[3] Consistent with the Concept Release, page 22.
[4] The Concept Release, page 14.
[5] The Concept Release, page 7.
[6] The Concept Release, page 7.

The term “audit quality indicator”

There is no one definition of audit quality, or a universally accepted audit quality framework and, as discussed above, there are many different elements and inputs that may impact audit quality. It is therefore important to establish the meaning of the term “audit quality indicator” with respect to the objectives of the project as the term can mean different things to different stakeholders. We believe that AQIs represent a suite of data points that, along with contextual information, may enhance understanding of audits and provide information about a firm’s investment in and focus on quality.

Without a common understanding, there is the risk that a more direct and causal relationship may be thought to exist between AQIs and audit quality. As the Concept Release states, AQIs “do not lead directly to formulas for determining the quality of a particular audit or whether an auditor has met its obligations.”[7] For this reason, our Annual Audit Quality Report not only includes the definition and description of such measures, along with contextual information, but we have also opted to refer to these measures as Transparency Data Points. We have used this terminology to be clear about their intended use in increasing transparency and to minimize the inference that the measures directly correlate to audit quality. If this project progresses, we believe that it is critical to define what an AQI does and does not represent so that AQIs are used appropriately. For example, we agree with the Concept Release that AQIs “may inform discussions among those concerned with the financial reporting and auditing process,”[8] by stakeholders receiving them.

Engagement-level audit quality indicators

We believe that engagement-level AQIs will provide the most benefit to audit committees given their responsibilities, including oversight of the auditors, and their knowledge and interaction with the company. As noted in the Concept Release, “the indicators are intended to provide information to help frame the oversight and evaluation of a current or pending audit.”[9] “Independent audit committees of the boards of directors of listed companies are directly responsible by statute or regulation for the appointment, level of compensation, and oversight of their companies' auditors… and those auditors report directly to the audit committee.”[10] Focusing on communication with the audit committee allows the AQIs to be discussed with those responsible for overseeing the independent audit.

As noted in the Concept Release, “an audit committee would likely focus first on AQI data at the engagement-level for the audit the committee oversees.”[11] We also believe that evaluation of engagement-level AQIs by the audit committee could be enhanced by audit firms providing, where appropriate, certain firm-level indicators for additional context. Audit committees, with their overall knowledge of the company, experience with the auditors, and understanding of what is relevant for the users of the financial statements in their oversight role, are able to engage in a two-way dialogue by posing critical questions to the auditor. We believe that a dialogue between the audit committee and the audit firm about engagement-level AQIs could facilitate an active discussion on matters important to the execution of the audit, as well as enhance the audit committee’s ability to evaluate actions that have been or may need to be taken. In addition, a two-way dialogue can provide additional context with respect

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[7] The Concept Release, page 7.
[8] The Concept Release, page 1.
[9] The Concept Release, page 19.
[10] The Concept Release, page 18.
[11] The Concept Release, page 19.

to the various measures, as well as provide further perspective on matters and their potential impact on the execution of the specific audit. Enhanced communication through the use of AQIs at the engagement-level could also drive actions that might help maintain or increase audit quality on an engagement and may also assist audit committees in evaluating the effectiveness of the engagement team.

We believe audit committees are in the best position to determine what information they need related to their responsibilities and, therefore, communication of specific AQIs should not be mandated. Audit committees are already receiving (or have the ability to request) information that enables them to evaluate the performance of the auditor. The information includes quantitative and qualitative elements, including the composition of the engagement team, knowledge and judgment in the areas of accounting and auditing, understanding of the company's business and strategy, their interaction with management, local presence, reputation, etc. which do not always lend themselves to a quantitative assessment. Also, mandating the communication of prescribed, quantitative engagement-level AQIs may lead to a de-emphasis on the importance and discussion around other more relevant information, whether quantitative AQIs or qualitative elements. Allowing audit committees to select engagement-level AQIs most appropriate for their audits will provide the best opportunity for the audit committee to communicate with the audit firms on what is most important to them.

Our experience with the various AQI initiatives, including our participation in the CAQ pilot, has demonstrated to us the importance of tailoring the indicators and contextual information provided to an audit committee based on, among other factors, the nature of the entity, business and auditing risks, and the needs and interests of the audit committee. For example, broad measures of engagement team compliance with general training requirements and years of audit experience may be sufficient for one audit committee to understand the competence of the engagement team; however, in a highly specialized industry such as energy or banking, an audit committee might value an understanding of more targeted information on specialized training and technical expertise in certain complex and challenging areas related to the audit. Our experience during the pilot testing has also shown that the presentation and discussion of less meaningful measures or those that are already readily available dilutes the discussion of other more meaningful data presented.

We believe AQIs are likely to be misleading without contextual information and, consistent with the Concept Release, believe they "may have their greatest use as generators of questions for the auditor."[12] As such, we believe that engagement-level AQIs should be accompanied by two-way dialogue with the auditor. For this reason and those discussed above, we do not support the public disclosure of engagement-level AQIs.

These views are consistent with those of the CAQ, which were informed by the CAQ Approach that included a broader population for the pilot testing (30 audit engagements).

Firm-level audit quality indicators

We support public reporting of firm-level AQIs, accompanied by appropriate written context. For the last several years we have voluntarily disclosed Transparency Data Points in our Annual Audit Quality Report, which provides information about our audit practice and our investments in and focus on quality.

We believe firm-level AQIs should not be mandated or prescribed because differences in the firms could make it difficult to achieve consistency and comparability of AQIs, even with written context, due to:

[12] The Concept Release, page 3.

- differences in management and organizational structure,
- the degree of specialization in certain industries and geographies,
- differences in systems and processes in support of the system of quality control,
- differences in leverage models, nature of clients, etc.,
- varying initiatives and investments related to audit quality,
- changes in business and risks to audit quality, and
- the types of data readily available and related costs associated with producing AQIs.

For example, a firm's investment in its auditing practice infrastructure as a percentage of revenue may not be comparable across different size firms and as stated in the Concept Release "[d]efining the expenditures that represent such investment, however, is difficult."[13] For example, significant judgment may be needed for firms to distinguish between normal operating costs compared to investments in audit quality. In addition, while a firm's investment in auditing practice infrastructure can demonstrate its commitment to audit quality, it may also be an indicator that the firm needs to invest more than other firms as a result of poor quality results. Such comparison may lead to inappropriate conclusions. Also, prescribing a suite of audit quality indicators may be difficult due to the different sizes of firms.

Due to the many elements and inputs related to audit quality, we believe over time the market is in the best position to decide what is relevant. We believe the market will eventually determine the most relevant measures based on feedback from stakeholders and their evolving needs in a changing business environment. We believe this approach, by being flexible and market-based, will achieve the greatest benefit and minimize the risk that a suite of indicators does not achieve its objective or become irrelevant.

Even under a market-based approach, there are certain indicators that we do not believe should be further considered as part of a suite of potential indicators as we believe the unintended consequences or possibility for misinterpretation are such that they cannot be overcome. Certain of the indicators pertaining to audit results included in the Concept Release relate to historical events and may not provide timely information given the nature of the process, such as trends in private litigation, trends in PCAOB and SEC enforcement proceedings, and the frequency and impact of financial restatements due to errors.[14] The specific facts and circumstances of each event are unique, including the amount and type of information that may become publicly available, and therefore such events do not lend themselves to being represented in a quantitative fashion. In addition, the outcome of each such situation could be based on a number of factors not necessarily related to quality issues affecting a particular firm or auditing in general. For example, there is a long lag time in enforcement proceedings and litigation events and, as noted in the Concept Release, "the quality of the information is uncertain, given the fact that a particular litigation may or may not result in findings of liability, and the amount of information derived from settled litigation is ambiguous."[15] Similarly, the impact (magnitude) of financial restatements for errors is not easily measured and differs depending on what financial statement or disclosure is impacted. We, therefore, do not support these as AQIs on the basis that they may not provide timely information and can be misleading. Also, in Appendix A of the Concept Release, the PCAOB puts forth concerns about the proposed timely reporting on going concern issues. We are in agreement with the concerns raised around context and unintended consequences and do not think that these factors can be overcome.

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[13] The Concept Release, page A-16.
[14] The Concept Release, page 13.
[15] The Concept Release, page A-26.

With respect to other proposed AQIs, there is merit in many of the concepts and potential indicators but additional evaluation and consideration will most likely be necessary as the PCAOB and we continue our efforts related to AQIs, especially if it is determined that the communication of any such indicators would be mandated.

Conclusion

We support the Board's efforts to develop a potential portfolio of AQIs. We believe these efforts may assist in developing a market-based approach to communicating AQIs. We believe a market-based approach is best as it will most likely achieve an outcome of the most relevant AQIs being communicated and discussed among the different stakeholders.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the PCAOB staff or the Board may have. Please contact Michael J. Gallagher (646-471-6331) or Andrea Yin (973-236-5727) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

Office of the Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

September 4, 2015

RE: File Number S7-13-15, SEC Concept Release: *Possible Revisions to Audit Committee Disclosures*

Dear Sir:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the "SEC") Concept Release on *Possible Revisions to Audit Committee Disclosures* (the "Concept Release"). We commend the SEC for reexamining disclosures about how audit committees oversee auditors. We note the degree to which corporate governance, and specifically the role and responsibilities of audit committees, has evolved since 1999 when the majority of the current rules were adopted, and believe it is appropriate to consider whether audit committee disclosures should be enhanced to provide more relevant and useful information for investors and other stakeholders.

Enhancing transparency often serves to build trust and instill confidence in the capital markets; however, it is important to recognize and consider potential unintended consequences and evaluate whether the benefits outweigh the costs. While we recognize that companies have different governance structures and one size does not fit all, we believe there is an opportunity for audit committees to meaningfully expand disclosures related to their role in overseeing the auditor if the reporting is flexible compared to a listing of prescriptive requirements.

We also recognize that we, as auditors, play a role in enhancing transparency as well. We embrace that role, as demonstrated by our actions, such as:

- Annually we issue *Our Focus on Audit Quality*, wherein we describe our system of quality controls, our quality results, and other actions we have taken to enhance audit quality. We voluntarily include "Transparency Data Points," which provide information and insights about our audit practice and our investments in and focus on quality.
- We continue to be supportive of naming the audit partner and certain other participants involved in the audit as long as the information is not included or incorporated by reference into any Securities Act registration statements.
- We continue to be supportive of changes to the auditor's report that maintain or improve audit quality.

Overview

We support enhancing transparency when it provides meaningful information to the capital markets, as long as the benefits outweigh the costs and unintended consequences can be limited. Specifically, we believe it is appropriate to require disclosures by the audit committee in the three broad categories discussed in the Concept Release: (1) Audit committee's oversight of the auditor, (2) Audit committee's process for appointing or retaining the auditor, and (3) Qualifications of the audit firm and certain members of the engagement team selected by the audit committee.

Given that individual companies' facts and circumstances vary and that audit committees carry out their responsibilities in different ways, we believe the SEC should consider a principles-based approach, and not prescribe specific items to disclose within each category. For example, audit committees take on many diverse responsibilities, often driven by different exchange listing rules and varying company circumstances. Due to these differing requirements, some of the suggested disclosures discussed in the Concept Release relate to responsibilities that do not apply to all audit committees. This approach may lead to a check the box exercise instead of consideration of what disclosures are most relevant given a company's facts and circumstances. Accordingly, we believe avoiding prescriptive disclosure requirements and, instead, allowing companies flexibility in crafting disclosures within the three broad categories would be more beneficial.

Also, given that audit committee charters and other proxy disclosures already describe audit committees' responsibilities for overseeing the auditor, we believe it is appropriate for the focus to be on <u>how</u> audit committees carry out those responsibilities, not <u>what</u> are those responsibilities. Doing so may help reduce the likelihood of disclosures becoming boilerplate and less relevant.

We believe allowing for flexibility in the audit committee disclosures recognizes that one size does not fit all, may reduce the expectations gap, may make the disclosures more meaningful, and may reduce the likelihood of disclosures becoming boilerplate. As a result, we recommend only requiring that the above categories be addressed, but not being prescriptive in how they are addressed. Rather, that should be at the discretion of the audit committee.

Under a principles-based approach, we believe many of the topics included in the Concept Release may be appropriate for an audit committee to discuss if they are relevant to the facts and circumstances. For other topics, there may be unintended consequences of certain disclosures, including the potential to chill the dialogue between the auditor and audit committee by potentially restricting the free exchange of information due to concerns over what might need to be disclosed. We outline our specific concerns on those in the following sections of this letter, and ask that they be considered as the project progresses.

Audit committee's oversight of the auditor

<u>Additional information regarding the communications between the audit committee and the auditor</u>

We believe in some instances it could be valuable for an audit committee to disclose information about certain matters communicated from the auditor to the audit committee (whether required communications - those mandated by auditing standards and other rules - or other communications); however, it is important to provide audit committees with flexibility in determining what matters to disclose. Requiring specific disclosures could have the unintended consequence of chilling the dialogue between the audit committee and the auditor. For example, requiring disclosure of topics covered in executive sessions could inhibit candid discussion of confidential, sensitive matters.

Also, we believe that requiring audit committees to disclose how they considered and responded to all the required audit committee communications could result in boilerplate disclosures that may not be meaningful. Some required communication items may be straight-forward for consideration by the audit committee. For example, depending on the circumstances, the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks may be minimal; requiring the audit committee to disclose how it considered such items would not be meaningful, and the disclosure would become boilerplate to meet the requirement. Further, many items considered by the audit committee will most likely be consistent year over year, resulting in boilerplate disclosures that it considered the information and concluded it was appropriate in the situation.

The frequency with which the audit committee met with the auditor

While we recognize that frequent communication between the auditor and audit committee is beneficial, we have concerns about requiring disclosures related to the frequency of contact between the audit committee (or audit committee chair) and the auditor both during and outside of formal audit committee meetings, including private sessions. Such quantitative, required disclosures lack context, may lead to boilerplate disclosure and may not be consistently calculated. We believe there should not be any requirement to disclose the number of meetings held between the audit committee and the auditor, as reporting the number of meetings does not provide useful information on whether the frequency was sufficient. Disclosing the number of meetings, by itself, does not meet the objective of reporting on how audit committees fulfill their oversight responsibilities.

While it is good (and fairly standard) practice for audit committees to meet periodically in private session with external auditors, it's a requirement only for audit committees of NYSE-listed companies. As such, it would not be useful to compare disclosures on the number of private sessions between NYSE and NASDAQ listed companies.

For interactions outside of formal audit committee meetings, there may be inconsistency in terms of what degree of contact would count as a "meeting." For example, would a short phone call between the audit committee chair and the audit partner count as a meeting? From a practical perspective, there may be challenges to consistently calculate the number of emails, phone calls, and in person meetings in the same manner, both from year to year for a company as well as across companies. If there's an issue that would otherwise see the number of meetings increasing substantially in a given year, it could dampen the frequency of communication if the number would have to be disclosed. Also, if additional meetings are needed as a result of a unique event in one year, one might question the decrease in meetings reported for the subsequent year.

Review of and discussion about the auditor's internal quality review and most recent PCAOB inspection report

An audit committee has a broad range of items it could disclose about its oversight of auditors. One potential area is how the audit committee considers the information reflected in the public portion (i.e., Part I) of the Public Company Accounting Oversight Board (the "PCAOB") inspection reports in its oversight of the auditors. For example, an audit committee could disclose its consideration of how matters identified in Part I might apply to the company's audit and how it assessed whether the external audit plan is responsive to those findings. We are supportive of this being an area that audit committees could consider disclosing as it relates to their responsibilities regarding the oversight of the auditor, and we believe audit committees should have flexibility in the disclosures made. It is unclear from the Concept Release whether the SEC is suggesting the results of a specific company inspection or a specific audit firm's report be discussed, however, prescriptive requirements that include such matters could raise the following concerns:

- It is possible PCAOB inspection results in a given year will not apply to a company's audit situation, so requiring specific disclosures would not be helpful and could lead to boilerplate disclosures.
- Discussions regarding Part I of the PCAOB's inspection report (and hence disclosures related to those discussions) also could vary from company to company. For example, the audits of many companies will not have been subject to inspection by the PCAOB in a given year, and so discussion appropriately may be focused on the audit firm's Part I inspection results as a whole. Other companies' audits may have been inspected, and the nature of what could be disclosed, consistent with the PCAOB's approach of not identifying issuers in Part I, could vary.
- If a company uses an external audit firm that is not inspected annually by the PCAOB, the audit committee's disclosure of how it considered PCAOB inspection results may be repeated, unchanged for a few years, until a new report is issued. Being required to highlight that the external audit firm is

small and not subject to annual PCAOB inspection may have an unintended consequence that audit committees feel pressure to change to larger firms that are subject to annual inspections, whereas, if provided with flexibility, an audit committee may choose to discuss how it considered other public information (e.g., PCAOB 4010 reports or Audit Committee Dialogue, Center for Audit Quality's Alert *Select Auditing Considerations*, etc.) in the context of the audit it oversees.

As a result, we believe the rules should provide flexibility on how audit committees disclose their consideration of inspection results.

Qualifications of the audit firm and certain members of the engagement team selected by the audit committee

<u>Disclosure of certain individuals on the engagement team</u>

We are supportive of audit committees discussing the principal qualifications of the external audit firm and how they became comfortable with the qualifications of the audit engagement team. Providing audit committees the flexibility to disclose how they reached decisions about the firm and the qualifications of the team could help alleviate any misimpression that the audit is the product solely of the engagement partner, rather than the entire firm.

The PCAOB is also currently considering requiring the name of the lead engagement partner to be identified, which we expect will result in the issuance of a PCAOB rule on this matter. We are supportive of audit committees identifying the lead engagement partner, as this provides the audit committee an opportunity to provide context in the selection of the engagement partner in connection with the qualifications of the rest of the engagement team and the audit firm. Audit committees typically consider an individual partner's qualifications and experience as part of determining whether they are comfortable having that individual leading the audit engagement. This generally is done as part of a process where they meet with and can question the partner, assess his or her competence and consider other relevant factors. For example, if a less tenured partner is being considered to lead an audit engagement, the audit committee may consider the experience of other partners and managers who are on the engagement. Allowing audit committees an opportunity to provide this context if they deem it appropriate will most likely result in more meaningful disclosures than a list of required factors that may develop in selecting an audit partner. We believe this is more reflective of how audit committees make their selection of an engagement partner today.

Consistent with the PCAOB's most recent approach in the *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form*, we recommend the information be provided in a location that would not be incorporated by reference into any Securities Act registration statements as it relates to identifying an engagement partner or other audit participants, to avoid the practical challenges in obtaining consents and to eliminate concerns about potential liability under Section 11 of the Securities Act. We are supportive of this disclosure in addition to the PCAOB's proposal to disclose the audit partner's name in a separate PCAOB form. In due course, it may be appropriate to evaluate whether stakeholders find benefit in having the disclosure in two different places, as it may meet different objectives, or if it is redundant. For example, if similar search capabilities exist with disclosing the name in an audit committee disclosure, stakeholders may determine disclosing the name in a separate PCAOB form is redundant.

The number of years the auditor has audited the company

The Concept Release states "most academic research indicates that engagements with short-term tenure are relatively riskier or that audit quality is improved when auditors have time to gain expertise in the company under audit and in the related industry." We also acknowledge there are other studies that report different results. We recognize that some stakeholders find value in tenure disclosures. We support allowing companies to disclose tenure in response to their individual facts and circumstances, but believe mandating its disclosure, especially when we believe there is not a correlation between tenure and audit quality, may imply there is such correlation.

Other possible disclosures

The Concept Release asks whether audit committees should be required to provide disclosures about their role in overseeing areas such as internal audit and risk management. We believe the SEC should not mandate disclosures in areas where not all audit committees have the same required responsibilities. All audit committees do not necessarily perform those functions due to differing requirements; therefore, the disclosures would not be comparable across companies and may lead stakeholders to inappropriate conclusions about the effectiveness of certain audit committees. For example, the audit committees of NYSE-listed companies are required to oversee the internal audit function, while NASDAQ-listed companies are not required to have internal audit functions - and many smaller NASDAQ-listed companies do not. Similarly, some boards assign responsibility to oversee areas like cybersecurity risk to the audit committee, while others oversee it at the full board or assign it to another board committee. Companies can always choose to disclose additional information on audit committees' other oversight responsibilities if they believe it will be useful for stakeholders or if stakeholders are requesting it.

Conclusion

We support enhancing the transparency of how audit committees fulfill their important function of overseeing the auditor. We believe the most meaningful and relevant information would be supported by a principles-based rule that requires the three broad areas be addressed but provides companies with flexibility to determine how best to describe how the audit committee carries out its responsibilities in those areas. This will allow meaningful information to be provided to the capital markets, minimize the unintended consequences, and reduce the risk of boilerplate disclosures.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the SEC staff or the Commissioners may have. Please contact Michael J. Gallagher (646-471-6331) or Catherine Bromilow (973-236-4120) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP