



Audit Quality Report

2021 PwC Australia Audit Transparency Report

Year ended 30 June 2021

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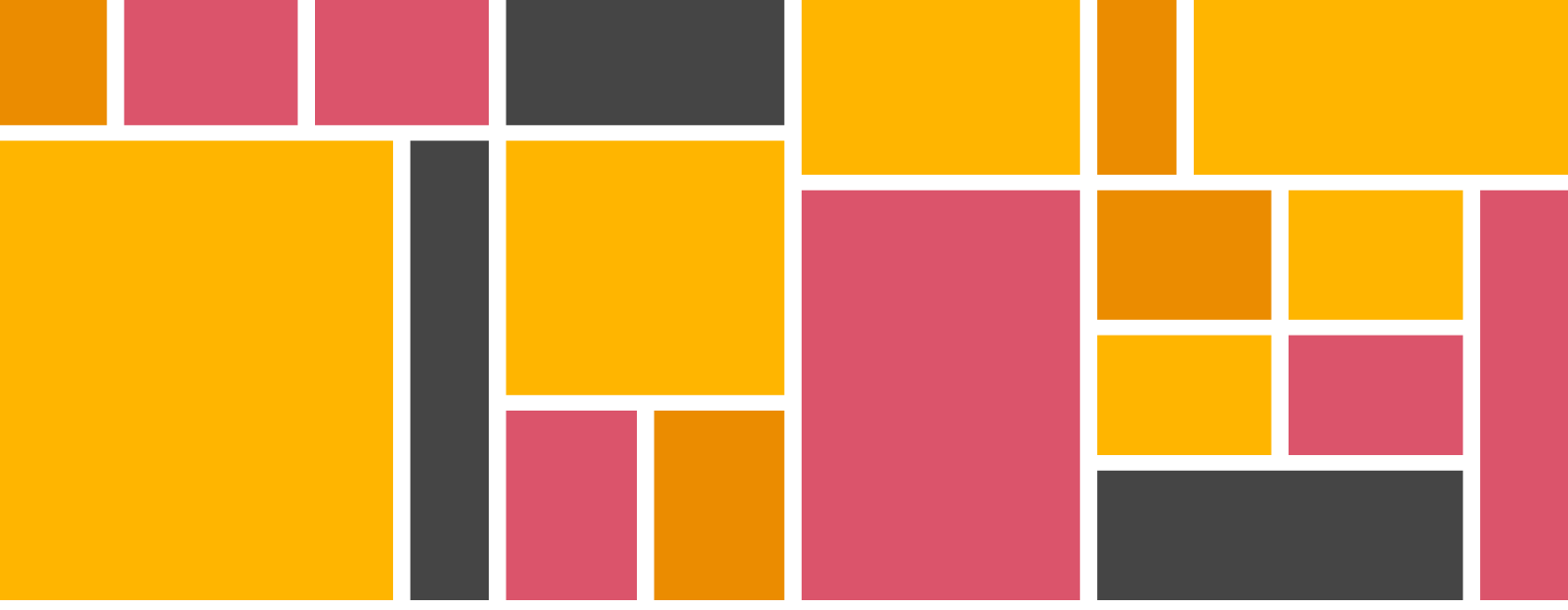
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Section one

Our year in quality

Transparency at a glance

Digital upskilling

Over

14,000

Assurance visits to the Digital Lab and over **5,300** downloads of Assurance Lab assets

Over

500

new Assurance joiners attended Digital Academies in FY21

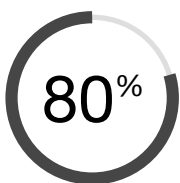
Over

66%

of Assurance people used a citizen-led tool in FY21
141 assets published in the Digital Lab
90 Assurance Digital Accelerators

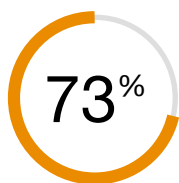
People perspectives

Quality



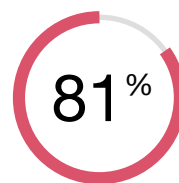
of Assurance respondents believe that the people they work for actively plan and coordinate with their teams to deliver quality on their engagements

Technology



of Assurance respondents believe that people they work with actively seek out new ways to use technology to improve how we deliver to our clients

Values



of Assurance respondents believe that their personal values align with the values demonstrated at PwC

Ethics

90%

of Assurance respondents believe that the people they work with demonstrate conduct consistent with PwC's Global Code of Conduct

80%

of Assurance respondents feel comfortable discussing or reporting ethical issues and concerns without fear of negative consequences

79%

of Assurance respondents believe they can speak openly, even if their ideas are in disagreement with others

Response rate 49% April 2021

Our training investment in people

Assurance training FY21

Average hours achieved by partners and staff

24
Online

31
Classroom

56
Total

Total hours completed

152,842

Assurance training FY20

Average hours achieved by Partners and staff

22
Online

46
Classroom

68
Total

Total hours completed

172,308

*FY20 hours include the Digital Academies for all people

Number of hours of auditing and accounting training mandated by PwC by grade FY21

Partners

30

Managers

30

Senior associates

30

Associates

114

Restatements

1

restatement for public companies identified by ASIC or PwC inspections due to material error

As disclosed in our Dec 20 balanced scorecard and ASIC's inspection report for y/e 30 June 2020 (y/e 30 June 2019 - 0)

Leadership in Quality Survey

Of the partners who received feedback from staff, they achieved an average score of

FY21

9.3 out of 10

FY20

9.2 out of 10

Of the senior staff grades who received feedback, they achieved an average score of

FY21

9.3 out of 10

FY20

9.1 out of 10

Technical support

1 to 10

Ratio of partners serving in technical/audit quality support roles to the total number of audit signing partners (FY20 1 to 10)

Our drive for quality

Number of audit engagements reviews (internal and external reviews)

FY21



100

audit engagements were reviewed

FY20



98

audit engagements were reviewed

Covering % of the firm's responsible individuals



80%

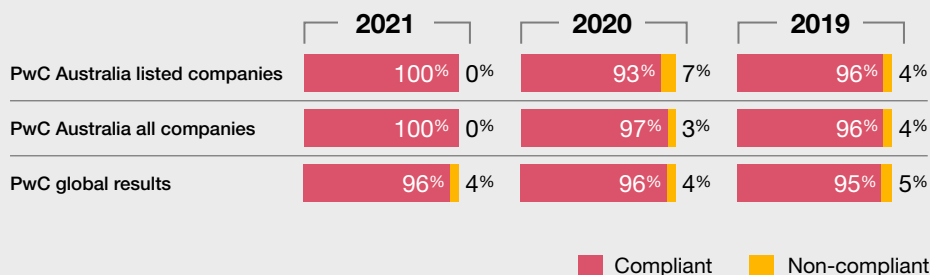
of the firm's responsible individuals



73%

of the firm's responsible individuals

Internal inspection results



Our people

Number of audit partners

139

Number of audit staff

1,547

Our pursuit of diversity*

Of the 32 new Assurance partners admitted in FY21



50%
were women



28%
were from a diverse cultural background

Of the 16 new Assurance partners admitted in FY20



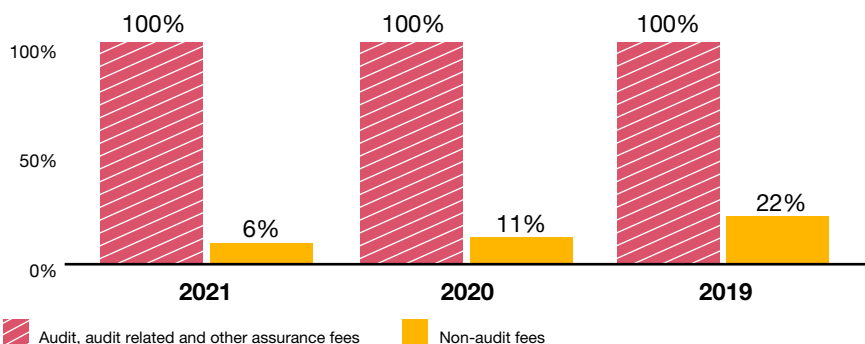
50%
were women



31%
were from a diverse cultural background

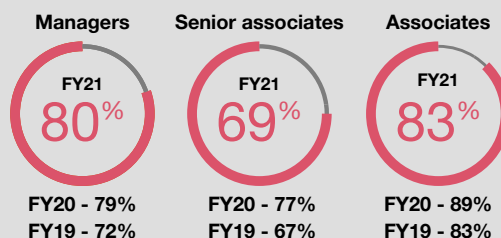
*PwC Australia's diversity targets aim for a minimum of 40 percent of new partners to be women, 40 percent men and the remaining 20 percent can be any gender identity. We also have a 30% cultural diversity target.

Non-audit to audit fees for ASX 200 audit clients



ASX calculated based on market cap at time of submission of financial statements (top 200 market cap). Non-audit fees shown as a percentage of audit, audit related and other assurance fees.

Average retention rate by staff level



18 years
Assurance partner average years of experience at PwC

Client feedback

81%

Baseline audit quality score

321 Number of post external audit surveys

Leverage ratio of audit teams

Partners to Manager

FY21
1 to 3.2

FY20
1 to 3.6

Partner to staff (Director and below)

FY21
1 to 11

FY20
1 to 11

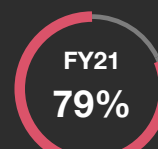
Percentage of audit hours performed by acceleration centres

FY21
16%

FY20
16%

Utilisation metrics

Assurance people utilisation



FY20
80%



Welcome to our 2021 Audit Transparency Report

At PwC, we see our role as helping clients build trust and deliver sustained outcomes. As an audit business, we know that performing this role is critical to a well-functioning capital market in Australia and to the confidence Australians have when making important investment decisions. Given the added economic uncertainty of the past two years, our clients, their customers and employees and the community more broadly has a critical need for trust and confidence from independent sources.

Quality and transparency are fundamental to delivering trust and they are the core of our strategy. Alongside our values, they guide what we do and how we work. We appreciate achieving both quality and transparency goes beyond reporting and compliance - to culture, mindset, standards, certified professionals, stringent controls, appropriate governance and tailored technologies.

In that context I'm delighted to share our PwC Audit Transparency Report for 2021. This report describes our policies, systems and processes for ensuring quality, the results of key quality monitoring programmes and reviews, and the way we foster a culture of quality at every level of the firm. It details the listed companies we performed audits for and the total revenue from our audit and non-audit work.

Delivering audit quality during the COVID-19 pandemic

With the uncertainty created by the ongoing COVID-19 pandemic, delivering audit quality has continued to be an unprecedented challenge for many audit professionals. Reporting seasons in the last two years have had more judgement, complexity and logistical challenge than I can remember in my career.

During this time we have been consistent in our leadership narrative with our audit teams. That is, we have two non-negotiable priorities - the safety and wellbeing of our people and the quality of our work. In a small number of cases this prioritisation has meant that we were not able to complete our work in accordance with previously set deadlines, either due to logistical challenges, significant judgement or challenges with client preparedness. Leaning into challenging conversations on these matters is consistent with our commitment to encourage our people to respectfully challenge if they see something they think isn't right, with our values and with our Assurance critical behaviours that guide how we work every day (see more on our culture review below). A focus on our people's experience has led to the launch of a range of wellbeing, rewards and benefits and remuneration initiatives, as well as the creation of a World Class Learning programme, which includes professional development and training.

The pandemic period has also brought with it challenges arising from border restrictions and the resulting demands for professional talent. To face into this, and capitalising on being part of a global network, we have focussed on smarter resourcing, including:

- the launch of a new Skilled Service Hub in Adelaide to supplement the already existing Skills Hub in Western Sydney
- recruitment including the largest ever intake of graduates to Assurance
- use of our offshore acceleration centre teams
- virtual senior resources from within PwC network firms and
- onshore Centres of Excellence.

Continuing to meet community and regulator expectations

We understand that expectations of our Firm continue to rise, especially in a time where additional trust and confidence is at a premium. In that spirit, we have continued to evolve how we move forward with our audit quality agenda - especially in the three following areas:

Our Audit Quality Balanced Scorecard

PwC was the first of the big four to publish in 2019 our ASIC audit inspection results and release the only Audit Quality Balanced Scorecard in Australia. This scorecard put PwC's ASIC audit inspection results on the public record, along with the firm's internal audit quality inspection results and other measures related to the quality of our work. Elements of the October 2021 scorecard results are included in this report and you can find the full scorecard at [pwc.com.au](https://www.pwc.com.au). This will be updated online in the coming months after the release of ASIC's next audit inspection report.

We acknowledge there may be times where the results we publish do not meet our high expectations, or the expectations of the community. Our ultimate goal for our inspection results is that ASIC considers that we have obtained reasonable assurance in all audit areas. Our Audit Transparency Report for 2021 shows how we continue to drive a quality improvement plan aimed at achieving this goal.

Our Audit Quality Advisory Board

In 2020, we established the PwC Australia Audit Quality Advisory Board (AQAB), to take our commitment to quality to a new level. The initiatives PwC has implemented as a result of the 2020 AQAB recommendations and our response to the 2021 AQAB recommendations are outlined in this Audit Transparency Report. This external board will continue to provide objective review, feedback and advice about how we can continue to improve the quality of our audits.

Our culture

In 2021, we undertook a review of the culture of our audit practice to identify how our culture supported our goals and objectives, especially around quality and wellbeing. Using a globally recognised methodology, we surveyed our entire team and held focus groups with over 130 people. We sought to understand our cultural traits - which are really the sum total of all of our individual behaviours, especially when no-one is watching. We reflected on how helpful these traits were in our journey to achieve our quality strategy, and identified three critical behaviours that we believe are fundamental to our success going forward - humility, courage and realism. We have a programme of work underway to embed the critical behaviours that can positively influence our quality goals.




Matt Graham

Managing Partner, Assurance

Statement on the effectiveness of PwC Australia's system of quality control

PwC Australia believes that the system of quality control described in this report complies with applicable regulations and provides a reasonable basis for believing that audits carried out by the firm consistently meet the required quality standards. In July 2021, the system of quality control for the firm's Assurance practice was subject to a global review that covered the year ended 31 March 2021. The review concluded that the system was suitably designed and complied with, to provide PwC Australia with reasonable assurance of performing and reporting in conformity with Australian Auditing and Assurance standards and applicable ethical, professional, legal and regulatory requirements. This Transparency Report has been prepared to comply with Sections 332 to 332G of the Corporations Act 2001 (the Act) and Regulation 2M.4A and Part 3 of Schedule 7A in the Corporations Regulations 2001 (Regulations) in Australia.





What is audit quality?

At PwC, audit quality means that we consistently:

- comply with auditing standards
- exercise professional scepticism
- use our experience to identify and resolve issues in a timely manner
- apply a deep and broad understanding of our client's businesses and the financial environment in which they operate.

This means that we:

- ask tough questions
- apply an objective and sceptical 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
- recognise our role in the capital markets
- consider alternative views
- have high recruitment and performance standards.



Audit Quality Advisory Board

PwC Australia's Audit Quality Advisory Board (AQAB) provides external advice, guidance and challenge regarding PwC's approach to audit quality, specifically on matters relating to the quality of statutory (external) audits performed by the firm.

The AQAB has access to all information about our audit quality processes and provided its second report in October 2021. The full Executive Summary of the report is provided as an appendix to this document, however below we share the Board's observations and recommendations, and how PwC will act on those recommendations.

2020-21 AQAB report

Introduction

"Audit quality continues to receive considerable attention in Australia and internationally. This is in recognition of the importance of the role of auditing in enhancing confidence of investors and other key stakeholder groups in the information provided in financial reports.

As complexity in financial reporting is increasing due to the evolving business environment and the desire to produce more meaningful financial reports, so too are the expectations on firms undertaking audits of financial reports. In addition to maintaining currency with financial reporting and auditing developments, firms have been required to manage the implications of the COVID-19 pandemic on audit engagements, which has seen a rapid shift to more virtual business operations and controls¹. These circumstances have introduced a range of new challenges for firms delivering audit services, without changing the fundamental responsibility of the auditor to obtain sufficient appropriate audit evidence to support their audit opinions on the financial statements.

In their audit inspection findings across all firms inspected for 2019-20, the Australian Securities and Investments Commission (ASIC) drew attention to their findings which showed that 'Audit firms need to work on improving audit quality and significantly reducing the number of instances where auditors do not obtain reasonable assurance that a financial report is free of material misstatements'². ASIC's audit inspection report for PwC for 2019-20, drew attention to a range of matters (eight of the 35 key areas reviewed in total across 11 audits) being 23% of the key areas reviewed (compared to 18% for 2018-19) where, in ASIC's view, PwC did not obtain reasonable assurance that the financial report subject to inspection was free of material misstatement. While PwC did not necessarily agree with all of ASIC's findings, the matters raised highlight opportunities for improvement in PwC's audit processes. As at the date of the preparation of this report, the 2020-21 ASIC inspection results had not yet been issued. The results of the recent PwC network reviews identified no engagements rated as "non-compliant" from a sample of 32 audits.

Nevertheless, common themes identified from these PwC network reviews, based on the firm's root cause analysis, included the need for more consistency in documenting and evaluating how IT risks, and the reliability of data, are addressed in the audits of smaller engagements; and the need for clarity and consistency in documenting the audit approach adopted and judgments made in assessing the sufficiency of the audit evidence obtained. Pleasingly, PwC notes that for the larger engagements, the benefits of the disciplined planning processes have shown an improvement in audit quality. There were no indications that circumstances of COVID-19 have had an impact on audit quality.

Revised pronouncements recently issued by the international standard setting boards for the accounting profession have been designed to strengthen and improve a firm's management of quality for audit and certain other engagements. These pronouncements also strengthen independence requirements for audits and place further restrictions on the provision of non-assurance services to audit clients by firms. The revised pronouncements have been reviewed by the Australian Auditing and Assurance Standards Board and the Accounting Professional and Ethical Standards Board in accordance with each Board's due process, with implementation of the Australian requirements to take effect commencing from December 2022.

In addition, the Parliamentary Joint Committee on Corporations and Financial Services has completed its inquiry into Regulation of Auditing in Australia indicating that 'In this radically changed environment, independent and accurate external auditing is more critical than ever in helping determine efficient and effective capital allocation'³. The Committee made 10 recommendations, five of which were directed to ASIC, the Financial Reporting Council and the Australian Professional and Ethical Standards Board covering the audit inspection methodology, auditor independence, and fee disclosure requirements in relation to audit and non-assurance services. In due course, the Government's consideration of the Committee's recommendations can be expected to influence the statutory and oversight arrangements applying to audits undertaken in Australia.

In summary, over the past year we have observed that the Australian Parliament, accounting professional bodies, regulators and audit firms have all taken steps to implement measures that seek to enhance audit quality. This reflects heightened stakeholder expectations about the importance of improving the quality of audit services being delivered in the public interest.

For its part, PwC has been proactive in reinforcing the importance of audit quality in the services it provides for some time. This includes having in place arrangements to provide assurance that professional requirements in relation to independence are being adhered to. The leadership of the firm has continued to reinforce the importance of audit quality with actions designed to achieve better audit outcomes, but also recognises there is more to be done. PwC has also invested significantly in resources to support compliance with independence requirements. As a consequence, PwC is well placed to respond to the range of measures referenced above which will have a direct impact on all providers of audit services in the coming years.

Successful delivery, of course, will be reliant on ongoing planning, effective engagement with partners and staff, effective engagement with clients and, most importantly, the application of sound judgement and professional scepticism in relation to all phases of each audit undertaken, having regard to statutory and professional requirements.

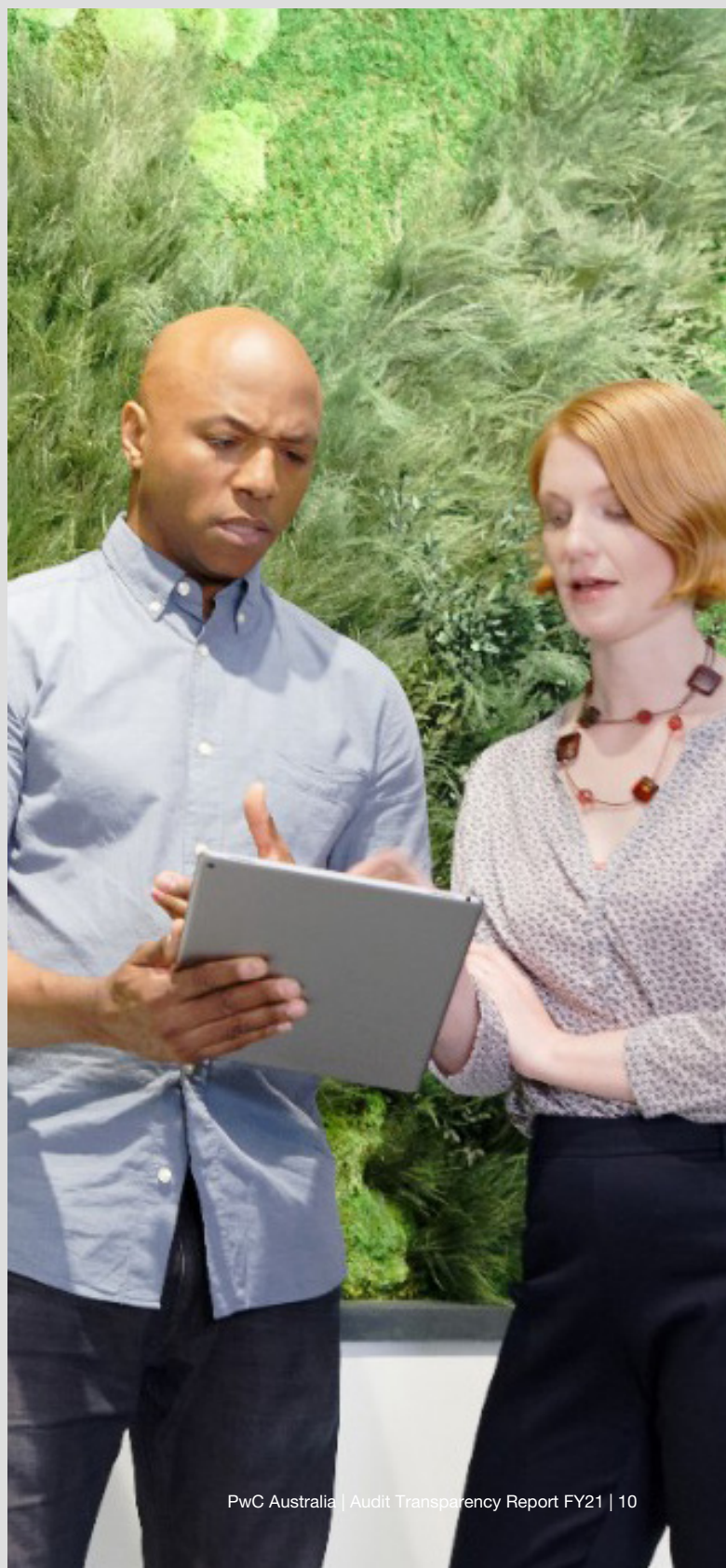
The foundations that PwC has established provide an effective platform on which to deliver audits to the higher standards expected in the years to come. History shows, however, there is no room for complacency.

AQAB observations, and recommendations for improvement in 2019-20

In its initial report, which took a broad review of the PwC audit practice, the AQAB made four recommendations directed to PwC to reinforce the importance of additional measures which can be taken by PwC to support the firm's emphasis on delivering quality audits. The recommendations focussed on:

- Providing greater visibility to partners and staff in the audit practice of the contribution their services make "to build trust in society", and providing greater clarity as to the importance of quality in delivering on the firm's purpose and values;
- Developing a respectful culture of challenge that encourages partners and staff to speak freely, and speak up on better ways of delivering audit services and improving organisational performance;
- Emphasising the importance of the application of 'professional scepticism' in undertaking audits, as well as the firm's expectations in relation to audit documentation; and
- Considering the firm's accountability framework in respect of sanctions associated with ASIC's inspection results as a separate category, and how to integrate the processes for partners and staff so they are mutually reinforcing in achieving quality outcomes and enhanced organisational alignment.

PwC responded positively to each of the AQAB recommendations, nominating a senior executive responsible for implementing the recommendation and an expected implementation date of 12 months or less. Since the Board's first report, PwC has taken appropriate steps to appropriately implement each of the recommendations.



The focus of the 2021 AQAB Report

For this report, the Board has focussed on measures taken by, and proposed by PwC, in relation to audit quality, the resourcing of audit teams, and steps taken by PwC to monitor the independence of the firm and audit team members (including partners and staff). In considering PwC's approach to these matters, the Board has continued to focus on the importance of partner and staff engagement so that partners and staff are involved in, and have greater understanding and ownership of, the solutions being implemented to enhance audit quality.

The Board has also borne in mind the insights of Katzenbach⁴, Steffen and Kronley⁵ who emphasise that coherence among an organisation's culture, strategic intent and performance priorities can make the whole organisation more attractive to both employees and clients. This is particularly important when the roles of audit team members require them to adhere to a broad range of statutory, professional and firm requirements in discharging their responsibilities.

The Board's conclusions and recommendations relating to each of the focus areas reviewed are set out below."

Recommendation	PwC Australia's response
1. The AQAB recommends that PwC, in its communications and policy documents relating to the audit practice, includes reference to its responsibilities as a professional firm to act in the public interest which derive from the fundamental principles of ethical behaviour for professional accountants. This could be achieved through updating policies and professional development activities. This would further emphasise to the audit practice, and its audit clients, the important role undertaken by auditors across the economy and society.	<p>During 2021-22 we will bring to life the important role auditors play through learning programmes and professional development activities that reflect our recognition of the profession's public interest responsibility as referred to in applicable professional obligations. In our Town Hall discussions with staff we will share practical examples that demonstrate our commitment to upholding professional expectations and building trust in society.</p> <p>Responsibility: Jan McCahey (Risk and Quality Leader)</p> <p>Date: 31 March 2022</p>
2. The AQAB recommends that PwC convey to its clients' audit committees the importance of their role in contributing to a quality audit that is delivered efficiently.	<p>We will share practical steps for Audit Committees to take in support of high-quality company reporting and audits. We will do so in our formal communications that we share with the Audit Committees of our listed clients and in our regular dialogue programme with members of Audit Committees.</p> <p>Responsibility: Kristin Stubbins (Audit Leader)</p> <p>Date: 30 June 2022</p>
3. The AQAB recommends that PwC review and report on the outcomes of the resourcing initiatives being implemented to ensure that they are delivering better quality outcomes, with more effective utilisation of partners and staff.	<p>We understand that audit quality depends on having the right people with the right skills and capabilities assigned.</p> <p>We will undertake a review of the effectiveness of the resourcing initiatives that commenced in 2020-21 and share the findings with the Audit Quality Advisory Board.</p> <p>Responsibility: Jan McCahey (Risk and Quality Leader)</p> <p>Date: 31 March 2022</p>

Recommendation	PwC Australia's response
4. The AQAB recommends that PwC leadership emphasises the importance of communication and coordination as the audit work becomes more dispersed across various channels of delivery. A strong sense of team should be encouraged by all those involved in the audit to ensure a seamless delivery of a high-quality audit.	<p>We will continue to encourage our audit partners to promote a strong sense of team on their engagements, demonstrating the importance of building a culture where all team members feel included and able to speak up, irrespective of where they are physically located.</p> <p>We will seek feedback on this from team members as part of our regular staff surveys.</p> <p>Responsibility: Kristin Stubbins (Audit Leader)</p> <p>Date: 31 March 2022</p>
5. The AQAB recommends that PwC continues to incorporate learnings from its review of its cultural settings into its resourcing initiatives, and in this context the PwC leadership emphasises the importance of realistic budgeting to partners and staff.	<p>In 2021-22 we will put in place initiatives to encourage and incentivise behaviours we see as essential to underpin the culture of quality we are seeking to achieve. An area we will give particular focus to is realistic budgeting.</p> <p>Responsibility: Ewan Barron (Chief Culture Officer)</p> <p>Date: 30 June 2022</p>
6. The AQAB recommends that in future staff surveys, PwC places emphasis on reviewing how each grade of staff is responding to the various resource initiatives, in particular whether this is translating into reduced resourcing pressures over the course of the year.	<p>As part of our staff surveys in 2021-22, we will seek feedback on the resource initiatives we put in place and will analyse responses by different grades of staff as we draw conclusions from the feedback.</p> <p>Responsibility: Matt Graham (Managing Partner, Assurance)</p> <p>Date: 30 June 2022</p>
7. The AQAB recommends that PwC continues to focus on partner and staff training in respect of independence. In doing so, PwC should continue to ensure that compliance remains equally prioritised around both the letter and spirit of independence requirement.	<p>We will continue to impress upon partners and staff the ongoing importance of firm and personal independence requirements. This will include a continued investment in training where we will stress the importance of compliance with the rules on independence and the need to consider others' perceptions.</p> <p>Responsibility: Matt Graham (Managing Partner, Assurance)</p> <p>Date: 31 March 2022</p>

Future agenda

Going forward, the Board anticipates the agenda for its next report will consider:

- ongoing assessment of how resourcing can impact audit quality, particularly against a background of restricted skilled migration and network secondees into the country
- steps taken by PwC's audit practice to shape its culture and business strategies for the delivery of audit services over the next decade and beyond
- the key performance measures adopted by the firm to measure the success of the audit practice in delivering on its goals, and any opportunities for improvement.

Responding to community and regulator expectations

At PwC Australia, we are committed to meeting community and regulator expectations on audit quality so that the audit remains relevant and valuable. In the past 12 months, we have responded to best practice recommendations outlined in the ASIC audit inspection report (for the year to 30 June 2020 issued December 2020), on areas such as conflicts of interest, firm governance and accountability for quality.

The ASIC best practice recommendations were included in our audit inspection report for the year 1 July 2019 to 30 June 2020, which is available on our website.

We also continue to engage with regulators and key stakeholders on the final report of the Parliamentary Joint Committee (PJC) on Corporations and Financial Services' inquiry into the regulation of auditing in Australia.

The final PJC report was tabled with the Federal Government in November 2020, with the final recommendations broadly aligned to the interim PJC report, but with two changes suggested to both timelines and thresholds on mandatory tendering and on internal control frameworks. It was acknowledged by the Committee that these changes took into account the significantly different business conditions facing Australia from the impact of the global pandemic.

We were pleased to have actively contributed to this important process as a firm. Our [2020 Assurance Transparency Report](#) outlined our response to the interim PJC recommendations, including that we'd chosen to proactively implement several aspects of the interim recommendations that were in our power to do so. We remain open to public discussion on improving quality and transparency in audit - and as a firm we believe it's critical if we're to continue to build trust in our industry.

Our actions to respond to community and regulator expectations during the year have included updating our independence policies and our recognition and accountability framework for partners, launching an enhanced global ethics helpline, redesigning our client feedback process, and conducting root cause analysis where a material change in financial reporting by an entity audited by the firm occurs as a result of ASIC inquiries.



Our culture

At PwC, we understand that our ability to exercise professional scepticism as auditors is reliant on an underlying culture of challenge.

In 2020, we appointed a Chief Culture Officer (CCO) in Assurance to better understand how our culture supported our goals and objectives, especially around quality. Over the past 18 months, we undertook a detailed review of our existing culture using The Katzenbach Center's global methodology, which helps identify the cultural traits, or characteristics of how people behave in an organisation, and then seeks to focus attention on a critical few behaviours to help change the culture to a desired future state.

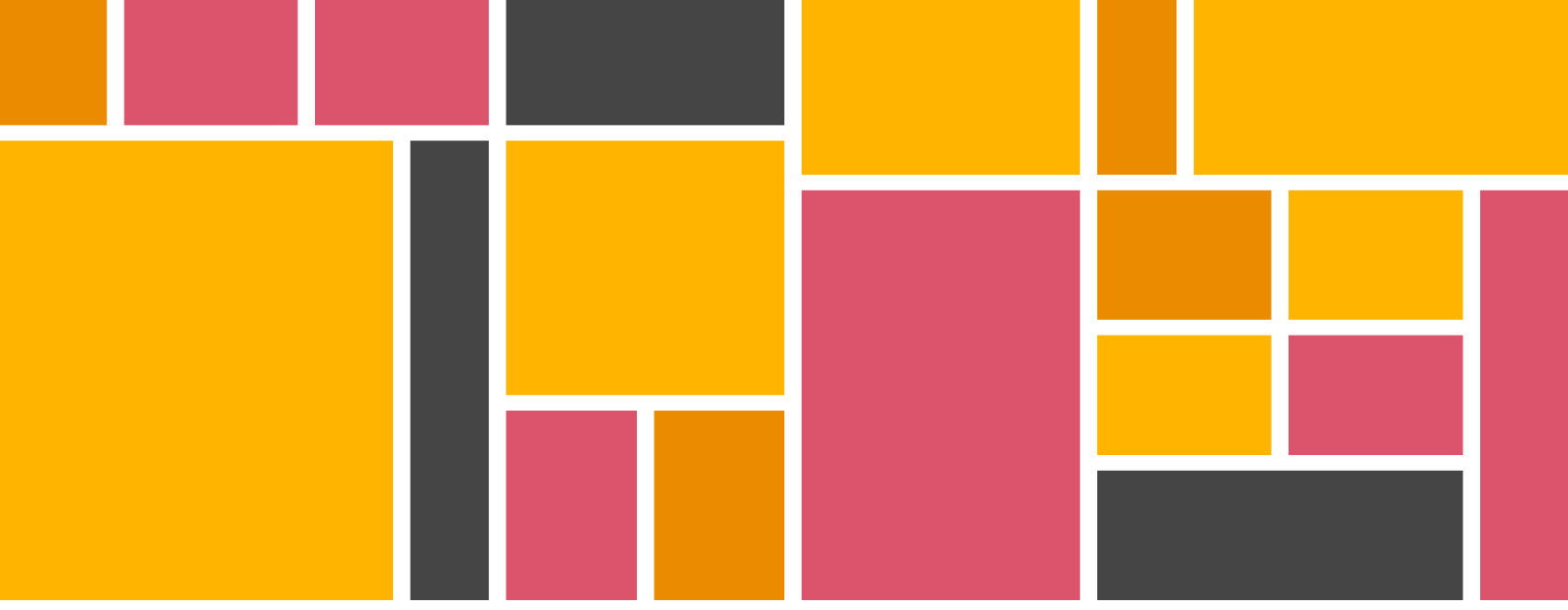
The process involved a culture survey, interviews and focus group discussions across the breadth of our Assurance team and included a specific focus on the culture of speaking up and the mindset of scepticism.

What we found

After identifying our cultural traits, or the characteristics of how people behave in Assurance, we identified the critical behaviours that can positively influence the achievement of our quality goals. We believe if we live our critical behaviours of humility, courage and realism, we will create an environment where our partners and staff feel safe to speak up and where mistakes are seen as learning opportunities; our teams will have the courage to respectfully challenge and our commitments will be realistic. We believe these behaviours will help us to deliver quality outcomes in a sustainable way.

Changing culture takes time and therefore we are undertaking a sustained implementation that takes the learnings and integrates them into everyday processes, including our people surveys. We will continue to create materials and engagement opportunities for our people to support them in understanding the critical behaviours and how embedding them every day can support our goals and objectives, especially around quality, and the experience of our people. We will continue to measure and track our progress, including the impact on quality and wellbeing.





Section two

Delivering on our commitment to quality



Our approach to quality

Our quality improvement programmes

At PwC, we are invested in continually improving our audit quality through the design and operation of an effective system of quality management. PwC will continue to invest to further enhance quality. This includes a focus on the following key areas:

- Continuing to strengthen our quality culture to support our partners and teams display behaviours consistent with driving audit quality. This is underpinned by our network-wide approach to quality management.
- Exploring the integration of Assurance Quality Indicators to aim to predict quality, Real Time Assurance to aim to prevent quality issues, Root Cause analysis to learn from quality issues and a Recognition and Accountability Framework to reinforce quality behaviours, cultures, and actions.
- Increasing our focus on ongoing and real-time quality monitoring including through the use of Real Time Assurance and Assurance Quality Indicators.
- Developing an implementation plan that addresses explicit requirements resulting from the recently approved IAASB quality management standards. However it is not expected that the changes related to ISQM 1 will have a significant impact on our SoQM.

In addition, we continue to engage with our stakeholders to have:

- Enhanced transparency of information about our business including publication of our balanced scorecard.
- Real-time engagement around the changes we're seeing in the world and their impact on audit quality and compliance, like technology, disruption, climate change, geopolitics - changes that have been magnified and accelerated by the COVID-19 pandemic.

A network-wide approach to quality

At PwC, we define quality service as one that consistently meets the expectations of our stakeholders and complies with all applicable standards and policies. Each PwC firm, as part of their agreement as a member of the PwC network, is required to have in place a rigorous system of quality management (SoQM); to annually complete a SoQM performance assessment; and to communicate the results of these assessments to global leadership. These results are then discussed in detail with the leadership of each local firm and, if they are not at the level expected, a remediation plan is agreed with local leadership taking personal responsibility for its successful implementation. As our services change and develop, and the needs and expectations of our stakeholders also change, we continually review and update the scale, scope and operations of our SoQM and invest in programmes to enhance the quality of the services that we provide.

Our quality management objectives

The PwC network has established a framework which integrates quality management into business processes and the firm-wide risk management process. The Quality Management for Service Excellence (QMSE) framework introduces an overall quality objective for the Assurance practice focussed on having the people and processes to deliver services in an effective and efficient manner that meets the expectations of our clients and other stakeholders.

This overall quality objective is supported by a series of underlying quality management objectives. Our SoQM is designed and operated to ensure we achieve these objectives with reasonable assurance.

We are committed to providing a quality audit. However, where our work falls below the standards that we set for ourselves and are set by the regulators, we are disappointed and also criticised. We take each of these instances very seriously and work hard to learn lessons and to enhance the quality of audits that we undertake in the future.

The right objectives and capabilities

Our quality objectives focus on having the right capabilities – both at a member firm level and across our network – and on using these capabilities to meet our own standards and the professional requirements. These capabilities can only be developed under the right leadership and quality culture, promoting the right values and behaviours.

Integrated and aligned in the right way

The quality objectives also focus on having the right people supported by effective methodologies, processes, and technology appropriately directed and supervised. These represent the capabilities that we believe are relevant to achieving and sustaining audit quality. A number of dedicated functions at a network level develop practical tools, guidance and systems to support and monitor audit quality across our network. These elements have been integrated and aligned by our network to create a comprehensive, holistic and interconnected quality management framework that we tailor to reflect our individual circumstances.

Delivering a quality end-product consistently

Central to the framework is the recognition that quality management is not a separate concept; it needs to be embedded in everything we do as individuals, teams, firms and the network. The quality objectives are supported by designated key activities which are considered necessary to achieve the quality objectives, focussed mainly on building a quality infrastructure and organisation. We supplement and design those key activities as appropriate to respond to risks we have identified to achieve each quality objective.

Values and judgements

Performing quality audits requires more than just the right processes. At its core, an auditor's role is to assess with a "reasonable" degree of assurance whether the financial statements prepared by the company's management are free of "material misstatements" – reaching a professional judgement on whether the financial statements present a fair picture of the company's financial performance and position. To carry out this assessment effectively, the auditor needs to use all the capabilities that have been built up in line with our quality objectives. These include applying ethical behaviour in accordance with PwC's values, professional scepticism, specialist skills and judgement – all supported by technology.



Aim to predict: Assurance Quality Indicators

We have identified a set of Assurance Quality Indicators (AQIs) that support our Assurance leadership team in the early identification of potential risks to quality, using metrics that aim to predict quality issues. This quality risk analysis is an essential part of our SoQM, and the AQIs, in addition to other performance measures, provide a key tool in the ongoing monitoring and continuous improvement of our SoQM.

Aim to prevent: Real Time Assurance

Our Real Time Quality Assurance (RTA) programme provides preventative monitoring that helps coach and support engagement teams get the 'right work' completed in real-time, during the audit. It uses a live dashboard of aspects of audit files to target specific focus areas or engagements for pre-issuances reviews, which are performed by experienced practice or Risk & Quality professionals. These reviews assist in the identification of shareable practices and the provision of targeted coaching for engagement teams.

Learn: Root cause analysis

To get to the heart of the factors affecting audit quality, we conduct analyses of our quality findings. This process – known as 'root cause analysis' – yields insight and learning that helps us provide the best possible environment for our engagement teams to deliver a quality audit. We analyse quality findings from all sources including our own ongoing monitoring of our SoQM as well as the network inspection of our SoQM, audits both with and without deficiencies – whether identified through our own internal inspections process or through external inspections and other inputs such as restatements included in clients' financial statements – to help identify possible distinctions and learning opportunities. *(continued on following page)*

Our quality management process

The achievement of these objectives is supported by a quality management process established by our Assurance leadership, business process owners, partners and staff. This quality management process includes:

- identifying risks to achieving the quality objectives
- designing and implementing responses to the assessed quality risks
- monitoring the design and operating effectiveness of the policies and procedures through the use of process-integrated monitoring activities such as a Real Time Quality Assurance programme as well as appropriate Assurance Quality Indicators
- continuously improving the system of quality management when areas for improvement are identified by performing root cause analysis and implementing remedial actions; and establishing a quality-related recognition and accountability framework to be used in appraisals, remuneration and career progression decisions.

Investment

We invest significant and increasing resources in the continuous enhancement of our quality management process. This investment is targeted into many different areas, including training (technical, ethical and behavioural), methodologies, adding resources in key areas and exploring new ways of delivering our work. Each investment reflects a common determination to understand the factors that drive quality and identify opportunities for enhancement. We are also investing heavily in new technology to drive continuous improvement in the capabilities and effectiveness of all of our services.


Learn: Root cause analysis (cont'd)

For individual audits, a team of reviewers independent from the engagement team conduct the root cause analysis. Their task is to identify issues relating to audit quality. They evaluate engagement information, perform interviews, and review audit working papers. They consider factors such as technical knowledge, supervision and review, professional scepticism, engagement resources, behaviours and training, among others. Following root cause analysis, we prepare an Audit Quality Improvement Plan that outlines the actions required to address the factors contributing to the engagement review results.

Reinforce: Recognition and Accountability Framework

Our Recognition and Accountability Framework (RAF) reinforces quality in everything our people do in delivering on our strategy, with a focus on the provision of services to our clients, how we work with our people and driving a high quality culture. It holds partners accountable for quality behaviours and quality outcomes and directly links audit quality with remuneration. The impact of audit quality matters on the remuneration of audit partners is assessed independently by our Risk & Quality team to ensure separation from other elements of performance evaluation. Each partner's remuneration reflects how well they have performed against an individually-tailored balanced scorecard of objectives, based on their role and responsibilities. Our RAF considers and addresses the following key elements:

- **Quality outcomes:** We provide transparent quality outcomes to measure the achievement of the quality objectives. Our quality outcomes take into account meeting professional standards and the standards and policies of the PwC network and the firm.
- **Behaviours:** We have set expectations of the right behaviours that support the right attitude to quality, the right tone from the top and a strong engagement with the quality objective.
- **Interventions / recognition:** We have put in place interventions and recognition that promote and reinforce positive behaviours and drive a culture of quality.
- **Consequences / reward:** We have implemented financial and non-financial consequences and rewards that are commensurate to outcome and behaviour and sufficient to incentivise the right behaviours to achieve the quality objectives.



Delivering audit quality during the COVID-19 pandemic

Our response to COVID-19

The global COVID-19 pandemic has had an unprecedented impact on our clients and our people over the last year and a half, as well as global and local economies and broader society.

At PwC, in addition to continuing to safeguard the health, safety and wellbeing of our people - both in Australia and our offshore Acceleration Centres - we have remained focussed on working together as a network, with our clients and other stakeholders to continue to deliver audit quality.

Sharing developments and experience

From the early stages of the pandemic, the PwC network put a team in place to monitor developments globally and to highlight areas of critical importance to ensure we did not compromise on audit quality. We have leveraged the guidance developed by our network to provide consistent leadership and guidance on audit quality and equip our teams to consider their clients' unique circumstances and respond accordingly.

Our network response covered all aspects of audit quality, including regulatory and standard setting updates, auditor reporting, methodology, accounting and learning and education. Using the network guidance, we considered changes needed to our existing policies and procedures as well as what needed to be reinforced through appropriate communications to our staff and partners.

Identifying and addressing risks related to COVID-19

The COVID-19 pandemic resulted in us facing a number of new challenges in our audits. This ranged from how we operate as a team to plan and complete the audit, to how we interact with our clients to obtain the necessary audit evidence and execute specific audit procedures such as completing physical inventory counts.

The foundation we have built for our system of quality management helped us navigate some of our biggest challenges as a result of the pandemic. We were able to monitor the actions we took to address identified risks and assess whether changes needed to be made on a real time basis. We used the experience and examples shared with us from across the network to support our assessment of the issues that had the potential to impact our system of quality management.

We focussed on increased consultation with specialists within our firm, additional real-time support for assessing the risks and audit procedures, during the course of the audit, both at the planning and finalisation stages, and assembling relevant guidance and materials in a COVID-19 toolkit.

The investment in technology and moving quickly to upskill our partners and staff to work seamlessly in a digital world put us at the forefront in managing remote working during our busiest time of year without sacrificing quality in our audits. Our teams utilised the resources made available and worked cohesively to execute our audits remotely.

We continue to monitor and respond to the ongoing impacts of the pandemic on our people and clients including the implications of changing or easing restrictions.

Enhancing audit quality through client feedback insights

At PwC we use client feedback as a powerful guide to provide crucial insight into our clients' experiences. Feedback is a critical input into validating PwC's reputation for audit quality. It helps us to maintain a pulse on the perceptions in the market by evaluating foundational factors that determine a quality audit. Getting feedback on quality serves to facilitate high trust, amplify what our clients value most and provide a differentiated audit experience.

This year we redesigned our client feedback programme to better understand audit quality

We defined a core set of audit quality variables to survey audit clients. These variables cover the depth of our team's knowledge of the client's business and industry, the differentiation of our technical expertise, the effectiveness of the tools and technology we use and the planning we undertake, as well as our mindset of respectful challenge.

The survey responses in FY21 were used to derive a baseline 'quality score' with the intent of tracking and measuring it over time. In addition to the survey, PwC people (independent of the audit engagement) conducted feedback conversations with key audit stakeholders to discuss the quality variables in deeper detail, including how our clients perceive a quality audit, their expectations of a quality audit and how well PwC delivered to these expectations.

By obtaining insights on audit quality in our client feedback, we are able to respond with targeted actions to enhance the client's future experience and our ability to provide a high quality audit. By sharing the feedback insights report with our client, we acknowledge their feedback and our commitment to act on it, promoting greater transparency in the relationship.

Client feedback

81%

Baseline audit quality score

321 Number of post external audit surveys



Leadership and tone at the top

Our culture and values

At PwC, an important part of delivering against our quality objectives is building a culture that emphasises that quality is the responsibility of everyone. Our purpose - to build trust in society and solve important problems - reflects 'why' we do what we do, and our strategy provides us with the 'what' we do. 'How' we deliver our purpose and strategy is driven by our culture, values and behaviours. When working with our clients and our colleagues to build trust in society and solve important problems, we endeavour to:



Act with integrity

- Speak up for what is right, especially when it feels difficult
- Expect and deliver the highest quality outcomes
- Make decisions and act as if our personal reputations were at stake



Make a difference

- Stay informed and ask questions about the future of the world we live in
- Create impact with our colleagues, our clients and society through our actions
- Respond with agility to the ever changing environment in which we operate



Care

- Make the effort to understand every individual and what matters to them
- Recognise the value that each person contributes
- Support others to grow and work in the way that brings out their best



Work together

- Collaborate and share relationships, ideas and knowledge beyond boundaries
- Seek and integrate a diverse range of perspectives, people and ideas
- Give and ask for feedback to improve ourselves and others



Reimagine the possible

- Dare to challenge the status quo and try new things
- Innovate, test and learn from failure
- Have an open mind to the possibilities in every idea

Our purpose and values form the foundation of our system of quality management and permeate how we operate, including guiding our leadership actions, and how we build trust in how we do business, with each other and in our communities. To reinforce and provide to our people greater clarity about the importance of quality in delivering on the firm's purpose and values, in 2021 we refreshed our leadership communications with a series of videos that share practical examples of how our teams bring to life our values in the context of quality.

Our culture in Assurance

To support our commitments to our people, to quality and to our clients, in 2020 we extended our Assurance leadership team, appointing Ewan Barron as our first Chief Culture Officer. The CCO has taken an in-depth look at how our cultural traits impact quality and wellbeing. In the past 18 months, a review of our Assurance culture identified the cultural traits in our business, so that we could focus our attention on a critical few behaviours that can positively influence the achievement of our quality goals. We believe that if we live our critical behaviours, we will create an environment where our partners and staff feel safe to speak up and where mistakes are seen as learning opportunities; our teams will have the courage to respectfully challenge and; our commitments will be realistic.

The Assurance critical behaviours are about maximising the power of culture and focusing on what is most impactful to our business. For more on this review, see section one of this report.

PwC's leadership structure reflects our commitment to quality at multiple levels throughout the firm and we dedicate the necessary resources to ensure quality. A senior partner, who reports directly to the CEO, is responsible for risk management and quality control over the firm's Assurance client service operations.

We measure quality, not just by adherence to systems and processes, but by how our people view our commitment to quality. Each year, PwC Assurance conducts an anonymous survey of staff to collect feedback on the quality behaviours demonstrated by partners. Staff score partners based on the quality behaviours they see exhibited when partners are with clients, with the engagement team and in the files. In the 2021 survey, 89% of partners received feedback, and their average score was 9.3 out of 10. We extended this survey to cover senior staff grades, to continue the development of their coaching skills in support of the quality of their team's work and in 2021, we received 1,440 responses to the survey, and the average score was 9.3 out of 10.

Leadership responsibility for quality

PwC's leadership is committed to audit quality and fosters a culture that embraces high standards in independence and professional ethics. We embed this culture through detailed policies on matters such as ethical behaviour, human resources and engagement performance. Our leaders frequently and consistently communicate the firm's purpose and values. Continuing to enhance a culture of quality is a significant area of focus for our global and local leadership teams and one which plays a key part in the measurement of their performance.



Leadership in Quality Survey

Of the partners who received feedback from staff, they achieved an average score of

FY21

9.3 out of 10

FY20

9.2 out of 10

Of the senior staff grades who received feedback, they achieved an average score of

FY21

9.3 out of 10

FY20

9.1 out of 10

Firm level



CEO
Tom Seymour

Chief Executive Officer of PwC Australia and Vice Chairman for PwC Asia Pacific.



Executive Board Member responsible for Risk
Sean Gregory

Chief Strategy, Risk and Reputation Officer at PwC Australia. Oversees the teams responsible for protecting and enhancing the firm and its reputation.



Partner Responsible for Independence
Daniel Bryant

Responsible for maintaining a system of controls to give reasonable assurance as to compliance with all personal and firm-wide audit independence matters. Oversees the firm's independence policy, systems, processes, advice and guidance.

Assurance level



Executive Board Member
Assurance Managing Partner
Matt Graham



Executive Board Member
Audit Business Leader
Kristin Stubbins



Executive Board Member
Trust and Risk Business Leader
Corinne Best



Chief Culture Leader
Ewan Barron
Member of the Assurance Leadership Team



Assurance Risk and Quality Partner
Jan McCahey
Member of the Assurance Leadership Team



People Leader
Joanna Pannett
(effective 1 July 2021)
Member of the Assurance Leadership Team

Central Assurance Quality Partners

Responsible for accounting, methodology, inspections, risk and learning

Assurance Practitioners Network

Assurance Risk Management Partners Network

Experienced partners who identify and manage the risk within our business units.

Chief Auditor Network

The first-line support from experienced practitioners when teams are making judgements real-time during the audit. Also responsible for targeting emerging audit quality challenges and root causes proactively at each operating unit level, as well as providing leadership to set the tone for a quality culture.

Ethics

At PwC, we take our ethical responsibilities seriously and strive to embrace the spirit and not just the letter of those requirements. We adhere to a range of ethical standards and codes of conduct from both within and outside our network.

Professional standards

The firm adheres to the fundamental principles of ethics set out in the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants. We also adhere to the APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board (APESB) in Australia, which includes the following:

- **Integrity:** be straightforward and honest in all professional and business relationships.
- **Objectivity:** don't allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- **Professional competence and due care:** maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques, and act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality:** respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, don't disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- **Professional behaviour:** comply with relevant laws and regulations and avoid any action that discredits the profession.

PwC network standards and Global Code of Conduct

Like all PwC network firms, PwC Australia adheres to strict network-wide ethics and compliance standards, which cover a variety of matters including ethics and business conduct, independence, anti-money laundering, anti-trust / fair competition, anti-corruption, information protection, firm and partner taxes, sanctions laws, internal audit and insider trading.

In addition to the PwC values and PwC purpose, the PwC Global Code of Conduct (the Code) describes the behaviours expected of our partners and staff – behaviours that enable us to earn the trust we seek. Knowing, understanding, and living the Code, is a fundamental part of who we are as PwC professionals, and what we stand for.

The Code is [available online](#) for all internal and external stakeholders.



Finally, the Organisation for Economic Co-operation and Development (OECD) provides guidance, including the OECD Guidelines for Multinational Enterprises (the OECD Guidelines), by way of non-binding principles and standards for responsible business conduct when operating globally. The OECD Guidelines provide a valuable framework for setting applicable compliance requirements and standards. Although the PwC network consists of firms that are separate legal entities which do not form a multinational corporation or enterprise, PwC's network standards and policies are informed by and meet the goals and objectives of the OECD Guidelines.

Global Third Party Code of Conduct

At PwC, we expect the same level of integrity and business conduct from our third parties and their personnel as we do our own people. These standards are explained in our [Global Third Party Code of Conduct](#).

Knowing, understanding, and behaving according to the Third Party Code is a fundamental requirement to working for or with PwC. PwC expects third parties to be mindful of their ethical responsibilities and to embed the behaviours outlined in the Third Party Code into their work for or with PwC.

PwC Australia Whistleblower Policy

As a result of the Australian statutory whistleblower protection regime in the Corporations Act 2001 (Cth), we have published the [PwC Australia Whistleblower policy](#). It sets out the making of a Whistleblower Report by an eligible whistleblower who has reasonable grounds to suspect wrongdoing directly to an eligible recipient. A "wrongdoing" includes any conduct of any person connected with PwC, which an eligible whistleblower has reasonable grounds to suspect is indicative of systemic issues, dishonest or unethical behaviour or practices or other conduct which is prohibited by our Code.

Actions and programmes to ensure ethical compliance

PwC works hard to make sure our people understand and follow ethical requirements and do the right thing, including speaking up and voicing their concern when something isn't right. Upon joining the firm, all partners and staff are sent the PwC Global Code of Conduct and are expected to live by its values throughout their professional careers. Our people undertake regular mandatory training and assessments and must submit annual compliance confirmations. Compliance with ethical obligations is monitored by PwC leadership.

Sean Gregory is the firm's Business Conduct Leader and has oversight of the Ethics and Business Conduct Programme. Sean is also the firm's Chief Strategy Risk and Reputation Officer and is a member of PwC Australia's Executive Board.

The Ethics and Business Conduct Programme involves:

- Managing policies, procedures and guidance
- Ensuring training materials are kept current and relevant
- Managing the PwC Ethics Helpline, a key component of the confidential communications process we have in place under our complaints and allegations policy.

PwC has policies and mechanisms in place to promote compliance with training requirements and to address any breaches. These include random allocation of questions in post-course assessments and inability to access assessments until underlying training is performed. If we identify breaches of our Code, our responses range from counselling and re-participation in training programmes and testing through to dismissal. In FY20 and FY21 there were no instances of breaches in our continuing professional development programmes that led to the dismissal of a partner or staff member.

Audit training matters

99%

completed mandatory training by the due date in FY21

0

dismissals during FY21 as a result of breaches of the training policy

1%

sanctioned during FY21 for breaches of the training policy

56

average hours training completed by partners and staff



Objectivity and independence

Independence is fundamental to our work as auditors of financial statements. PwC Australia applies a comprehensive set of independence policies, systems and processes to ensure compliance with laws, professional standards, regulations and ethical conduct.

As auditors of financial statements and providers of other types of professional services, PwC Australia partners and staff are expected to demonstrate objectivity, integrity and professional behaviour. Compliance with these principles is fundamental to our role of serving both the capital markets and our clients. PwC also requires strict compliance with all regulatory, professional, and independence requirements related to financial interests in, and business and service relationships with, our clients. To ensure the highest standards of independence, we have adopted the network-wide PwC Global Independence Policy and related rules and guidance, complemented when necessary by more restrictive local legislation, professional rules and policies.

Leadership

PwC Australia has a designated Partner Responsible for Independence (PRI), who reports directly to the firm's Chief Risk Officer. With the support of a specialist team, the PRI oversees the firm's independence policy, systems, processes, advice and guidance.

Policies

We have policies in place to ensure we comply with professional and regulatory standards of independence for firms that provide assurance services. These policies are reviewed and revised regularly and in response to new rules, regulations or operational matters.

Our principal policy on independence is the PwC Global Independence Policy (the Independence Policy), a network-wide policy that contains the rules, systems and processes necessary to maintain independence from restricted clients. The policy is based on the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards). It references the independence requirements of the United States Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) of the United States. It also refers to the requirements of the EU Audit Regulation which, in certain instances, are more restrictive than the Independence Policy.

The Independence Policy covers (among other areas):

- personal and firm independence, including policies and guidance on the holding of financial interests and other financial arrangements, e.g. bank accounts and loans held by partners, staff and the firm
- non-audit services and fee arrangements. The policy is supported by Statements of Permitted Services (SOPS), which provide practical guidance on the application of the policy in respect of non-audit services to audit clients and related entities
- business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on purchasing of goods and services acquired in the normal course of business
- acceptance of new audit and assurance clients, and the subsequent acceptance of non-assurance services for those clients.

In addition, there is a Network Risk Management Policy governing the independence requirements related to the rotation of key audit partners.

When necessary, we supplement the Independence Policy and partner rotation guidance with more restrictive local professional and regulatory rules of the Corporations Act 2001, APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (APES 110) and Australian Prudential Regulation Authority (APRA) Prudential Standards, as well as additional local policy rules.



Independence-related systems and tools

As a member of the PwC network, PwC Australia has access to global systems to help partners and staff comply with independence policies and procedures. These systems include:

- The Central Entity Service (CES) which contains information about corporate entities including all PwC audit clients and their related entities (including all public interest audit clients and SEC restricted entities), as well as their related securities. CES assists in determining the restriction status of clients of the member firm and those of other PwC member firms before entering into a new non-audit service or business relationship. This system also feeds Independence Checkpoint and Authorisation for Services.
- "Independence Checkpoint" which facilitates the pre-clearance of publicly traded securities before acquisition by all partners and practice managers, and is used to record their subsequent purchases and disposals. Where a PwC member firm wins a new client, this system automatically informs those holding securities in that client of the requirement to sell the security where required.
- Authorisation for Services (AFS) which facilitates communication between a non-audit services engagement leader and the audit engagement leader, regarding a proposed non-audit service, documenting the analysis of any potential independence threats created by the service and proposed safeguards, where deemed necessary, and acts as a record of the audit partner's conclusion on the permissibility of the service.
- Joint Business Relationships which facilitates the assessment and tracking of business relationships entered into by PwC Australia. These relationships are reviewed on a six-monthly basis to confirm their ongoing permissibility.

- Global Breaches Reporting System which is designed to be used to report any breaches of external auditor independence regulations (e.g. those set by regulation or professional requirements) where the breach has cross-border implications (e.g. where a breach occurs in one territory which affects an audit relationship in another territory). All breaches reported are evaluated and addressed in line with the IESBA International Code of Ethics for Professional Accountants, and/or the SEC regulation, as applicable.

PwC Australia also has territory-specific independence systems, including:

- Partner Portfolio Risk and Rotation which helps monitor compliance with applicable partner rotation requirements for PwC Australia's audit and assurance clients.
- MyIndependence which facilitates the completion of engagement level personal independence confirmations by audit and assurance team members to enable the audit /assurance engagement partner to demonstrate the independence of the team.
- Directorships and other appointments which facilitates the assessment and tracking of partner and staff external directorships and similar appointments.

Training

PwC trains partners and practice staff in independence matters every year. Training typically focuses on subject matter and responsibilities that come with a change in position or role, changes in policy or external regulation, and other relevant topics. Training about the firm's independence policy and related matters is delivered via e-learns, presentations, virtual classroom sessions, online guidance, and communications. It is prepared and/or delivered by independence specialists and/or risk and quality teams.



Independence monitoring and disciplinary policy

Annually, partners and practice staff must confirm they comply with all aspects of the Independence Policy. Partners must also confirm that all non-audit services and business relationships they are responsible for comply with policy and that they have followed the firm's processes in accepting these engagements and relationships. These confirmations serve two purposes: to identify any threats to independence that may have arisen and to provide a periodic reminder of the Independence Policy and procedures. The annual confirmations are supplemented by periodic and ad-hoc engagement level confirmations for all audit clients.

PwC Australia is responsible for monitoring the effectiveness of its quality control system in managing compliance with independence requirements. In addition to these confirmations, as part of this monitoring we perform:

- compliance testing of independence controls and processes, both at the firm level and the individual engagement level
- compliance testing of personal independence across a random selection of partners and managers, including those being considered for partnership
- an annual assessment of the firm's adherence to the PwC network's standard relating to Independence.

The results of PwC Australia's independence monitoring and testing are reported to our leadership team. We have disciplinary policies and mechanisms in place that promote compliance with independence policies and processes, and that require any breaches of independence requirements to be reported and addressed.

This would include discussion with the client's audit committee regarding the nature of the breach, an evaluation of the impact on our independence, and the need for actions or safeguards to maintain objectivity. We also follow breach reporting requirements under the Corporations Act 2001 (Cth), the SEC Rules, and APES 110.

Although breaches are typically minor and attributable to an oversight, all breaches are taken seriously and investigated as appropriate. These investigations also serve to identify any need for improvements in the firm's systems and processes, guidance and training.



Acceptance and continuance of client relationships and specific engagements

Deciding to accept a new client or to continue serving an existing client is an essential part of maintaining independence and quality. Before we make such a decision, we consider whether we:

- are competent to perform the engagement and have the necessary capabilities including time and resources
- can comply with relevant ethical requirements, including independence
- have appropriately considered the integrity of the client.

To help us identify acceptable audit clients, PwC Australia uses the PwC network's decision support system called Acceptance and Continuance (A&C), provided by the PwC network. A&C helps the engagement team and business and risk management specialists decide whether the risks related to an existing client or a potential client are manageable, and whether or not PwC Australia should be engaged.

For engagement teams, A&C enables them to:

- document their consideration of matters required by relevant professional standards
- identify and document issues or risk factors and their resolution (through consultation, for example) by adjusting the resource plan or audit approach, putting in place other safeguards to mitigate identifiable risks, or by declining to perform the engagement
- evaluate the risks associated with accepting or continuing with a client and engagement.

For PwC's leadership and risk management specialists, A&C enables them to:

- evaluate the risks associated with accepting or continuing with clients and engagements
- have an overview of the risks associated with accepting or continuing with clients and engagements across the client portfolio
- understand the methodology, basis and minimum considerations all other member firms in the PwC network have applied in assessing audit acceptance and continuance.

PwC has policies and procedures for withdrawing from an engagement or a client relationship, if and when necessary.

Financial information

	FY21	FY20	FY19
Total revenue for the financial year	\$2,600m	\$2,600m	\$2,600m
Revenue relating to audits of financial statements ¹	\$468m	\$476m	\$443m
Revenue for other services provided to audit clients ²	\$220m	\$230m	\$216m
Revenue for other services provided to non-audit clients	\$1,902m	\$1,884m	\$1,941m

¹. Audit and audit related fees for listed and non-listed clients

². Non-audit fees and other assurance fees for listed and non-listed clients

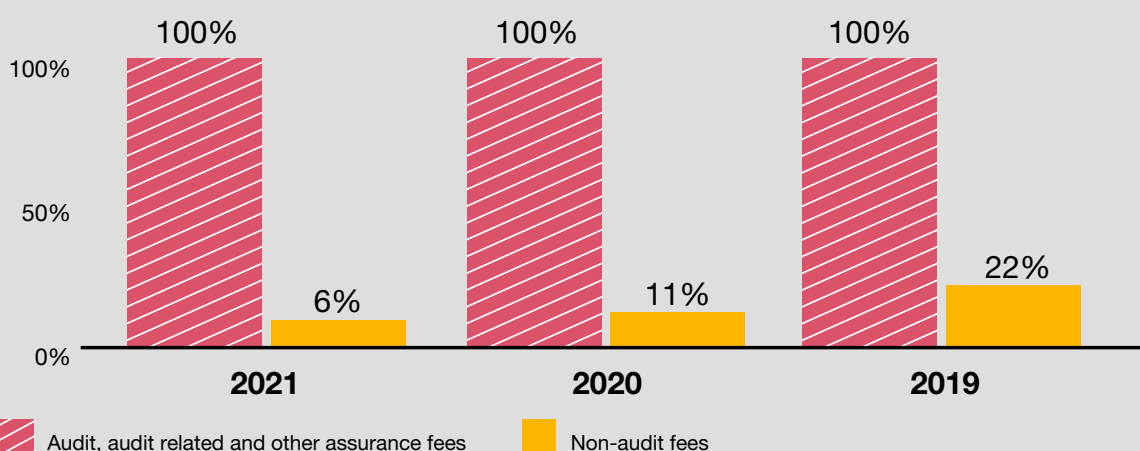
Non-audit to audit fees for ASX 200 audit clients

Independence is a fundamental part of audit quality because it supports objectivity. APES 110 prohibits an external audit firm from performing certain services for their client. These include engagements where the audit firm might act in a management capacity or find itself auditing its own work. PwC has comprehensive internal policies to ensure our independence is not impaired. While there are no regulations in Australia that require a 'cap' on non-audit services provided by an audit firm, the amount of non-audit services provided to PwC Australia's ASX 200 audit clients in the past three years has averaged approximately 13% of audit fees, which equates to less than 1% of PwC Australia's total revenue in 2021.

Partner remuneration

Once the performance of individual partners has been assessed, the CEO and Executive Board decide the firm allocation and distribution of profits. The profitability of the audit business is broadly equal with that of the firm as a whole, which means that remuneration of audit partners is not subsidised by other businesses in the firm. The Governance Board oversees the proper application of the firm's partner income scheme.

Partners have transparency over the total income allocated to each individual as well as quality-related matters that have a direct financial impact on remuneration. Audit partners are not permitted to be incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients.



ASX calculated based on market cap at time of submission of financial statements (top 200 market cap).
 Non-audit fees shown as a percentage of audit, audit related and other assurance fees.

Our people

Our people strategy is focussed on being the world's leading developer of talent and enabling our people with greater agility and confidence in a rapidly changing world. Specific focus areas include creating a resilient foundation for times of change through supporting the wellbeing of our people and enabling effective delivery, developing inclusive leaders for a shifting world; and enabling our workforce for today's realities and tomorrow's possibilities.

We hire candidates who have diverse backgrounds and appropriate skills; have a questioning mindset and intellectual curiosity; and demonstrate courage and integrity. Our hiring standards include a structured interview process with behaviour-based questions built from the PwC Professional framework, tactical technical questions designed to review individuals' competence relating to audit quality, an assessment of academic records, and background checks.

Our strategy relies upon investing to create the PwC Australia of the future - responding to the expectations of the market to deliver a different, more digital experience to our clients. Three key elements of this strategy are:

- **Digital upskilling:** We provide our people with individualised learning tools to expand the use of digital solutions on their audits and empower them with a mindset of continual improvement and innovation. Our Digital Academies leverage market-leading software and focus primarily on building three core skills: data wrangling, automation, and data visualisation. These tools enhance the firm's collective digital fluency while providing each individual with a personalised curriculum to build their digital IQ. Our Digital Accelerators are embedded within our engagement teams and are dedicated to applying digital capabilities to each audit, as well as developing new digital solutions for the firm.
- **Social impact:** This is a powerful programme to develop our people while making a meaningful difference in our communities.
- **Be well, work well:** Given the pace and complexity of change, the firm is dialling up the dialogue on our people's mental health and wellbeing. We actively encourage a culture of openness around mental health and wellbeing as demonstrated by our Green Light to Talk movement, where we have now over 200 of our people trained as Green Light to Talk advocates and 13 Mental Health Partner advocates. This supplements a comprehensive suite of online tools and information around health and wellbeing as well as a dedicated wellbeing team.



Our people



Number of audit partners

139



Number of audit staff

1,547

Diversity and inclusion

At PwC, we're focussed on diversity and fostering an inclusive environment in which our people are comfortable bringing their whole selves to work and feel that they belong and are valued. We know that when people from different backgrounds and with different points of view work together, we create the most value – for our clients, our people, and society. Our core values of Care and Work together guide us to recognise the contributions of each individual and develop a workplace with a range of people, perspectives and ideas. We measure our progress through targets and transparency. For example, the firm has a gender target of 40:40:20* for partner admissions each year. In FY21, 50% of new Assurance partners were women, and 28% of new partners were from a diverse cultural background.

*PwC Australia's diversity targets aim for a minimum of 40 percent of new partners to be women, 40 percent men and the remaining 20 percent can be any gender identity. We also have a 30% cultural diversity target.



Our pursuit of diversity

Of the 32 new Assurance partners admitted in FY21



50%
were women



28%
were from a diverse
cultural background

Of the 16 new Assurance partners admitted in FY20



50%
were women



31%
were from a diverse
cultural background

Recruitment

PwC recruits high-quality people who can operate to a high technical, professional and ethical standard, and who share in the firm's purpose and sense of responsibility for quality auditing. We assess candidates according to multiple criteria, which include PwC's professional attributes, as well as academic achievements. When recruiting experienced hires into the firm, we give considerable attention to candidates' competency in and understanding of audit quality and professional scepticism. We also aim to hire a diverse and inclusive workforce. For example, the firm has a gender target of 50:50 for hires at both director and graduate levels.

Team selection, experience and supervision

Our audit engagements are staffed based on expertise, capabilities and years of experience. Engagement leaders determine the extent of direction, supervision and review of junior staff.

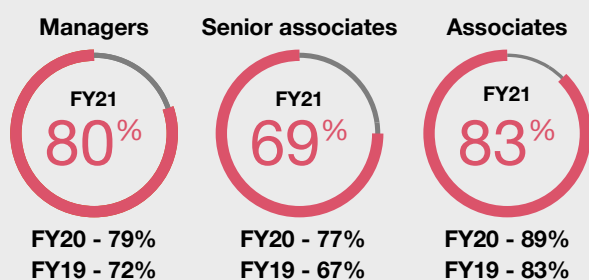
Feedback and continuous development

Our team members obtain feedback on their overall performance, including factors related to audit quality such as technical knowledge, auditing skills and professional scepticism. Audit quality is an important factor in performance evaluation and career progression decisions for both our partners and staff. Feedback on performance and progression is collected via our Snapshot tool, a simple, mobile-enabled technology. We also use Workday to give and receive upward and peer feedback. Ongoing feedback conversations help our people grow and learn faster, adapt to new and complex environments, and bring the best to our clients and firm.

Career progression

PwC uses The PwC Professional, our global career progression framework, which sets out clear expectations at all staff levels across five key dimensions. The framework underpins all elements of career development and helps our people develop into well-rounded professionals and leaders with the capabilities and confidence to produce high-quality work, deliver an efficient and effective experience for our clients, execute our strategy, and support our brand. Our annual performance cycle is supported by continuous feedback conversations and regular check-ins with the individual's Team Leader to discuss their development, progression and performance.

Average retention rate by staff level



18 years

Partner average years of experience at PwC

Retention

Turnover in the public accounting profession is often high because as accounting standards and regulations change, accountants are in demand and the development experience we provide makes our people highly sought after in the external market. The pandemic has also brought with it challenges arising from border restrictions and the resulting demands for professional talent. To attract and retain staff, we have launched a range of wellbeing, rewards and benefits and remuneration initiatives, as well as the creation of a World Class Learning programme, which includes professional development and training. We have also capitalised on being part of a global network and focussed on smarter resourcing, including the launch of a new Skilled Service Hub in Adelaide to supplement the already existing Skills Hub in Western Sydney and use of our offshore acceleration teams, virtual resources from within PwC network firms, as well as recruiting the largest ever intake of graduates to Assurance.

Global People Survey

Each PwC member firm participates in an annual Global People Survey, administered across the network to all of our partners and staff. PwC Australia is responsible for analysing and communicating results locally, along with clearly defined actions to address feedback

Professional development

Training and development are ongoing processes that start when a person is hired and continue throughout his or her career. Our people participate in a variety of formal training programmes – at the local, regional and international level – as well as 'on the job' training, coaching and supervision. In addition, our people are expected to complete a minimum number of hours of training each year, specific to their grade, focussed on increasing their knowledge and experience in relation to quality.

Assurance quality cycles of experience

The Assurance quality cycles of experience provides opportunities for audit staff to develop deeper audit quality technical skills and knowledge working with subject matter experts, alongside their current client engagements. Achieving a certain level of quality hours and experience is a consideration for assessing readiness for promotion to senior manager, director and for admission to partnership.

World class learning

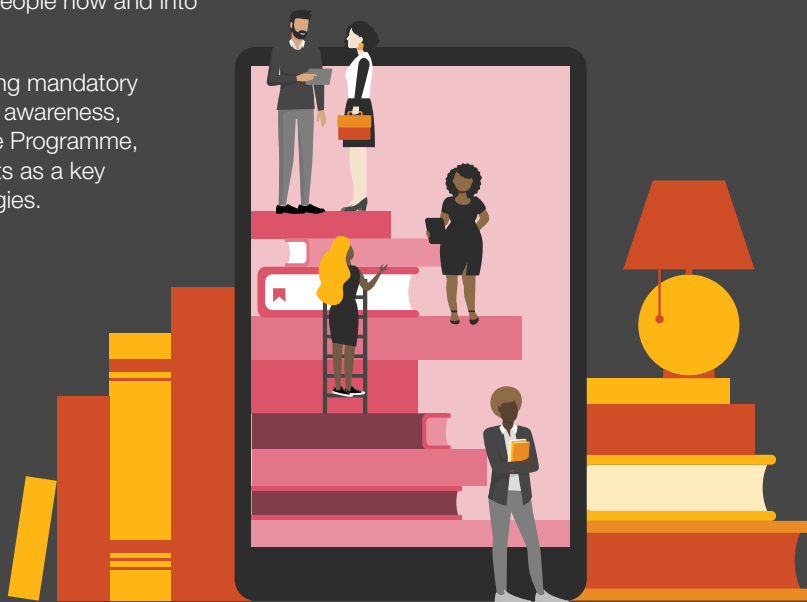
At PwC, our vision is to be recognised by our people and our clients as providing a World Class Learning experience for our teams through their careers. Building a culture that values and encourages continuous learning not only enhances the experience of our people and our clients, but is central to enhancing audit quality.

In 2021, we began work to enhance our learning offerings in Assurance, creating the World Class Learning programme, which encourages our people to prioritise their learning, offers unique learning experiences and provides them with both the technical and business skills necessary for audit professionals in an increasingly digital and disrupted world. Through this programme, we aim to make training more accessible at each stage of the Assurance learning journey, and continuously review our Assurance learning offerings.

Elements of the Assurance World Class Learning programme include:

- **Protected learning time:** Dedicated time for our people to invest in their own learning, two hours per month or 24 hours per year, aside from mandatory and technical training. Our people can use this time as it suits them, on whatever they choose.
- **Assurance learning portal:** This new portal provides access to curated learning content, and increases the transparency of the available training for each stage of the learner journey.
- **Enhancement to our existing core learning programmes:** We are enhancing our existing technical training in both the way we deliver it and in the content provided, including working with Chartered Accountants Australia and New Zealand on the financial reporting technical learning provided to our junior level auditors. More broadly, we are offering business skills development on topics like presenting with impact, digital delivery, business writing, project management, building your personal brand and business development skills. This is designed to enhance the career development for our people now and into the future.

This programme is supported by firm-wide learning, including mandatory learning on areas such as independence, digital IQ, cultural awareness, as well as tailored learning like the PwC Academy Signature Programme, which offers experiential learning targeted to specific cohorts as a key element in our reward and recognition, and retention strategies.



Continuing professional education

As part of our World Class Learning programme, PwC remains committed to and invests in continuing professional education, which is essential to ensure ongoing improvements in audit quality. Our audit professionals are required to obtain at least 20 hours of continuing professional development per year and 120 hours over three years.

The firm follows a formal curriculum developed at the network level. It covers the PwC Audit methodology, the latest audit tools, updates on auditing standards and their implications, and areas of audit risk and engagement quality. These courses, which are delivered both digitally and in classrooms, provide our practitioners with the opportunity to sharpen their professional judgement, scepticism, technical and professional skills.

In Australia, we supplement the global learning curriculum with local learning needs specific to the Australian context and regulatory environment. A dedicated learning team delivers a combination of self-paced, practitioner-led and formal classroom learning.

To ensure our people have the technical capability for their roles both now and into the future, the firm also invests in developing future workforce skills. For example, in FY21 we continued to deliver Digital Academies for all our Assurance graduates and lateral hires to upskill our digital literacy capability.

All staff and partners must complete mandatory ethics and business conduct training, which covers the Code of Conduct as well as ethical, accounting, auditing and other regulatory matters.

PwC Australia monitors compliance with continuing professional development requirements, including the completion of mandatory training programmes. Our monitoring programme ensures that the firm's services are delivered by individuals who have the right experience and, where required, are qualified under relevant legislative and other applicable requirements such as International Education Standard (IES) 7.

Our training investment in people

Assurance training FY21

Average hours achieved by partners and staff

24

Online

31

Classroom

56

Total

Total hours completed **152,842**

Assurance training FY20

Average hours achieved by partners and staff

22

Online

46

Classroom

68

Total

Total hours completed **172,308**

*FY20 hours include the Digital Academies for all people

Number of hours of auditing and accounting training mandated by PwC by grade FY21

Partners

30

Managers

30

Senior associates

30

Associates

114

Our audit approach

The PwC Audit

The quality and effectiveness of audits is critical to all of our stakeholders. We therefore invest heavily in the effectiveness of our audits, in the skills of our people, in our underlying methodology, the technology we use, and in making the right amount of time and resources available. We pay close attention to the internal indicators and processes that routinely monitor the effectiveness of our risk and quality processes, and provide timely information about the quality of our audit work and any areas for improvement. Additionally, we consider what our various stakeholders require from us, what they tell us we need to improve and the findings of regulatory inspections on the quality of our work. Details of these indicators and processes, as well the most recent regulatory findings can be found in the “Monitoring” section of this report.

PwC continues to invest in a world-class suite of digital tools and technologies to enhance the quality of the audit, in alignment with our new global strategy. You can see more about audit-specific tools and technology on the next page. We encourage our teams to challenge traditional ways of working and to embrace the benefits that digitisation brings to us and our clients. Technology enables our teams to be connected and to collaborate, whatever their location, and enhances our engagement and relationship building with our clients. Digitisation and automation of some audit procedures plays an important role in enhancing audit quality and providing assurance to our clients. Encouraging innovation and collaboration on new tools not only empowers our people and enhances their digital skills development, but drives consistency and quality in the delivery of our work to clients.

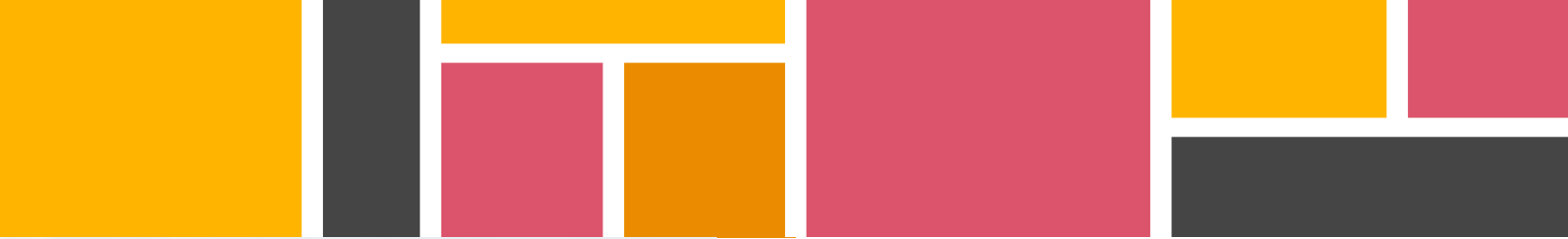
Evolving our audit approach

We are evolving our approach to audit delivery to maximise the experience for our people and ensure high quality work for our clients in an efficient and sustainable way. Our Smart Delivery approach is changing the way we plan, resource and deliver our engagements. Aligned with our firm’s new global strategy, The New Equation, we are combining world-class teams with market-leading technology, enabled by smart, yet simple, business processes. Together, these measures represent a significant transformation of our audit business and support our focus on continuing to enhance audit quality.

We have expanded our concept of ‘team’ beyond our conventional view of working in onshore teams. We bring together team members across a broad range of specialities, skill sets and geographic locations.

We use both on and offshore resources to streamline, standardise, automate, and centralise portions of the audit. For example, our Centres of Excellence are devoted to specific areas of the audit and these team members can apply deep expertise and advanced tools to drive quality and efficiency as they are knowledgeable in a single area of the audit. They can also leverage automation and specialised tools to take on a high volume of work across the year. We’ve also extended the resources available to us by accessing virtual senior resources from within our network firms, as we need them. Our new onshore Skilled Service Hub in Adelaide delivers on routine assurance services in a consistent and standardised way. We have also invested time in refining and improving the business processes that support the way we work and collaborate with our offshore Acceleration Centres.





Specific tools and technologies to support our audit

At the heart of our approach to audit is a methodology known as the PwC Audit. The PwC Audit is based on the International Standards on Auditing (ISAs) and used across the global PwC network. As a common audit methodology, the PwC Audit enables all member firms to consistently comply with local and international professional standards, regulations and legal requirements. PwC Australia also applies additional policies and guidance, where appropriate, to ensure each engagement is also compliant with Australian Auditing Standards (ASAs). Using the PwC Audit ensures we deliver audits that are robust, high quality, insightful and relevant.

Aura, our global audit platform, is used across the PwC network. Aura helps drive how we build and execute our audit plans by supporting teams in applying our methodology effectively, by creating transparent linkage between risks, required procedures, controls and the work performed to address those risks, as well as providing comprehensive guidance and project management capabilities. Targeted audit plans specify risk levels, controls reliance and substantive testing. Real-time dashboards show teams audit progress and the impact of scoping decisions more quickly.

Connect is our collaborative platform that allows clients to quickly and securely share audit documents and deliverables. Connect also eases the burden of tracking the status of deliverables and resolving issues by automatically flagging and tracking outstanding items and issues identified through the audit for more immediate attention and resolution. Clients are also able to see audit adjustments, control deficiencies and statutory audit progress for all locations in real time.

Connect Audit Manager streamlines, standardises and automates group and component teams coordination for multi-location audits. It provides a single digital platform to see all outbound and inbound work and digitises the entire coordination process which facilitates greater transparency, compliance and quality for complex multi-location audits.

Halo, our data auditing tools, test large volumes of data, analysing whole populations to improve risk assessment, analysis and testing. For example, Halo for Journals enables the identification of relevant journals based on defined criteria making it easier for engagement teams to explore and visualise the data to identify client journal entries to analyse and start the testing process.

Count, which facilitates the end-to-end process for inventory counts, allows our engagement teams to create and manage count procedures, to record count results directly onto a mobile device or tablet and to export final results into Aura.

PwC Extract enables us to seamlessly obtain and evaluate clients' data directly by connecting to their ERP systems and securely transferring data to our XDP platform.

In addition to these globally created and supported PwC network tools, in Australia we have invested in the following tools:

Digital Lab is a virtual space for our people to collaborate, create and share automations.

Smart Audit Platform is a secure web-based portal with a growing suite of integrated intelligent automation tools and solutions based on cutting-edge machine learning and automation technology developed by PwC Australia. These advanced solutions reduce the risk of manual error, and enhance the delivery of a consistent and high quality audit. Current tools include:

- **Mathematical Accuracy Test:** streamlines testing over the mathematical accuracy of financial statement documents.
- **Smart PDF Extract:** extracts information from PDF documents into consistently formatted and structured Excel workbooks.
- **Prior Year Test:** automates the checking of comparative numbers presented in a financial report.
- **OPEX Test:** streamlines the testing of operating expenses by automatically analysing the supporting documentation needed to be matched against the general ledger.
- **PPE Additions Test:** matches samples selected from the fixed asset register of PP&E additions to supporting documents, identifying any variances for follow up.

Reliability and auditability of audit technologies

Our firm has designed and implemented processes and controls to underpin the reliability of these audit technologies. This includes clarification of the roles and responsibilities of audit technology owners and users. In addition, we have guidance focussed on the sufficiency of audit documentation included in the workpapers related to the use of these audit technologies, including consideration of the reliability of the solution, and the documentation needed to assist the reviewer in meeting their supervision and review responsibilities as part of the normal course of the audit.

Confidentiality and information security

Confidentiality and information security are key elements of our professional responsibilities. Misuse or loss of confidential client information or personal data may expose the firm to legal proceedings, and it may also adversely impact our reputation. We take the protection of confidential and personal data very seriously. Our focus on our clients requires a holistic and collaborative approach to reducing security, privacy and confidentiality risks with significant investment in appropriate controls and monitoring to embed an effective three lines of defence model. This model has enabled us to strengthen our information security organisation, align to industry good practice and improve our internal control frameworks.

Data privacy

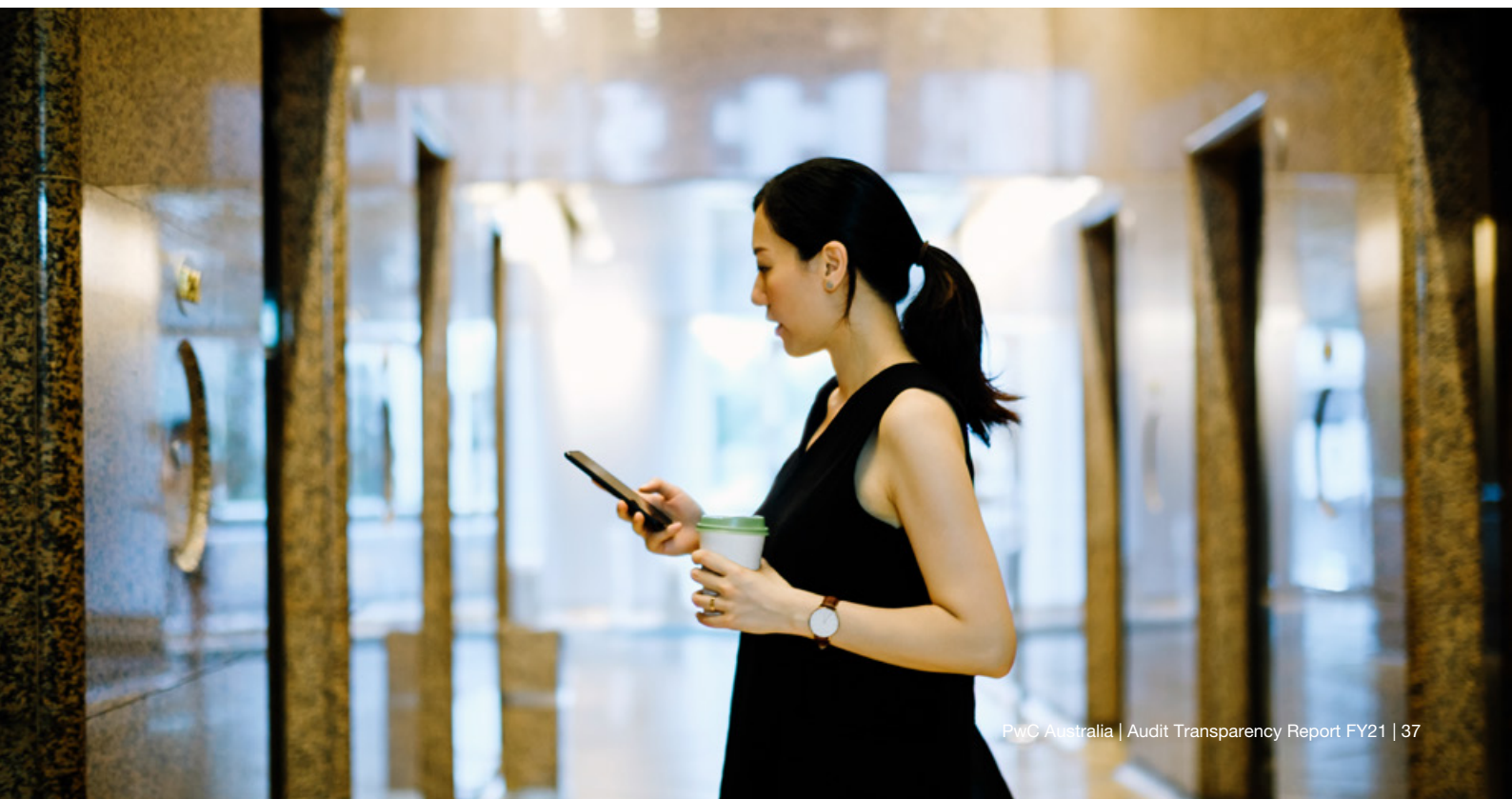
The firm maintains a robust and consistent approach to the management of all personal data, with everyone in our organisation having a role to play in safeguarding personal data. We have continued to build on our extensive Network Data Protection Programme with the goal of achieving a robust level of protection and appropriate use of the personal data of our people, clients, suppliers and other stakeholders, and are committed to embedding good data management practices across our business.

Information security

Information security is a high priority for the PwC network. PwC network member firms are accountable to their key stakeholders to protect information that is entrusted to them.

The PwC Australia Information Security Policy (ISP) is aligned with ISO/IEC 27002, financial services industry standards, and other reputable frameworks (COBIT, NIST, etc.) as benchmarks for security effectiveness across the PwC network. The PwC ISP directly supports the firm's strategic direction of cyber readiness to proactively safeguard its assets and client information. The PwC ISP is reviewed, at a minimum, on an annual basis.

PwC Australia is required to adhere to the ISP requirements and complete an annual, evidence-based assessment to determine compliance. The CISO-approved assessment undergoes a detailed and standardised Quality Assessment (QA) process performed by a centralised, objective Network Information Security Compliance team. The ISP compliance process employed by the Security Compliance Group is ISO 27001:2013 (IS 505721) certified.





Supporting engagement performance

Chief Auditor Network

Newly established in 2021 as part of our Quality Improvement Plan, the Chief Auditor Network provides first-line support from experienced practitioners when teams are making judgements real-time during the audit. The Network is also responsible for targeting emerging audit quality challenges and root causes proactively at each operating unit level, as well as providing leadership to set the tone for a quality culture.

Quality Review Partners

Specific audit engagements are assigned a Quality Review Partner as part of the firm's system of quality management and as required by professional standards. These partners, who have the necessary experience and technical knowledge, are involved in the most critical aspects of the audit. For example, they may advise on matters of firm independence, significant risks and a team's responses to those risks, and specific accounting, auditing, and financial reporting and disclosure issues.

Central Assurance Quality group

Our central Assurance Quality group comprises technical accounting, auditing, risk management and financial reporting groups. These specialists play a vital role in keeping our policies and guidance in these areas current by tracking new developments in accounting and auditing respectively and providing updates to professional staff.

Risk Management Partner network

PwC Australia has a network of experienced audit partners based in regional or local roles who support engagement teams in assessing risks (such as whether to undertake or continue an audit engagement) and applying the firm's risk management policies. Audit teams are encouraged to consult with these partners whenever they believe they could benefit from additional insights.

Consultation panels

PwC has in place a consultation mechanism that enables teams on engagements with higher risk attributes to access specialist advice. These may be audits that involve sensitive market or event-driven issues, acceptance of new clients, significant judgements or differences of opinion. As an issue is identified, we draw together specialists particular to the issue at hand and independent of the engagement team, and are able to escalate that support to bring in additional expertise if and when required. This consultation mechanism calls upon engagement leaders, Quality Review Partners, Risk Management Partners, Risk & Quality partners, and accounting technical and other specialists, as appropriate for the audit engagement.

Direction, coaching and supervision

Engagement leaders and senior engagement team members are responsible and accountable for providing coaching throughout the audit, supervising the work completed by junior members of the team and maintaining audit quality. Teams use Aura which has capabilities to effectively monitor the progress of the engagement to make sure that all work has been completed and reviewed by appropriate individuals, including the engagement leader.

Consultation culture

Consultation is key to maintaining high audit quality. We have formal protocols about mandatory consultation, in the pursuit of quality. For example, our engagement teams consult with appropriate groups in areas such as taxation, risk, data assurance, valuation, actuarial, real estate and other specialities as well as individuals within our Assurance Quality group.

Technical support

1 to 10

Ratio of partners serving in technical/audit quality support roles to the total number of audit signing partners (FY20 1 to 10)

Restatements

1

restatement for public companies identified by ASIC or PwC inspections due to material error

As disclosed in our Dec 20 balanced scorecard and ASIC's inspection report for y/e 30 June 2020 (y/e 30 June 2019 - 0)



Monitoring

We recognise that quality in the Assurance services we deliver to clients is critical to maintaining the confidence of investors and other stakeholders in the integrity of our work. It is a key element to our Assurance strategy.

Responsibility for appropriate quality management lies with the leadership of PwC Australia. This includes the design and operation of an effective system of quality management (SoQM) that is responsive to our specific risks to delivering quality audit engagements, using the PwC network's QMSE framework.

The overall quality objective under the QMSE framework is to have the necessary capabilities in our firm and to deploy our people to consistently use our methodologies, processes and technology in the delivery of Assurance services in an effective and efficient manner to fulfil the valid expectations of our clients and other stakeholders.

Our firm's monitoring procedures include an ongoing assessment aimed at evaluating whether the policies and procedures which constitute our SoQM are designed appropriately and operating effectively to provide reasonable assurance that our audit and non-audit assurance engagements are performed in compliance with laws, regulations and professional standards. This includes the use of Real Time Assurance which is discussed in more detail on page 17 within the "Our approach to audit quality" section.

Our monitoring also encompasses a review of completed engagements (engagement compliance reviews (ECRs)) as well as periodic monitoring of our SoQM by an objective team within our firm. The results of these procedures, together with our ongoing monitoring form the basis for the continuous improvement of our SoQM.

Our firm's monitoring programme is based on a consistent network-wide inspections programme for Assurance based on professional standards relating to quality control including the International Standard on Quality Control 1 (ISQC 1) as well as PwC network policies, procedures, tools and guidance.

Engagement compliance reviews

PwC periodically conducts risk-focussed reviews of completed assurance engagements. These ECRs assess whether an engagement was performed in compliance with PwC Audit guidance, applicable professional standards and relevant policies and procedures. All Assurance partners must have at least one of their engagements reviewed every five years. More frequent reviews may be required depending on the profile of that Assurance partner's client engagements or local regulatory requirements. Higher profile engagements are reviewed at least twice every six years.

ECRs are coordinated by a global team and led by experienced Assurance partners and supported by objective teams of partners, directors, senior managers and other specialists. ECR reviewers may be sourced from other member firms if needed to provide appropriate expertise or objectivity. Review teams use a range of PwC network developed checklists and tools and receive appropriate training. The network inspection team supports review teams on consistent application of guidance on classification of engagement findings and engagement assessments across the network.

The findings are independently moderated by the network inspection team.

In addition to the PwC network inspections, PwC Australia conducts its own engagement reviews using the same review materials as used for the ECRs.

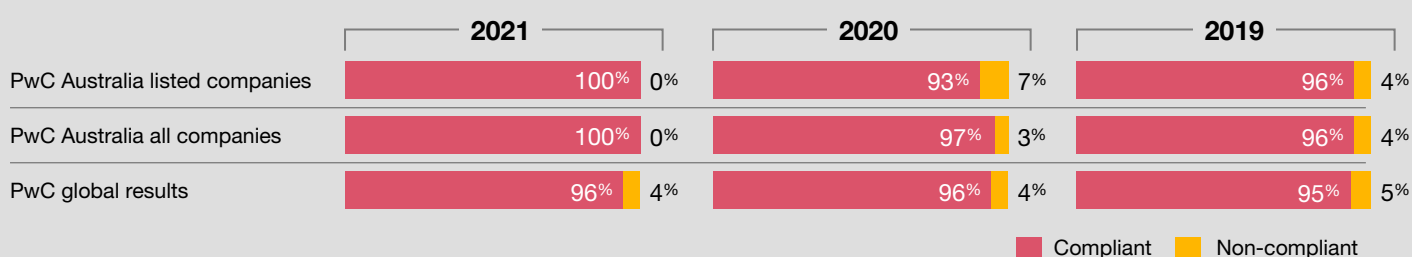
Quality management reviews

The PwC network coordinates an inspection programme to review the design and operating effectiveness of our SoQM. These reviews include effectiveness tests of quality controls in areas such as hiring, training, promotion and independence. The use of a central team to monitor these inspections across the PwC network enables a consistent view and sharing of relevant experience across the PwC network.

PwC internal inspection results

Inspection outcomes are summarised by rating an overall audit file as “Compliant” or “Non-compliant” with PwC network standards, which are based on International Standards on Auditing (ISAs). In 2021, there were no files rated as non-compliant with PwC network standards (2020 - one). The findings in both years did not require a reissue of the audit report or a restatement. The findings form a key part of our annual Quality Improvement Plan.

Internal inspection results



External inspections

In addition to PwC network and internal quality reviews, PwC Australia is also subject to regular inspections by regulatory and professional bodies. Given that many of our clients are global, these inspections include those performed by overseas regulators. We take the findings from all external reviews seriously, and we incorporate root causes and remedial actions into our annual Audit Quality Improvement Plan.

ASIC reviews

As part of its monitoring responsibilities, ASIC periodically inspects the quality of PwC Australia’s work as statutory auditors. ASIC prepares a report describing their inspection process and a high-level summary of their observations and findings. ASIC’s most recent report on PwC Australia was issued in December 2020 and covered its 2019-2020 inspections. ASIC also periodically releases a publicly available report of its inspections of all audit firms, large and small, in Australia. This report aims to better inform interested stakeholders about the regulator’s key observations and findings. ASIC’s latest public report was issued in December 2020 and covered its 2019-2020 inspections. A copy is available on ASIC’s website.

In its most recent report, ASIC found that there was a risk that PwC audit teams had not obtained sufficient appropriate audit evidence in 23% of the audit areas they reviewed. This compared to an average of 24% at the six largest audit firms in Australia. Full details are disclosed in our Audit Quality Balanced Scorecard.

ASIC performed a joint inspection with the Canadian Public Accounting Board (CPAB) in March 2012. The CPAB issued a report on the firm with no findings.

CPA/CAANZ reviews

As a member firm of CPA Australia and Chartered Accountants Australia and New Zealand (CAANZ), PwC is also subject to periodic review. The CPA/CAANZ review programme monitors whether members have the necessary quality control policies and procedures to comply with professional standards and legal requirements. In November 2019, CAANZ conducted a review of the firm’s quality control procedures and regulator oversight.

PCAOB reviews

In addition to the Australian external reviews, the US Public Company Accounting Oversight Board (PCAOB) inspects PwC Australia every three years. The most recent inspection was in March 2019. ASIC and the PCAOB jointly reviewed the firm’s quality control system and one engagement, and the PCAOB separately performed further engagement reviews. The PCAOB finalised its inspection report in August 2021, which is publicly available on their website (www.pcaobus.org).

The results of all inspections are reported to our firm's leadership, who analyses the findings and implements remedial actions as necessary. In situations where adverse quality matters are identified on engagements, based on the nature and circumstances of the matters, the responsible partner or other leadership personnel may be subject to additional mentoring, training or sanctions under our firm's recognition and accountability framework.

Inspection results, including the actions taken, are also reported to all partners and employees in PwC Australia's Assurance practice. This transparency allows our people to draw their own conclusions for the performance of engagements. Engagement partners responsible for group audits involving cross-border work are also informed by the network inspections programme about relevant inspection findings in other PwC network firms, which enables our partners to consider these findings in planning and performing their audit work.

Our drive for quality

Number of audit engagements reviews (internal and external reviews)

FY21



100

audit engagements
were reviewed

Covering % of the firm's responsible individuals



80%

of the firm's
responsible individuals

FY20



98

audit engagements
were reviewed



73%

of the firm's
responsible individuals



Legal and governance structure

PricewaterhouseCoopers is an Australian partnership that is governed by the laws of the Australian Capital Territory and operates throughout Australia (PwC Australia). PwC Australia is owned by its partners and has offices in Adelaide, Brisbane, Canberra, Melbourne, Perth, Sydney, Greater Western Sydney and Newcastle. PwC Australia is also a member of the PwC network.

CEO and Executive Board: providing leadership

PwC Australia's Country Senior Partner (CEO) provides leadership for the partners and employees, and sets short and long-term strategic direction. The CEO is elected by the firm's partners for a term of four years. If re-elected, the CEO may serve in that role for one further term of up to four years. PwC Australia's current CEO is Tom Seymour, who was first elected in March 2020.

The CEO is also responsible for appointments to the firm's Executive Board and other senior management positions. Under the CEO's leadership, the Executive Board and those in senior management positions conduct the management and administration of the firm. The names and roles of the current members of the Executive Board can be found on PwC Australia's [website](#).

Board of Partners: providing oversight

The Board of Partners (also known as Governance Board) is responsible for governance and oversight. Its role includes supporting, monitoring and providing input into strategy, monitoring of risk and quality, approving partner admissions and retirements, and approving major transactions or referring them to a partner vote. The Board of Partners consists of the firm's CEO plus ten partners who are elected by partner vote. It may also appoint up to three additional members; at present, there are no additional members.

Partners

Certain matters are reserved for partner vote. These matters include the election of the CEO and members of the Board of Partners (other than additional appointed members), amendments to the firm's partnership agreement, termination of the partnership, and approval of major transactions referred to partner vote by the Board of Partners. As at 30 June 2021 there were 723 partners in PwC Australia.

PwC Australia is governed and led by our:



Country Senior Partner

(also known as the CEO)



CEO's leadership team

(also known as the Executive Board)



Board of Partners

(also known as the Governance Board)



Firm's partners

PwC network

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 which are separate legal entities.

PricewaterhouseCoopers International Limited

Firms in the PwC network are members in, or have other connections to, PwCIL, an English private company limited by guarantee. PwCIL does not practise 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.

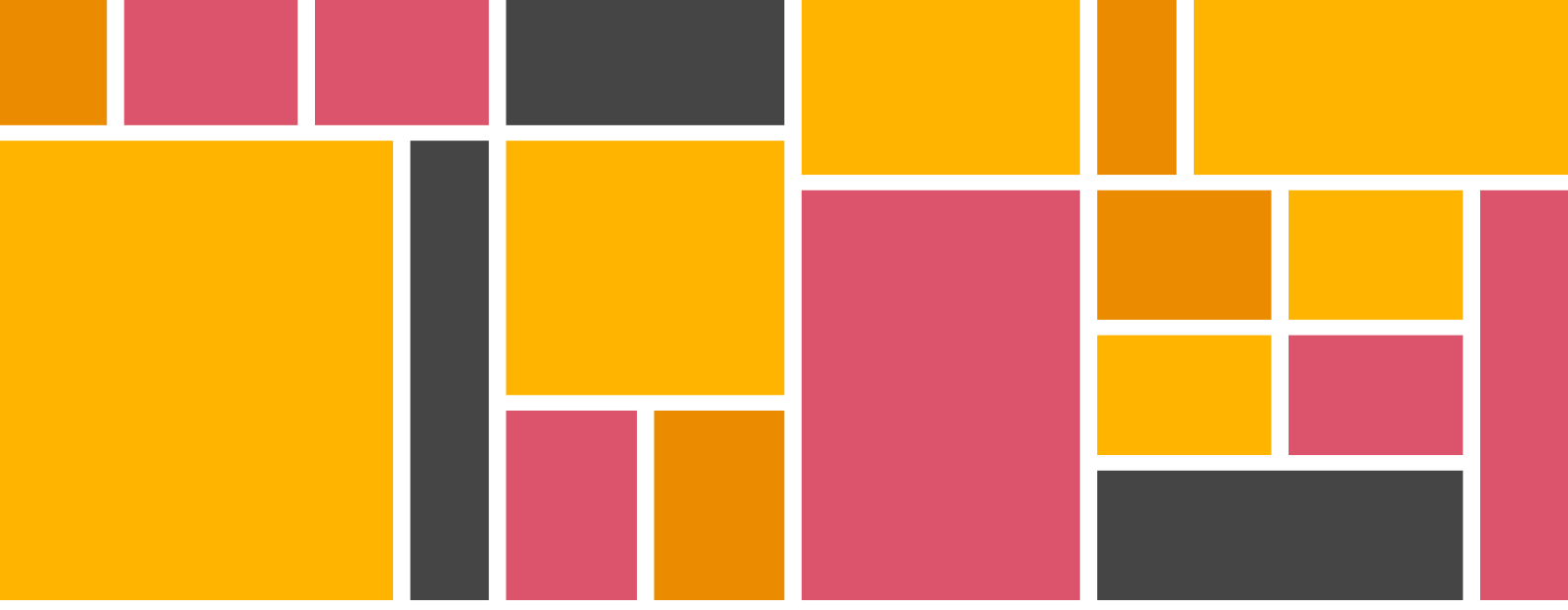
The PwC network is not one international partnership. A member firm cannot act as agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm, and is liable only for its own acts or omissions and not those of PwCIL or any other member firm. Similarly, PwCIL cannot act as an 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 a member firm’s exercise of professional judgement.

The governance bodies of PwCIL are:

- **Global Board**, which is responsible for the governance of PwCIL, the oversight of the Network Leadership Team and the approval of network standards. The Global Board does not have an external role. Board members are elected by partners from all PwC firms around the world every four years. One of the current members on the Global Board is an Australian partner.
- **Network Leadership Team**, which is responsible for setting the overall strategy for the PwC network and the standards that all PwC firms agree to follow.
- **Strategy Council**, which is made up of the leaders of the largest PwC firms and regions of the network, agrees on the strategic direction of the network and facilitates alignment for the execution of strategy.
- **Global Leadership Team**, 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.

PwC Australia’s Country Senior Partner is a member of the Strategy Council and maintains our firm’s relationships with the Network Leadership Team.





Appendices

Appendix 1

Audits conducted in the financial year ended 30 June 2021

Listed companies and listed registered schemes that meet the definition of listed per Section 9 of the Corporations Act 2001

1. Adacel Technologies Limited	28. Breville Group Limited	55. Globe International Limited
2. Adbri Limited	29. Buderim Group Limited	56. GPT Group
3. Adherium Limited	30. BWX Limited	57. GrainCorp Limited
4. Aeris Resources Limited	31. Carbon Minerals Limited	58. Grange Resources Limited
5. Alkane Resources Limited	32. Carsales.com Limited	59. Gryphon Capital Income Trust
6. Alliance Aviation Services Limited	33. Cedar Woods Properties Limited	60. Harmoney Corp Limited
7. Alterity Therapeutics Limited	34. Central Petroleum Limited	61. Hastings Technology Metals Limited
8. Altium Limited	35. Charter Hall Social Infrastructure REIT	62. Helloworld Travel Limited
9. Alumina Limited	36. Charter Hall Group	63. Highfield Resources Limited
10. AMCIL Limited	37. Charter Hall Retail REIT	64. Hillgrove Resources Limited
11. Antipodes Global Shares	38. Charter Hall Long WALE REIT	65. hiPages Group Holdings Limited
12. Arena REIT	39. Collins Foods Limited	66. Home Consortium
13. Argo Investments Limited	40. Comet Ridge Limited	67. HomeCo Daily Needs REIT
14. Aristocrat Leisure Limited	41. Commonwealth Bank of Australia	68. Horizon Oil Limited
15. Asaleo Care Limited	42. Computershare Limited	69. HT&E Limited
16. Atlas Arteria Limited	43. Corporate Travel Management Limited	70. Humm Group Limited (formerly FlexiGroup Limited)
17. ASX Limited	44. Damstra Holdings Limited	71. Huon Aquaculture Group Limited
18. Aurizon Holdings Limited	45. Deterra Royalties Limited	72. Hutchison Telecommunications (Australia) Limited
19. Australian Foundation Investment Company Limited	46. DEXUS	73. Iluka Resources Limited
20. Australian Strategic Minerals Limited	47. Djerriwarrh Investments Limited	74. Immutep Limited
21. Australian Unity Limited	48. Elders Limited	75. Infigen Energy
22. Australian Unity Office Fund	49. Evolution Mining Limited	76. Integral Diagnostics Limited
23. Bapcor Limited	50. Fiducian Group Limited	77. InvoCare Limited
24. Beacon Lighting Group Limited	51. FireFinch Limited (formerly Mali Lithium Limited)	78. Iron Road Limited
25. Bega Cheese Limited	52. Fortescue Metals Group Ltd	79. Karoon Energy Limited
26. Booktopia Limited	53. Galaxy Resources Limited	80. Kingsgate Consolidated Limited
27. Brambles Limited	54. Genetic Technologies Limited	81. Lifestyle Communities Limited

82.	Lion Selection Group Limited	116.	Pioneer Credit Limited	150.	The Reject Shop Limited
83.	LogiCamms Limited	117.	Platinum Asia Investments Limited	151.	Tilt Renewables Limited
84.	Macquarie Bank Limited	118.	Platinum Asset Management Limited	152.	TPG Telecom Limited
85.	Macquarie Group Limited	119.	Platinum Capital Limited	153.	Transurban Group
86.	Macquarie Telecom Group Limited	120.	QBE Insurance Group Limited	154.	Triton Minerals Limited
87.	Maggie Beer Holdings Ltd	121.	Qube Holdings Limited	155.	Troy Resources Limited
88.	Marvel Gold Limited	122.	Redflex Holdings Limited	156.	United Malt Group Limited
89.	MC Mining Limited	123.	RedFlow Limited	157.	Universal Biosensors Inc
90.	McPherson's Limited	124.	Retail Food Group Limited	158.	Universal Store Holdings Limited
91.	Medibank Private Limited	125.	Ricegrowers Limited	159.	Vault Intelligence Limited
92.	Mesoblast Limited	126.	Rural Funds Group	160.	Virtus Health Limited
93.	Mirrabooka Investments Limited	127.	Salmat Limited	161.	Viva Energy Group Limited
94.	Mirvac Limited	128.	Saturn Metals Limited	162.	Vocus Group Limited
95.	Munro Global Growth Fund	129.	Seek Limited	163.	Waypoint REIT (formerly Viva Energy REIT)
96.	Myer Holdings Limited	130.	Select Harvests Limited	164.	Wellard Limited
97.	Nova Eye Medical Limited	131.	Service Stream Limited	165.	Westpac Banking Corporation
98.	NB Global Corporate Income Trust	132.	Shaver Shop Group Limited	166.	White Energy Company Limited
99.	NextDC Limited	133.	Shine Justice Ltd		
100.	NIB Holdings Limited	134.	Silex Systems Limited		
101.	Nitro Software Limited	135.	Simavita Limited		
102.	Novonix Limited	136.	Sipa Resources Limited		
103.	Nuix Limited	137.	Smartgroup Corporation Ltd		
104.	OceanaGold Corporation	138.	Sonic Healthcare Limited		
105.	Openpay Group Ltd	139.	Southern Cross Media Group Limited		
106.	Orbital Corporation Limited	140.	St. Barbara Limited		
107.	Orora Limited	141.	Starpharma Holdings Limited		
108.	Paladin Energy Ltd	142.	Stockland Corporation Limited		
109.	Partners Group Global Income Fund	143.	Summit Resources Ltd		
110.	Peel Mining Limited	144.	Sugar Terminals Limited		
111.	Pendal Group Limited	145.	Super Retail Group Limited		
112.	Perenti Global Limited (formerly Ausdrill Limited)	146.	Syrah Resources Limited		
113.	Perseus Mining Limited	147.	TasFoods Limited		
114.	Pharmaxis Ltd	148.	Telix Pharmaceuticals Limited		
115.	Pinnacle Investment Management Group Limited	149.	The Citadel Group Limited		

**Authorised Deposit Taking Institutions (ADI)
within the meaning of the Banking Act 1959**

**Life and General Insurers Regulated by APRA as defined in
paragraph (c) or (e) of the definition in subsection 3(2) of the
Australian Prudential Regulation Authority Act 1998**

1. Australian Unity Bank Limited	1. Achmea Schadeverzekeringen N.V.
2. Bank of America, National Association	2. AIA Australia Limited
3. Bank of Communications Co., Ltd.	3. AIG Australia Limited
4. Bank of China (Australia) Limited	4. Allianz Australia Limited
5. Commonwealth Bank of Australia	5. Allianz Australia Insurance Limited
6. Greater Bank Limited	6. Ansvar Insurance Limited
7. HSBC Bank Australia Limited	7. Atradius Credito Y Caucion S.A. De Seguros Y Reaseguros
8. Judo Capital Holdings Limited	8. Australian Unity Limited
9. Macquarie Bank Limited	9. AXA Corporate Solutions Assurance
10. Macquarie Group Limited	10. Chubb Insurance Australia Ltd
11. Oversea-Chinese Banking Corporation Limited	11. Chubb Holdings Australia Pty Ltd
12. PayPal Australia Pty Limited	12. Colonial Mutual Life Assurance Society Limited
13. Queensland Country Bank Limited	13. (The) Combined Life Insurance Company of Australia Ltd
14. Rabobank Australia Limited	14. Commonwealth Insurance Limited
15. Westpac Banking Corporation	15. Hannover Life Re of Australasia Ltd
16. Xinja Bank	16. LawCover Insurance Pty Limited
	17. Macquarie Life Limited
	18. North Insurances Pty Ltd
	19. QBE Insurance (Australia) Limited
	20. QBE Insurance (International) Limited
	21. QBE Insurance Group Limited
	22. QBE Lenders Mortgage Insurance Limited
	23. Sirius International Insurance Corporation
	24. Sompo Japan Nipponkoa Insurance Inc
	25. St George Life Limited
	26. Swiss Re International SE
	27. Swiss Re Life & Health Australia Limited
	28. Swiss Reinsurance Company Ltd
	29. Tokio Marine & Nichido Fire Insurance Co. Ltd
	30. TT Club Mutual Insurance Limited
	31. Westpac General Insurance Limited
	32. Westpac Lenders Mortgage Insurance Limited
	33. Westpac Life Insurance Services Limited
	34. XL Insurance Company SE
	35. Youi Holdings Pty Ltd
	36. Youi Pty Ltd
	37. Zurich Australia Limited
	38. Zurich Australian Insurance Limited
	39. Zurich Financial Services Australia Limited

Appendix 2

Audit Quality Advisory Board

The AQAB is comprised of three external appointments who currently are:

- Ian McPhee AO PSM, BBus, BArts, the former Auditor-General for Australia (2005 to 2015) is the Chair of the Board. Ian is currently the Public Sector Standards Commissioner for the ACT (in a part time capacity), a distinguished honorary professor at the Research School of Accounting at the Australian National University, and a member of the International Ethics Standards Board for Accountants
- Professor Emerita Margaret Abernethy AM, BEc, PhD, currently holds the Sir Douglas Copland Chair of Commerce at the University of Melbourne and is a Director of the Melbourne Centre for Corporate Governance and Regulation. Margaret is a leading researcher in cost accounting, budgeting, performance management, compensation design and corporate governance
- Damien Johnston FCPA, BCom, is the former CFO of Tabcorp Holdings, a position he held from 2011 until 2019. Prior to this he worked in a variety of finance roles at Tabcorp and BHP Group, building strong experience in corporate and operational financial management including financial reporting, internal audit, M&A, treasury and investor relations.

Executive overview of 2020-21 AQAB Report

Audit quality continues to receive considerable attention in Australia and internationally. This is in recognition of the importance of the role of auditing in enhancing confidence of investors and other key stakeholder groups in the information provided in financial reports.

As complexity in financial reporting is increasing due to the evolving business environment and the desire to produce more meaningful financial reports, so too are the expectations on firms undertaking audits of financial reports. In addition to maintaining currency with financial reporting and auditing developments, firms have been required to manage the implications of the COVID-19 pandemic on audit engagements, which has seen a rapid shift to more virtual business operations and controls^[1]. These circumstances have introduced a range of new challenges for firms delivering audit services, without changing the fundamental responsibility of the auditor to obtain sufficient appropriate audit evidence to support their audit opinions on the financial statements.

In their audit inspection findings across all firms inspected for 2019-20, the Australian Securities and Investments Commission (ASIC) drew attention to their findings which showed that 'Audit firms need to work on improving audit quality and significantly reducing the number of instances where auditors do not obtain reasonable assurance that a financial report is free of material misstatements'^[2]. ASIC's audit inspection report for PwC for 2019-20, drew attention to a range of matters (eight of the 35 key areas reviewed in total across 11 audits) being 23% of the key areas reviewed (compared to 18% for 2018-19) where, in ASIC's view, PwC did not obtain reasonable assurance that the financial report subject to inspection was free of material misstatement. While PwC did not necessarily agree with all of ASIC findings, the matters raised highlight opportunities for improvement in PwC's audit processes. As at the date of the preparation of this report, the 2020-2021 ASIC inspection results had not yet been issued. The results of the recent PwC network reviews identified no engagements rated as "non-compliant" from a sample of 32 audits. Nevertheless, common themes identified from these PwC network reviews, based on the firm's root cause analysis, included the need for more consistency in documenting and evaluating how IT risks, and the reliability of data, are addressed in the audits of smaller engagements; and the need for clarity and consistency in documenting the audit approach adopted and judgments made in assessing the sufficiency of the audit evidence obtained.



Pleasingly, PwC notes that for the larger engagements, the benefits of the disciplined planning processes have shown an improvement in audit quality. There were no indications that circumstances of COVID-19 have had an impact on audit quality.

Revised pronouncements recently issued by the international standard setting boards for the accounting profession have been designed to strengthen and improve a firm's management of quality for audit and certain other engagements. These pronouncements also strengthen independence requirements for audits and place further restrictions on the provision of non-assurance services to audit clients by firms. The revised pronouncements have been reviewed by the Australian Auditing and Assurance Standards Board and the Accounting Professional and Ethical Standards Board in accordance with each Board's due process, with implementation of the Australian requirements to take effect commencing from December 2022.

In addition, the Parliamentary Joint Committee on Corporations and Financial Services has completed its inquiry into Regulation of Auditing in Australia indicating that 'In this radically changed environment, independent and accurate external auditing is more critical than ever in helping determine efficient and effective capital allocation'⁹. The Committee made 10 recommendations, five of which were directed to ASIC, the Financial Reporting Council and the Australian Professional and Ethical Standards Board covering the audit inspection methodology, auditor independence, and fee disclosure requirements in relation to audit and non-assurance services. In due course, the Government's consideration of the Committee's recommendations can be expected to influence the statutory and oversight arrangements applying to audits undertaken in Australia.

In summary, over the past year we have observed that the Australian Parliament, accounting professional bodies, regulators and audit firms have all taken steps to implement measures that seek to enhance audit quality. This reflects heightened stakeholder expectations about the importance of improving the quality of audit services being delivered in the public interest.

For its part, PwC has been proactive in reinforcing the importance of audit quality in the services it provides for some time. This includes having in place arrangements to provide assurance that professional requirements in relation to independence are being adhered to. The leadership of the firm has continued to reinforce the importance of audit quality with actions designed to achieve better audit outcomes, but also recognises there is more to be done. PwC has also invested significantly in resources to support compliance with independence requirements. As a consequence, PwC is well placed to respond to the range of measures referenced above which will have a direct impact on all providers of audit services in the coming years.

Successful delivery, of course, will be reliant on ongoing planning, effective engagement with partners and staff, effective engagement with clients and, most importantly, the application of sound judgement and professional scepticism in relation to all phases of each audit undertaken, having regard to statutory and professional requirements.

The foundations that PwC has established provide an effective platform on which to deliver audits to the higher standards expected in the years to come. History shows, however, there is no room for complacency.

AQAB Observations, and Recommendations for Improvement in 2019-20

In its initial report, which took a broad review of the PwC audit practice, the AQAB made four recommendations directed to PwC to reinforce the importance of additional measures which can be taken by PwC to support the firm's emphasis on delivering quality audits. The recommendations focussed on:

- Providing greater visibility to partners and staff in the audit practice of the contribution their services make 'to build trust in society', and providing greater clarity as to the importance of quality in delivering on the firm's purpose and values;
- Developing a respectful culture of challenge that encourages partners and staff to speak freely, and speak up on better ways of delivering audit services and improving organisational performance;
- Emphasising the importance of the application of 'professional scepticism' in undertaking audits, as well as the firm's expectations in relation to audit documentation; and
- Considering the firm's accountability framework in respect of sanctions associated with ASIC's inspection results as a separate category, and how to integrate the processes for partners and staff so they are mutually reinforcing in achieving quality outcomes and enhanced organisational alignment.

PwC responded positively to each of the AQAB recommendations, nominating a senior executive responsible for implementing the recommendation and an expected implementation date of 12 months or less. Since the Board's first report, PwC has taken appropriate steps to appropriately implement each of the recommendations.



The Focus of this Report

For this report, the Board has focussed on measures taken by, and proposed by PwC, in relation to audit quality, the resourcing of audit teams, and steps taken by PwC to monitor the independence of the firm and audit team members (including partners and staff). In considering PwC's approach to these matters, the Board has continued to focus on the importance of partner and staff engagement so that partners and staff are involved in, and have greater understanding and ownership of, the solutions being implemented to enhance audit quality.

The Board has also borne in mind the insights of Katzenbach⁴, Steffen and Kronley⁵ who emphasise that coherence among an organisation's culture, strategic intent and performance priorities can make the whole organisation more attractive to both employees and clients. This is particularly important when the roles of audit team members require them to adhere to a broad range of statutory, professional and firm requirements in discharging their responsibilities.

The Board's conclusions and recommendations relating to each of the focus areas reviewed are set out below.

Audit Quality Agenda

PwC has shown leadership in emphasising the importance of audit quality in its audit practice. It has in place a number of key controls and initiatives including striving for a continuous learning culture, the implementation of real time access to specialists and tools, and a strong focus on audit planning and accountability.

In recent times, PwC has implemented initiatives such as the Chief Auditor Network, a review of its culture settings (including the culture of speaking up and professional scepticism), and enhancements to training materials to assist in making considered judgements during an audit to produce better audit outcomes.

Recognising the importance of partners and staff in the delivery of quality audits, the AQAB has focussed on further measures which might be applied cost-effectively to further enhance audit performance. These measures are consistent with the direction PwC has been travelling and include acknowledging the importance of the public interest benefits in the audits undertaken by PwC, which derive from the fundamental principles of ethical behaviour for professional accountants; and informing audit clients, through more targeted communication, of their role in contributing to a quality audit that is delivered efficiently within the required statutory timeframe.

Recommendation	PwC response
Recommendation 1 The AQAB recommends that PwC, in its communications and policy documents relating to the audit practice, includes reference to its responsibilities as a professional firm to act in the public interest which derive from the fundamental principles of ethical behaviour for professional accountants. This could be achieved through updating policies and professional development activities. This would further emphasise to the audit practice, and its audit clients, the important role undertaken by auditors across the economy and society.	<p>During 2021-22 we will bring to life the important role auditors play through learning programmes and professional development activities that reflect our recognition of the profession's public interest responsibility as referred to in applicable professional obligations. In our Town Hall discussions with staff we will share practical examples that demonstrate our commitment to upholding professional expectations and building trust in society.</p> <p>Responsibility: Jan McCahey (Risk and Quality Leader)</p> <p>Date: 31 March 2022</p>
Recommendation 2 The AQAB recommends that PwC convey to its clients' audit committees the importance of their role in contributing to a quality audit that is delivered efficiently.	<p>We will share practical steps for Audit Committees to take in support of high-quality company reporting and audits. We will do so in our formal communications that we share with the Audit Committees of our listed clients and in our regular dialogue programme with members of Audit Committees.</p> <p>Responsibility: Kristin Stubbins (Audit Leader)</p> <p>Date: 30 June 2022</p>

Resourcing of Audit Teams

PwC has devoted considerable resources with the goal of ensuring the right resources are allocated to audits on a timely basis by implementing a national resource allocation model which focuses on:

- realistic budgeting
- considering alternative approaches to delivering standardised audit procedures, for example through automation and digitisation or through specialised delivery centres, and
- enhancing the Employee Value Proposition (EVP) for PwC auditors to not only reduce attrition but to also enhance auditor job satisfaction.

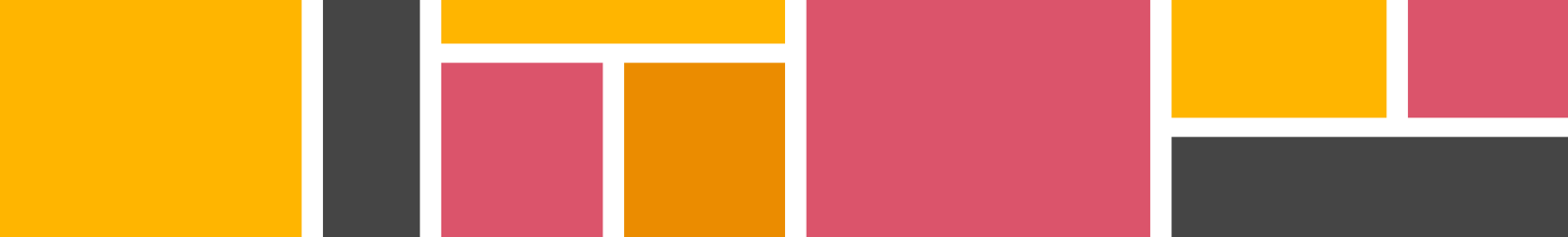
Setting realistic budgets is critical to other resourcing initiatives. It requires staff and partners to realistically assess the time it will take to complete each audit. Given that it is difficult to overcome some of the cultural norms at PwC where staff can be reluctant to admit that they need more time or have doubts that their views will be taken into account, this step will require reinforcement through appropriate messaging from those in leadership roles, and through training. We note that PwC is also improving their budget process to encourage more timely budget projections by moving the budgeting process closer to the date of audit commencement, supported by new automated processes for developing budgets. For realistic budgeting to be successful, staff at all levels need to be confident that their assessment of time required for an audit will be appropriately considered when resources are allocated to each audit. Realistic budgeting was a common theme mentioned in our focus groups with staff, so we encourage the ongoing focus on this area.

The establishment of the national resource allocation model will also assist in ensuring the best use of partner and staff time across the various audits throughout Australia. While PwC has a clear resource allocation decision tree that can be used should conflicts occur in the allocation of staff, monitoring whether this process is effective will be important in meeting partner and staff personal and professional needs. The Smart Delivery Model (SDM) provides numerous benefits in terms of resource allocation and has the potential to attract and retain new graduates by reducing some of the routine and repetitive tasks traditionally performed by audit teams. As this model is implemented, it is important that a sense of team is developed by all those involved in the audit to ensure a seamless delivery of a high-quality audit. Our early observations are that some further emphasis on communication and coordination would be beneficial.

The recruitment and retention of staff will continue to be challenging given the increasing competition for talent and the decline in the number of auditors in the market – both at the graduate level and experienced level. PwC has recently undertaken a review of its remuneration strategy and taken action to increase remuneration, bonuses, training opportunities and wellness benefits. This may address some of the flight to other industries as would the increased emphasis on the attractiveness of an audit career to school leavers and university graduates.

Given the significance of these developments to achieving better audit outcomes, it is clearly important that they deliver to expectations and be subject to appropriate management oversight.

Recommendation	PwC response
Recommendation 3 The AQAB recommends that PwC review and report on the outcomes of the resourcing initiatives being implemented to ensure that they are delivering better quality outcomes, with more effective utilisation of partners and staff.	<p>We understand that audit quality depends on having the right people with the right skills and capabilities assigned.</p> <p>We will undertake a review of the effectiveness of the resourcing initiatives that commenced in 2020-21 and share the findings with the Audit Quality Advisory Board.</p> <p>Responsibility: Jan McCahey (Risk and Quality Leader)</p> <p>Date: 31 March 2022</p>



Recommendation	PwC response
<p>Recommendation 4</p> <p>The AQAB recommends that PwC leadership emphasises the importance of communication and coordination as the audit work becomes more dispersed across various channels of delivery. A strong sense of team should be encouraged by all those involved in the audit to ensure a seamless delivery of a high-quality audit.</p>	<p>We will continue to encourage our audit partners to promote a strong sense of team on their engagements, demonstrating the importance of building a culture where all team members feel included and able to speak up, irrespective of where they are physically located.</p> <p>We will seek feedback on this from team members as part of our regular staff surveys.</p> <p>Responsibility: Kristin Stubbins (Audit Leader)</p> <p>Date: 31 March 2022</p>
<p>Recommendation 5</p> <p>The AQAB recommends that PwC continues to incorporate learnings from its review of its cultural settings into its resourcing initiatives, and in this context the PwC leadership emphasises the importance of realistic budgeting to partners and staff.</p>	<p>In 2021-22 we will put in place initiatives to encourage and incentivise behaviours we see as essential to underpin the culture of quality we are seeking to achieve. An area we will give particular focus to is realistic budgeting.</p> <p>Responsibility: Ewan Barron (Chief Culture Officer)</p> <p>Date: 30 June 2022</p>
<p>Recommendation 6</p> <p>The AQAB recommends that in future staff surveys, PwC places emphasis on reviewing how each grade of staff is responding to the various resource initiatives, in particular whether this is translating into reduced resourcing pressures over the course of the year</p>	<p>As part of our staff surveys in 2021-22, we will seek feedback on the resource initiatives we put in place and will analyse responses by different grades of staff as we draw conclusions from the feedback.</p> <p>Responsibility: Matt Graham (Managing Partner, Assurance)</p> <p>Date: 30 June 2022</p>

Maintaining Independence from Audit Clients

It is clear to the AQAB that PwC has a strong commitment to ensuring the independence, both actual and perceived, of the firm and its partners and staff when performing audit engagements. PwC's approach to independence is sound and includes significant commitment to systems, training, monitoring and accountability. Independence is overseen by the PwC Australia Independence Office. This function is well resourced and has grown significantly since it was established.

Compliance testing results in 2019-20 indicated few breaches of external regulations or internal policies and showed an improvement compared to 2018-19. Management attributes the improvement to specific initiatives to improve compliance including an increased training effort.

Whilst the AQAB considers PwC has a robust approach to ensuring independence, the Board believes this could be further enhanced through strengthening the culture and continued investment in training of partners and staff.

Recommendation	PwC response
<p>Recommendation 7</p> <p>The AQAB recommends that PwC continues to focus on partner and staff training in respect of independence. In doing so, PwC should continue to ensure that compliance remains equally prioritised around both the letter and spirit of independence requirements.</p>	<p>We will continue to impress upon partners and staff the ongoing importance of firm and personal independence requirements. This will include a continued investment in training where we will stress the importance of compliance with the rules on independence and the need to consider others' perceptions.</p> <p>Responsibility: Matt Graham (Managing Partner, Assurance)</p> <p>Date: 31 March 2022</p>



Concluding Remarks

Due to the emphasis that PwC has been giving to the importance of audit quality in more recent years, the firm is well placed to accommodate changes in statutory requirements and professional standards as well as internally initiated changes, designed to improve the quality of the audit services the firm provides. In this context, the firm has invested in a range of measures to enhance the delivery of quality audits. The focus for 2020-21 has been to provide support for a continuous learning culture for partners and staff, to emphasise the importance of planning for quality, to provide real time specialist support and tools to audit teams, and to integrate accountability for quality into the firm's system of quality management.

The Board's recommendations are intended to complement steps already in train with the objective of supporting the firm to achieve its audit quality agenda.

This focus on audit quality has been appropriately emphasised by the leadership of the audit practice through the firm's communications and engagement with partners and staff. Necessarily, this focus needs to be evident and reinforced in PwC's culture, strategic intent and performance measurement to maximise the benefits to the firm, its employees and clients so that quality audits are delivered for every audit engagement undertaken by PwC.

Going forward, the Board anticipates the agenda for its next report will consider:

- ongoing assessment of how resourcing can impact audit quality, particularly against a background of restricted skilled migration and network secondees into the country
- steps taken by PwC's audit practice to shape its culture and business strategies for the delivery of audit services over the next decade and beyond
- the key performance measures adopted by the firm to measure the success of the audit practice in delivering on its goals, and any opportunities for improvement.

1. <https://www.ifac.org/events/webinar-series-practical-audit-quality-considerations>

2. Page 4: <https://asic.gov.au/media/5900575/rep677-published-22-december-2020.pdf>

3. Page 1: https://www.aph.gov.au/-/media/Committees/corporations_ctte/RegulationofAuditing/Regulation_of_Auditing_in_Australia_-_Final_Report.pdf?la=en&hash=7A5F8CCFA82421E0B-96940686272998C9A6FE178

4. We note that Jon R Katzenbach is a founder and co-leader of the Katzenbach Centre at PwC

5. <https://www.strategyand.pwc.com/us/en/reports/2007-2014/hbr-cultural-change-that-sticks.pdf>



Appendix 3

AQAB inaugural report and actions

In 2020, the AQAB made four recommendations to reinforce the importance of further measures which can be taken to support the emphasis on delivering quality audits by PwC. The following table shows the recommendations plus the actions PwC has taken against each.

Recommendation	PwC response
Recommendation 1 Given the importance of audit quality and public interest considerations to the value of audit, PwC should provide greater visibility to partners and staff in the audit practice of the contribution of the services they deliver 'to build trust in society', and provide greater clarity as to the importance of quality in delivering on the firm's purpose and values. This could be achieved by suitable references in key policy documents, and in the learning and development programme	<p>Since the AQAB report was issued PwC:</p> <ul style="list-style-type: none">• Reinforced the importance of quality in our strategy documents and presentations to staff, podcasts etc• Designed and issued new leadership communications, for example, videos, which seek to bring to life in simpler language our purpose and values• We are continuing to embed the importance of audit quality and public interest considerations into our new training content. <p>Responsibility: Matt Graham (Managing Partner, Assurance)</p>
Recommendation 2 In conjunction with the work being undertaken by the Chief Culture Officer to build a culture that embeds a stronger quality focus in delivering quality audit services in the public interest, PwC consult widely with partners and staff to:	<p>We understand that our ability to exercise professional scepticism as auditors is reliant on an underlying culture of challenge. We have completed a review within our Assurance practice with a specific focus on the culture of speaking up and the mindset of scepticism.</p> <p>The outcomes of the review were outlined to the AQAB on 28 January 2021. Since then we have undertaken a range of measures to embed the three critical behaviours identified from the review.</p> <p>Responsibility: Ewan Barron (Chief Culture Officer)</p>

Recommendation

PwC response

Recommendation 3

Against the background of the external inspection results, PwC provides greater emphasis to:

- The importance of engagement partners and audit teams applying 'professional scepticism' in undertaking audits, given professional scepticism is seen as being at the heart of a quality audit.
- The firm's expectations in relation to audit documentation, including in relation to the application of professional scepticism, and include better practice examples in its learning and development programme.

In addition to the broader culture review discussed in recommendation #2, we have reviewed our core learning and development curriculum to ensure that there are regular components that address how we exercise professional scepticism and demonstrations of better practice documentation.

This year we have further tailored our learning materials to ensure the messages are appropriate for our Australian staff across the various stages of their roles and updated for changing circumstances in the local and global environment.

Across a variety of courses, we updated content to reflect the importance of applying professional scepticism, and the need to document this judgement.

Over 400 of our people completed the Chartered Accountant Australia New Zealand Professional Scepticism Programme. This 2 hour elearn, targeted Senior Accountants who are progressing in their careers and starting to undertake more coaching, reviewing and work over more technical, judgemental areas of the audit.

Responsibility: Jan McCahey (Risk & Quality Leader)

Recommendation 4

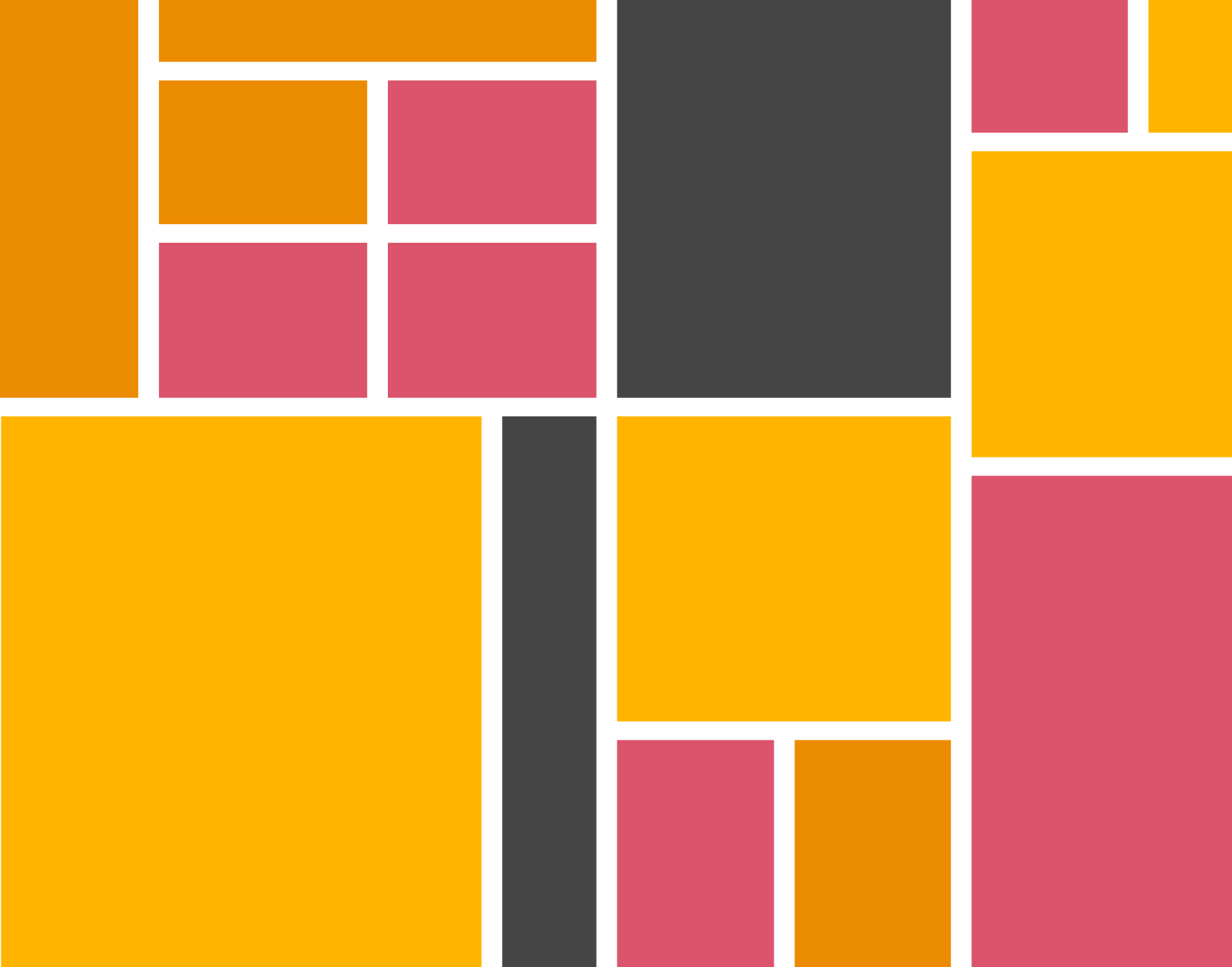
PwC gives further consideration to the firm's accountability framework in respect of:

- Enhanced clarity on sanctions associated with ASIC inspections results, as a separate category in its accountability model and how these are weighted relative to other criteria in assessing and rewarding the performance of partners. Sanctions could be weighted according to severity as assessed by ASIC and PwC.
- How to integrate the processes for partners and staff so that they are mutually reinforcing in achieving quality outcomes and enhanced organisational alignment.

Since the AQAB report was issued:

- The Assurance Leadership Team has agreed changes to Recognition & Accountability Framework. This has been shared with partners in early March 2021.
- Team Leaders considered the following as part of staff performance assessment and promotion considerations for FY21:
 - Mandatory learning attendance and training course completion
 - Individuals' contribution to our Quality initiatives
- Staff performance plans for FY22 have been expanded to include specific and detailed quality goals, and regular feedback and assessment processes include consideration of performance against these.

Responsibility: Jan McCahey (Risk & Quality Leader)



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