



PwC Australia | Assurance

Transparency Report

Year ended 30 June 2020



www.pwc.com

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A reference to PwC, PwC Australia, we, our, us, or the firm in this report is a reference to PricewaterhouseCoopers (ABN 52 780 433 757).





Section one

Our year in quality

Transparency at a glance

Digital upskilling

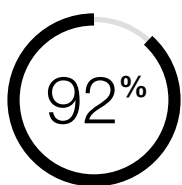
78% of Assurance people attended Digital Academies during FY20

More than **68%** of Assurance people used digital tools more than three times over a 6 month period

Over **8000** visits to our Digital Lab and over 3000 downloads of Digital Lab assets

People perspectives

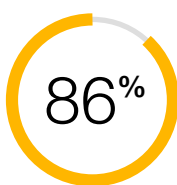
Quality



of Assurance respondents believe that **we care about doing quality work** for our clients

[*response rate 71%]
December 2019

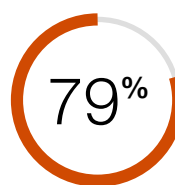
Technology



of Assurance respondents believe our **technology allows us to connect and collaborate** effectively

[*response rate 59%]
August 2020

Values



of Assurance respondents believe that we are **living our values** through the COVID-19 pandemic

[*response rate 59%]
August 2020

Our training investment in people

Assurance Training FY20

Average hours achieved by Partners and staff

22 | **46** | **68**
Online | Classroom | Total

Total hours completed **172,308**

Assurance Training FY19

Average hours achieved by Partners and staff

16 | **45** | **61**
Online | Classroom | Total

Total hours completed **145,610**

Number of hours of auditing and accounting training mandated by PwC by grade FY20

Partners | Managers | Senior associates | Associates
30 | **32** | **45** | **65**

Restatements

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

Leadership in Quality Survey

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

FY20 9.2 out of 10
FY19 9.0 out of 10

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

FY20 9.1 out of 10
FY19 N/A

Technical support

1 to 10

Ratio of partners serving in technical/audit quality support roles to the total number of audit signing partners

Our drive for quality

Number of audit engagements reviews (internal and external reviews)

FY20



98
audit engagements were reviewed

FY19



82
audit engagements were reviewed

Covering % of the firm's responsible individuals

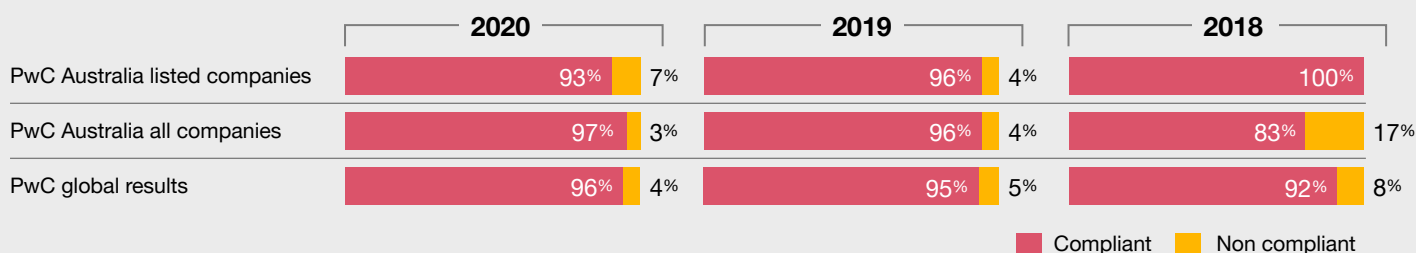


73%
of the firm's responsible individuals



62%
of the firm's responsible individuals

Internal inspection results



Our pursuit of diversity*

Of the 16 new assurance partners admitted in FY20



50%
were women



31%
were from a diverse
cultural background

Of the 18 new assurance partners admitted in FY19



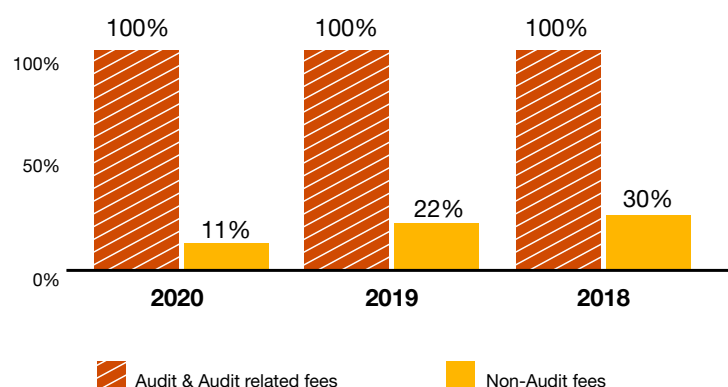
50%
were women



28%
were from a diverse
cultural background

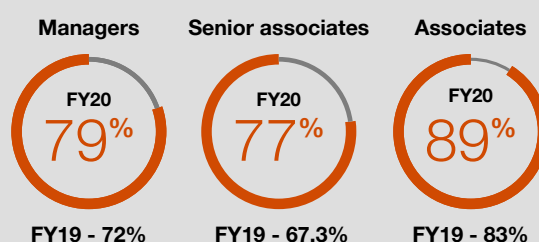
*PwC Australia's diversity targets aim for a minimum of 40 percent of new partners to be women, 40 percent men and the remaining 20 percent can be any gender identity. We also have a 30% cultural diversity target.

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 and audit related fees

Average retention rate by staff level



18 years

Partner average
years of experience
at PwC

Leverage ratio of audit teams

Partners to Manager

FY20
1 to 3.6

FY19
1 to 3.7

Partner to staff (Director and below)

FY20
1 to 11

FY19
1 to 9.5

Percentage of audit hours performed by acceleration centres

FY20
16%

FY19
12%

Audit staff utilisation metrics

Effective utilisation (client service hours/standard hours less leave less training hours)



Welcome to our 2020 Transparency Report

At PwC, our ambition is to help clients build trust in a digital and disrupted world. As an audit business, trust goes hand in hand with both transparency and quality. We understand that both are central to our firm's purpose and we strive to ensure they are at the core of what we do and how we work.

That's why we're pleased to present our Transparency Report for 2020, which shows how we are focussed on the quality of our audit work, and striving for continuous improvement. The 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 companies we performed audits for and the total revenue from our audit and non-audit work.

Building trust through transparency

In 2019 PwC started a journey of greater transparency about our audit business. We were the first of the big four to publish our ASIC audit inspection results and released the only Audit Quality Balanced Scorecard in Australia, which put PwC's ASIC audit inspection results on the public record, along with the firm's internal audit quality inspection results and restatement rates. We're aware that there may be times where the results we publish do not meet our high expectations, let alone those of the community. Our ultimate goal for our inspection results is that ASIC considers that we have obtained reasonable assurance in all audit areas and we continue to drive a quality improvement plan aimed at achieving this goal. We continue to update our scorecard on a real-time basis. Elements of the 2020 scorecard results are included in this report and you can find the full scorecard [here](#) on [pwc.com.au](#).

In 2020, we've taken our commitment to quality to a new level, with the inception of the PwC Australia Audit Quality Advisory Board (AQAB). This external board provides objective review, feedback and advice about how we can continue to improve the quality of our audits. In our 2020 Transparency Report, I'm pleased to share the executive summary from the AQAB report back to PwC, including its recommendations for improvement and what we'll be doing to execute on them.

Meeting changing community expectations

High quality audits enhance trust in the financial system and we believe our profession should act to ensure trust in audit is not compromised. We understand community expectations regarding the audit are changing. We are listening to the questions being asked of our industry and we are open to making changes that enhance trust in our own audit business, and more generally across the industry.

In 2019-2020, we participated in public discussion on the future of audit including participation in the Parliamentary Joint Committee (PJC) on Corporations and Financial Services' inquiry into the regulation of auditing in Australia. We welcomed the PJC's decision to share an interim report outlining 10 recommendations it believes will provide greater transparency, clarity and confidence in the auditing industry in Australia, and have already progressed on a number of the recommended measures.

In an effort to continue this critical discussion, in this report we share our firm's perspectives on those recommendations and their potential impact on audit quality and trust in the audit profession. We also believe some areas within the PJC recommendations warrant further discussion on how they might be implemented, especially in the new context of a COVID-19 pandemic environment.

We will continue to engage with government and regulators on consideration and/or implementation of the recommendations. We know there are no easy answers and that no single participant can resolve the challenges, but we are committed to changes that ensure the audit remains relevant and valuable.

Quality during the COVID-19 pandemic

Continuing to deliver audit quality during the COVID-19 pandemic is an unprecedented challenge and key focus area for PwC. In addition to safeguarding the health, safety and wellbeing of our people, we have remained focused on working together as a Network, with our clients and other stakeholders to continue to deliver audit quality. You can read more about our approach to audit quality during the pandemic in this report.



The future of audit

We have spent considerable time globally focussed on the future of audit. A unique combination of regulatory focus, digital disruption and real-time information bring the opportunity to redefine the future of audit. Capitalising on a combination of world-class technology and the best people in the market, we have the opportunity to step proactively into the “expectations gap” together. We will continue to invest in our people by providing ongoing professional and personal development, with in-depth training.

We are also reimagining the audit, using technology and data today, tomorrow and in the future. We continuously invest in innovation and new technology to support our people and services across the firm, to meet audit challenges in a digital age and to enhance the quality of our audit services.

Taken together, these measures represent a significant transformation of our audit business and support our focus on continuing to enhance audit quality.

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 2020, the system of quality control for the firm’s Assurance practice was subject to a global review that covered the year ended 31 March 2020. 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.



Matt Graham
Managing Partner, Assurance



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 clients' 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.

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 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 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.

The AQAB has access to all information about our audit quality processes and provided its first report in October 2020. 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 action those recommendations.



AQAB Report

Observations and recommendations



“In this first report, the AQAB has taken a broad review of the PwC Australia (PwC) audit business with a particular focus on the steps taken by the firm to

embed audit quality into its operations. This has included consideration of the firm’s quality management system, its approach to recruitment, learning and development, its approach to accountability and reward, and other measures taken to embed audit quality into the culture of the audit business. In this context, the Board considered information provided by PwC on the results of inspections of audits undertaken by ASIC and the PwC network and steps taken by the firm to address issues arising from these inspections, as well as other measures taken to improve the performance of the audit business.

The Board is comfortable that the approach adopted by PwC supports an appropriate emphasis on audit quality. The firm’s quality management system is designed to deliver audits that satisfy regulatory, professional and firm specific requirements for audits being undertaken. In addition, PwC has been responsive to implementing new measures to reinforce requirements where this has been considered an appropriate response. Significantly also, the emphasis given to audit quality by the leadership of the PwC Assurance business unit has been consistent, providing clear communications to those undertaking audits of the importance PwC places on delivering quality audits - in the public interest, and in the firm’s interest.

As is generally the case, the challenge for organisations is aligning their people with organisational goals so that services delivered meet the standards expected. Inherent in the approach adopted by PwC to address this challenge is a recognition that recruitment and learning and development are fundamental to organisational success. PwC has a structured recruitment programme and an extensive learning and development framework to support partners and staff in undertaking audits in a more complex and technically challenging world. In addition, PwC regularly undertakes surveys of partners and staff, both at the audit engagement level and at the firm-wide level.

ASIC annually reports on its inspections which focus on audit quality and promoting compliance with the requirements of the Corporations Act, Auditing Standards and Professional and Ethical Standards. ASIC selects a number of the firm’s audit clients that are public interest entities (PIE) based on risk.

The 2019 ASIC inspection results for PwC identified issues in 18% of audit areas across a sample of 10 audit files (compared to 12% in the prior year). Similarly, the PwC network undertakes an inspection of audits on a systematic basis, with each partner having one engagement reviewed every five years, unless the partner’s work engagements are categorised as higher profile clients, in which case it is every three years. The results of the recent PwC network reviews identified a non-compliance rate of 3% and a rate of 24% for the category of “Compliant with Improvement Required”. This was from a sample of 33 audits.

Common themes identified from these reviews, based on the firm’s root cause analysis, were the need for a more disciplined planning process to consistently build a solid foundation for the execution of the audit, and the clarity and consistency in documenting the audit approach adopted and the judgements made in assessing the sufficiency of the audit evidence obtained. The reviews also highlighted the need for a more consistent application of existing guidance and tools, and more consistently documenting how IT risks, and the reliability of data and information have been addressed in the audit.

These reviews necessarily highlight issues to be considered for further emphasis in PwC’s audit training and / or audit methodology. The review by the AQAB considered such inspection results as part of its wider consideration of opportunities for PwC to enhance its performance and the quality of audits undertaken.”

AQAB recommendations and PwC's response

The AQAB has made four recommendations to reinforce the importance of further measures which can be taken to support the emphasis on delivering quality audits by PwC.

Recommendation	PwC Australia's 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 business 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>During FY21 we will highlight that quality underpins all we do and specifically define our purpose and values in the context of audit quality, to bring them to life for our team members. We will update relevant policy documents and embed these discussions in our core audit learning and development curriculum.</p> <p>Responsibility: Matt Graham (Assurance Leader)</p> <p>Date: 30 June 2021</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.</p> <p>We have commenced a review within our Assurance practice with a specific focus on the culture of speaking up and the mindset of scepticism. As part of this review we are utilising established methodologies for assessing culture and consulting widely with our partners and staff.</p> <p>We will discuss the recommendations of that review with the AQAB and then implement them accordingly, including measures to monitor progress and more regular messaging.</p> <p>Responsibility: Ewan Barron (Chief Culture Officer)</p> <p>Date: 31 December 2020</p>
Recommendation 3 Against the background of the external inspection results, PwC provides greater emphasis to:	<p>In addition to the broader culture review discussed in recommendation #2, we will review 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.</p> <p>Responsibility: Jan McCahey (Risk & Quality Leader)</p> <p>Date: 31 March 2021</p>
Recommendation 4 PwC gives further consideration to the firm's accountability framework in respect of:	<p>We are in the process of reviewing our accountability framework to respond to feedback from the AQAB as well as a separate, not yet complete, independent review by ASIC.</p> <p>We will continue to enhance our accountability framework for the FY21 year in response to that feedback.</p> <p>We commit to identifying significant ASIC inspection results as a standalone performance measure of quality and to reviewing the relativities of penalties and rewards under our performance and accountability frameworks so they incentivise quality performance. We will share these changes with the AQAB and include our progress in our 2021 Transparency Report.</p> <p>Responsibility: Jan McCahey (Risk & Quality Leader)</p> <p>Date: 31 December 2020</p>

Future agenda

The AQAB is planning to review in subsequent reports steps taken by PwC to address the recommendations above, including additional steps taken by PwC to enhance confidence in its approach to delivering quality audit services in Australia.

The AQAB anticipates its forward agenda will include consideration of:

- Initiatives taken by PwC to respond to the recommendations of the AQAB and to further improve audit quality and promote better practice approaches in auditing.
- How the impact of the COVID-19 pandemic and associated disruptions might have impacted quality, and the responses taken by the firm.
- The approach taken to the resourcing of audit teams, and
- The processes employed by the firm to maintain independence from audit clients.

The AQAB will also consider the views of stakeholders, partners and staff in setting its forward programme.



Parliamentary Joint Committee inquiry into the regulation of auditing

At PwC, we believe reliable, accurate, and transparent financial reporting is the lifeblood of the capital markets. Audit quality continues to be a core priority in PwC's strategy. The firm actively contributed to the Federal Government's Parliamentary Joint Committee (PJC) into the regulation of auditing in 2019-2020, welcoming the decision to share [an interim report](#) outlining ten recommendations it believes will provide greater transparency, clarity and confidence of the auditing industry in Australia. PwC's view is that it is right to focus on measures that enhance trust in financial reporting and the audit profession and improve audit quality. We believe a number of the interim report's recommendations have the potential to achieve this.

Despite this support there is no doubt the world has changed dramatically since the hearings of the Parliamentary Joint Committee's inquiry into Audit and the release of an interim report. The health and economic impacts of the COVID-19 pandemic have changed the world in ways we could not have anticipated when the interim report was delivered.

While as a firm we've chosen to proactively implement several aspects of the interim recommendations we believe there is merit in reassessing the timing and scope of some of them in the context of the COVID-19 environment. The possibility of adding regulatory or compliance burden to listed companies in the current environment needs to be balanced against the risk that this could distract management attention away from their focus on business continuity and creating jobs, and could introduce incentives for companies to 'stay away' from public markets.

As outlined in this report, our priorities in recent months have centred around the safety and wellbeing of our people and the quality of our audit work in an environment of significant judgement and complexity. In the spirit of transparency we have outlined some current commentary on the interim PJC recommendations balancing the overall objective of enhancing trust and audit quality, and the focus on recovery from the health and economic challenges presented by the COVID-19 environment.

Recommendation	PwC comments
Recommendation 1 ASIC to review how it reports audit inspection programme findings, and implement, by the end of the 2020-21 reporting period, a revised framework for reporting inspection findings, with a focus on the transparency and relative severity of identified audit deficiencies.	Since the release of the interim report we note ASIC has accelerated its consideration of the introduction of severity ratings to inspection findings. We are participating in this process and continue to support this effort to ensure the market has information that is more transparent.
Recommendation 2 ASIC publishes all future individual audit firm inspection reports on its website in line with 1 above. The Australian Government to enable this, by the end of the 2020-21 financial year, through appropriate legislation.	In advance of any legislative change, PwC commits to continue releasing its individual firm inspection report on a voluntary basis.
Recommendation 3 The Financial Reporting Council and ASIC to define categories and associated fee disclosure requirements in relation to audit and non-audit services; and a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.	We support calls for a standardised approach to disclosure across the market and greater clarity of the definitions of relevant categories. In the meantime, we have encouraged our clients to use the 'four category' disclosure in line with ASIC's current views.
Recommendation 4 Expand an auditor's independence declaration to require the auditor to specifically confirm that no prohibited non-audit services have been provided.	Current rules are clear on this point but making language in the declaration clearer could enhance confidence.
Recommendation 5 Revise the APES 110 Code of Ethics to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.	PwC policy currently already prohibits such incentives and we support this recommendation being put in place by the APESB.

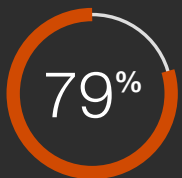
Recommendation	PwC comments
<p>Recommendation 6</p> <p>The Financial Reporting Council, by the end of the 2020–21 financial year, to revise Australian standards to require audited entities to disclose auditor tenure in annual financial reports (both length of tenure of the entity's external auditor, and of the lead audit partner).</p>	<p>In both the US and Japan, the audit firm's tenure is noted in the audit report. Taking that approach in Australia could enhance investor engagement and improve transparency.</p>
<p>Recommendation 7</p> <p>Implement a mandatory tendering regime to ensure entities undertake a public tender process every 10 years; or if an entity elects not to undertake a public tender process, the entity must provide an explanation to shareholders in its annual report as to why this has not occurred. The tender process to be implemented by 2022 for any entity that has had the same auditor for a continuous period of ten years since 2012.</p>	<p>PwC acknowledges community concern regarding long auditor tenure and agrees this is best addressed by reinforcing Audit Committee responsibilities for auditor appointment and monitoring.</p> <p>Establishing an approach and guiding framework for reviewing in detail the quality and independence of their auditors every five years would enhance the current Australian corporate governance framework. This model has been implemented in Canada and has balanced framing decisions regarding tenure with an overarching commitment to achieving high audit quality. When combined with existing five year partner rotation requirements and natural turnover of CEOs, CFOs and Audit Committee Chairs, this continuous review approach mitigates the threat of familiarity, without an extra compliance burden for business, particularly in a COVID-19 environment.</p> <p>By contrast, as currently drafted, we are concerned this recommendation has the potential to be interpreted by the market as mandatory rotation or tendering. This would see a significant amount of audit tenders being released in a short period of time (something the industry would struggle to cope with), add additional compliance burden for companies and would significantly divert the focus of auditors away from audit quality at their existing clients, at a time when COVID-19 has resulted in an even higher level of complexity and need for senior judgement.</p>
<p>Recommendation 8</p> <p>The Financial Reporting Council to oversee a formal review, by the end of the 2020–21, of the sufficiency and effectiveness of reporting requirements under the Australian standards in relation to: the prevention and detection of fraud; and management's assessment of going concern.</p>	<p>PwC acknowledges the concern around fraud and assessment of going concern, especially in light of the COVID-19 environment. Given community expectation on this issue, we acknowledge the profession - both individual firms and the industry as a whole - could take extra steps to respond through extra modules of effort on fraud and going concern, without the need for legislative change. We also commit to proactively working with others towards bridging the 'expectation gap' in areas of emerging risk, including cyber, wage trust and risk governance.</p>
<p>Recommendation 9</p> <p>Entities establish and maintain an internal controls framework for financial reporting. Management evaluates and annually reports on the effectiveness of the entity's internal control framework; and the external auditor reports on management's assessment of the entity's internal control framework.</p>	<p>PwC agrees in principle with this recommendation. Overseas experience tells us that additional focus on reporting on the control environment improves financial reporting quality. That experience also tells us, however, that it is important to achieve the right cost:benefit balance. Rather than impose regulatory burden on all listed companies, it may be appropriate to apply this recommendation in the first instance to only the largest listed companies, say the ASX100 or ASX200. In other jurisdictions, for example in the United States, auditor reporting applies to companies above a certain size.</p> <p>Notwithstanding this view, we note that timing of implementation of this recommendation should also be considered in the new context of COVID-19. Its implementation would require significant effort from management teams and Boards and could create additional compliance burden at a time where other focus areas such as growth and job creation should take precedence.</p>
<p>Recommendation 10</p> <p>That the Australian Government takes appropriate action to make digital financial reporting standard practice in Australia.</p>	<p>We support this change and note the positive impact it could have for users of financial information.</p>

Delivering audit quality during the COVID-19 pandemic

This year, the global COVID-19 pandemic has had an unprecedented impact on our clients and our people, as well as global and local economies and broader society. At PwC, in addition to safeguarding the health, safety and wellbeing of our people, we have remained focused on working together as a global network, with our clients and other stakeholders to continue to deliver audit quality.

Wellbeing, quality and then deadlines

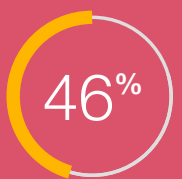
Every day, but especially in the time of the COVID-19 pandemic, our commitment and focus is to our people and to audit quality, followed by helping our clients meet their deadlines. As we moved into the June 2020 reporting season, our message to our teams was that their wellbeing, health and safety and the quality of our audit work were our non-negotiable priorities. We strived to ensure our client deadlines were met once we were comfortable these first two priorities were achieved. This involved removing other non-audit quality related meetings for that period, minimising internal discussions or meetings that didn't relate to wellbeing or quality and, in some cases, advising clients that we needed more time to complete their audit and that we needed to move reporting timetables.



A recent People Perspectives survey* (conducted in August 2020) showed 79% of our Assurance people felt that we were living our values through the COVID-19 pandemic.

[*response rate 59%]

While 81% of our people indicate they are adapting well to the changes in their work conditions, we need to do more to help our people switch off at the end of the day - particularly in the COVID-19 environment where many people are working from home. A recent People Perspectives survey* (conducted in August 2020) reinforced this, with only 46% of respondents managing to switch off at the end of the day. To address this, additional wellbeing resources have been communicated, including a push for our people to formalise a wellbeing plan to draw boundaries and place intent on their physical, mental and emotional wellbeing. Ideas have also been shared within teams for people to share ideas on how best to switch off each day.



A recent People Perspectives survey* (conducted in August 2020) showed 46% of our people are not managing to switch off at the end of the day.

[*response rate 59%]

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 the PwC network to provide consistent leadership and guidance on audit quality and equip our teams to consider their clients' unique circumstances and respond accordingly.

The PwC network response covered all aspects of audit quality, including regulatory and standard setting updates, auditor reporting, methodology, accounting and learning and education. Using the PwC network guidance, we considered changes needed to our existing policies and procedures as well as what needed to be reinforced, through appropriate communications and training 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. Our system of quality management provided the framework to identify, assess and respond to the risks arising from the COVID-19 situation. We used the experience and examples shared with us from across the PwC network to support our assessment of the issues that had the potential to impact our system of quality management.

To respond to the risks we identified, we focused 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
- Assembling relevant guidance and materials in a COVID-19 toolkit.

Using technology to support our teams

The PwC network audit technology infrastructure and tools including our Connect Suite and collaboration through Google (see page [34] for how we use technology tools in our audits), which have been in place for a number of years, enabled our people to continue to carry out their work despite the significant change in our physical work environment.



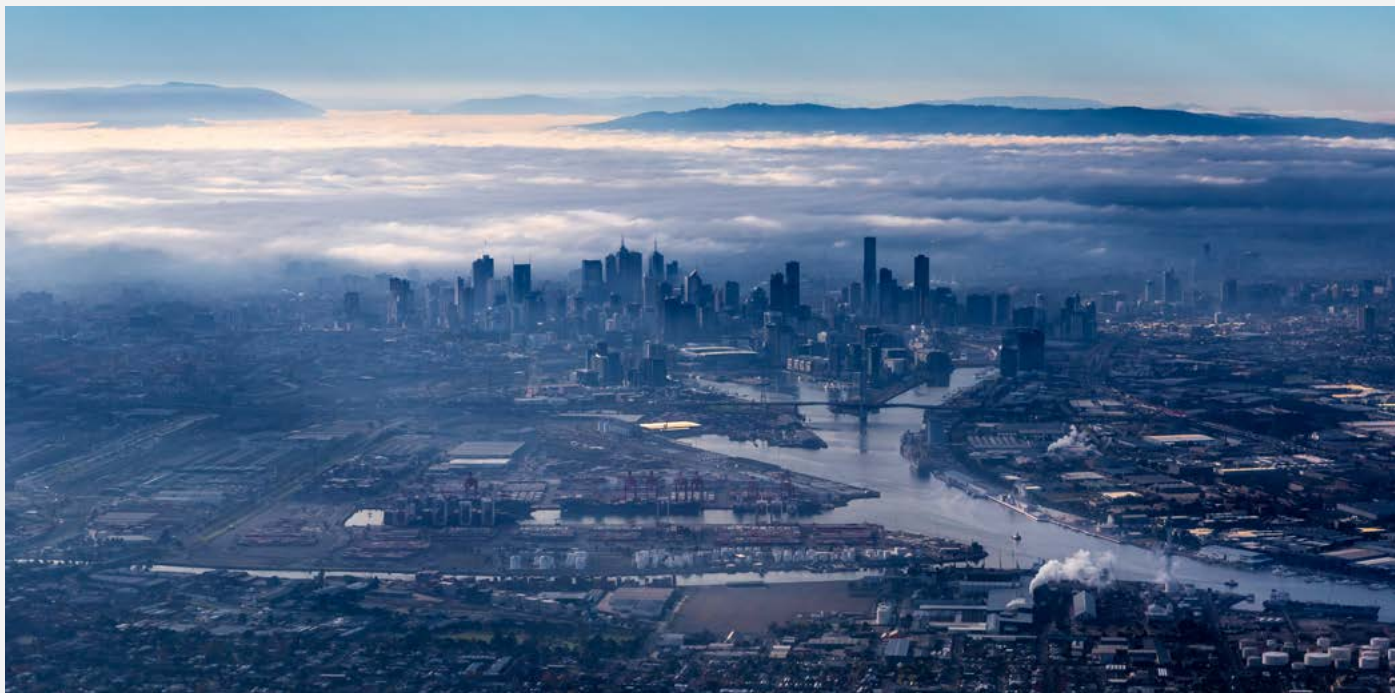
A recent People Perspectives survey* (conducted in August 2020) showed 86% of our Assurance people believe our technology allows us to connect and collaborate effectively.

[*response rate 59%]

The impact of COVID-19 continues to evolve. We are continuing to monitor, assess and respond to the resulting risks in our audits.

Case study

Support during Melbourne's stage 4 COVID-19 restrictions



In Melbourne, our partners worked closely with over 500 Team Leaders, a position which exists across the PwC firm, to provide additional support and resources for our people during the heightened COVID-19 restrictions and help navigate the road to recovery.

We encouraged Melbourne staff to openly discuss their wellbeing requirements with their Team Leaders about things like:

- Increased flexibility with work hours or workload
- Taking leave to recharge, care for or spend time with family
- Strategies to help staff switch off after work
- Assistance with their working from home setup.

We communicated clear priorities to our audit teams, our first two priorities were the safety and wellbeing of our people and the quality of our audit work. If, but only if, we could meet these, our third priority was helping our clients meet their deadlines.

The whole firm was provided access to an internal COVID-19 website, with resources on wellbeing, pandemic and other leave, flexible working advice, work from home guidance, access to confidential counselling services, and daily updates on changes to COVID-19 related matters.

The firm also created a range of wellness-related initiatives including wellness plans, podcasts as part of our Green Light to Talk movement, and a Better Together programme to help our people create micro habits to enhance wellness.

Additionally for our Melbourne people in Stage 4 lockdown, we provided administration support from the firm's Business Support Centre to all levels of staff, yoga, mindfulness and nutrition workshops and working from home equipment and setup support. Our Cyber and Technology Delivery teams developed Postcode Pals - an opt-in initiative to help connect our people to colleagues who live in their area (within a 5km radius), so they could meet in pairs for a walk, run or cycle to stay connected and meet new people across the business in line with Victorian Government restrictions. Our parent support group Families@ offered virtual childcare and children's gym class offerings to help those with children at home.

Consistent with our actions on the audits of all listed clients across Australia, our focus on quality also included the introduction of new COVID-specific panels of experienced partners at the planning and completion stages. All partners on ASX 200 audits were required to present their audit planning and conclusions to these panels as part of our additional quality measures given the significant judgements and additional complexity.



Section two

Delivering on our commitment to quality

Our approach to quality

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. For all our businesses, each PwC firm – as part of the agreement by which they are members 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 focused 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.

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. 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.

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

- Meet society's evolving expectations around the audit, including exploring the future of audit and how it needs to change
- Real-time engagement around the impact of COVID-19 on audit compliance.

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, focused 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 judgment 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.

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 real-time assurance 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 its continuous enhancement across all of our businesses. 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.



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 – to help identify possible distinctions and learning opportunities.

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 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 PwC network and the firm's standards and policies.
- **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 promotes and reinforces positive behaviours and drives a culture of quality.
- **Consequences / reward:** We have implemented financial and non-financial consequences and rewards that are commensurate to outcome and behavior and sufficient to incentivise the right behaviours to achieve the quality objectives.

Responding to changing community expectations

We are proud to have been the first of the global professional services networks to have published its internal audit quality inspection results. It is very important that we are transparent about both the efforts that we are making to enhance quality, and also the results and the impact that these efforts are having. The publication of this data by the PwC network over the past few years, along with public discourse on the subject of the audit, has quite rightly put an increasing focus on the issue of audit quality.

At PwC, we endeavour to continue to demonstrate our commitment to audit quality in Australia by responding to changing community expectations. Among the initiatives we have undertaken are:

Initiative announced in FY19	Status in FY20
Evolving our audit partner accreditation process to apply additional criteria to take into account partner experience and focus, partner audit revenue as a proportion of total revenues, and roles on audit engagements.	Complete. This has resulted in a small number of partners transitioning their focus away from auditing in the current year so their portfolio responsibilities allow sufficient time for deepening their skills and expertise in adjacent assurance areas.
Additional prioritisation and investment in audit quality <ul style="list-style-type: none">Review our learning and education programme to enhance focus on the ongoing development of scepticism and professional judgement.Further invest in monitoring audit quality through “leading” indicators to proactively identify emerging quality risks.Increase the number (or frequency) of reviews on in progress audit by a team independent of the audits.	<p>The substantial changes to our learning and education programme during the year are outlined in the Our People section of this report.</p> <p>We refined both the focus and scope of our ‘in progress’ reviews of audits. Significantly more reviews were completed.</p> <p>Additional resources were added to our risk and quality and learning and development teams.</p> <p>These steps as well as efforts to develop ‘leading’ indicators will continue as we strive to embed a continuous learning culture.</p>
Investment in digital upskilling to maximise the effective use of local and global technology to improve audit quality, as well as provide our teams with more digital experience, aimed at improving retention and our people’s experience.	In FY20 more than 78% of Assurance staff attended Digital Academies to build core digital skills to enhance the firm’s collective digital fluency and in FY20, more than 68% of Assurance people had accessed those tools more than three times over a six month period. We have also embedded Digital Accelerators to help engagement teams apply digital capabilities to each audit, and develop new digital solutions for the practice. See more on this in Our People section.
Enhanced transparency of information about our business including publication of our diversity and gender pay gap measures, our tax contribution to the Australian economy, as well as our audit quality balanced scorecard.	Completed in FY19. We are committed to understanding how transparency can help others learn more about who we are and what we do. The information released is available on our website.

We are also focussed on the future of audit and how the audit needs to change to meet society’s evolving expectations. You can read more about this in our case study on the future of audit within this report.

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 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.

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:



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

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.

Feedback on quality behaviours

At PwC, quality is measured 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 2020 survey, 91% of relevant partners received feedback in the 2020 survey, and their average score was 9.2 out of 10.

In 2020, the survey was extended to cover senior staff grades to continue the development of their coaching skills in support of the quality of their team's work. We received 679 responses to the survey, and the average score was 9.1 out of 10.



Leadership in Quality Survey

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

FY20

9.2 out of 10

FY19

9.0 out of 10

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

FY20

9.1 out of 10

FY19

N/A

Leadership responsibility for quality

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.

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 role of the CCO is to take an in-depth look at our culture to understand how our cultural traits impact quality and other priorities like wellness, inclusivity and ways of working. Our objective is to identify the critical behaviours that positively influence the achievement of our quality goals, and build on the strengths in our culture to encourage a culture of challenge, where everyone feels safe to speak up.



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. Responsible for the leadership of PwC.



Partner Responsible for Independence
Daniel Bryant (effective 1 October 2020)

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
Kate Farrington
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 that identify and manage the risk within our business units.

Assurance Quality Partner Coaches Network

Experienced partners and senior professionals that act as the first point of contact for audit engagement and audit teams, promote and share initiatives on audit quality and escalate issues, as well as lead local training.

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 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.



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 - available [here](#). 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. Upon joining the firm, all partners and staff are sent the PwC Global Code of Conduct and 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, who strive to embrace the spirit and not just the letter of our ethical obligations.

Rick Crethar is the firm's Business Conduct Leader and has oversight of the Ethics and Business Conduct Programme. Rick is also the firm's Chief Risk Officer.

The Ethics and Business Conduct Programme involves:

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

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, 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 PwC's Global Independence Policy (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, including practical guidance on the application of the policy in respect of non-audit services to assurance clients
- 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.

When necessary, we supplement our Independence Policy with more restrictive local professional and regulatory rules, such as those in the Corporations Act 2001 and APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (APES 110), and additional local policy rules.

Independence systems

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:

- Central Entity Service: which contains information about audit and assurance clients and their related entities, including applicable independence standards, listed and Public Interest Entity (PIE) status and firm or territory specific service restrictions.
- Independence Checkpoint: which facilitates the pre-clearance of publicly traded shares, funds and other securities before acquisition by partners and practice managers, and the monitoring of the ongoing permissibility of those securities.
- Authorisation for Services: which facilitates communication between a non-audit services engagement leader and an audit engagement leader, documents the potential independence threats and proposed safeguards and acts as a record of the audit partner's conclusions.
- Global Breaches Reporting: to enable reporting within the PwC network of any breach of an auditor independence regulation or professional requirement which has cross-border implications.

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.
- Joint Business Relationships Independence System: which records all approved business relationships entered into by PwC Australia. These relationships are reviewed on a six-monthly basis to ensure their ongoing permissibility.
- MyIndependence: which facilitates the completion of engagement level personal independence confirmations by audit and assurance team members.
- Directorship Approval: which facilitates the independence clearance 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 issues 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

When they join PwC Australia, and at least annually after that, partners and 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.

In addition to these confirmations, PwC Australia performs:

- 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 staff being considered for partnership
- an annual assessment of the firm's adherence to the PwC network's Standard relating to Independence
- testing of the effectiveness of our quality controls and compliance in relation to independence (as part of PwC network's GAQR Programme, based on the ISQC1 standard). The most recent internal review of our independence compliance was carried out in July 2020 as part of a Global PwC Network Assurance Quality Management Review.

The results of PwC Australia's independence monitoring and testing are reported to our leadership team. Any breaches are analysed to determine what actions are required, which may include a discussion with the client's audit committee, an evaluation of the impact on our independence, and safeguards to maintain objectivity. We also follow breach reporting requirements under the Corporations Act 2001, 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. PwC has disciplinary policies and mechanisms in place that promote compliance with independence policies and processes. Relevant sanctions are considered and applied where required.



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
- we can comply with relevant ethical requirements, including independence
- we have appropriately considered the integrity of the client.

To help us identify acceptable audit clients, PwC Australia uses a 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

	FY20	FY19	FY18
Total revenue for the financial year	\$2,600m	\$2,600m	\$2,350m
Revenue relating to audits of financial statements ¹	\$476m	\$443m	\$409m
Revenue for other services provided to audit clients ²	\$230m	\$216m	\$218m
Revenue for other services provided to non-audit clients	\$1,884m	\$1,941m	\$1,723m

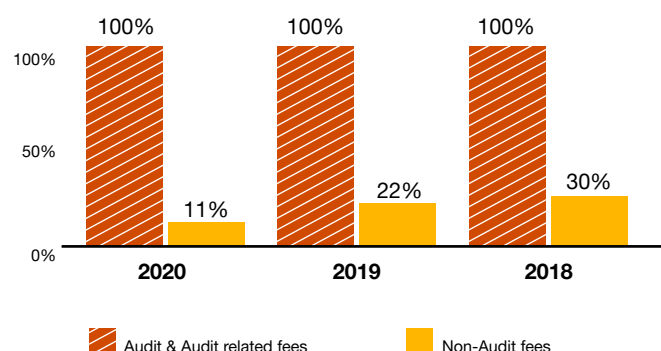
1. Audit and audit related fees for listed and non-listed clients

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. The Corporations Act 2001 (Cth) prohibits an external audit 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 21% of audit fees, which equates to less than 1% of PwC Australia's total revenue in 2020.



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 and audit related fees



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.

Our people

Our people strategy is focused on being the world's leading developer of talent. 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 PwC Professional, 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.

Diversity and inclusion

At PwC, we're focused 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 caring and working 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 FY20, 50% of new Assurance partners were women, and 31% 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 16 new assurance partners admitted in FY20



50%
were women



31%
were from a diverse cultural background

Of the 18 new assurance partners admitted in FY19



50%
were women



28%
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

On client engagements, the lead partner, together with a highly skilled workforce solutions function, resource their engagements with suitably qualified, competent and experienced partners and staff. They must also determine the extent of direction, supervision and review of junior staff.

Real-time feedback

The firm collects real-time feedback on people performance, values and progression via our Snapshot tool, a simple, mobile-enabled technology. For people working in our audit teams, Snapshot captures data on five Assurance quality dimensions: accounting and technical knowledge, auditing skills, professional scepticism, issues management, review and supervision. In February 2019 the firm introduced a new global Human Resource Information System, Workday. Workday provides real-time feedback on an upwards and peer basis and complements Snapshot.

Career progression

PwC uses PwC Professional, a global career progression framework. PwC Professional 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. As part of the framework, individuals meet with their Team Leader regularly to discuss their development, progression and performance.

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 make our people highly sought after in the external market. Our voluntary turnover rate fluctuates based on many factors, including the overall market demand for talent.

Open and transparent firm feedback

PwC is committed to making sure we practice what we preach. To keep us on track, we gather real-time feedback from our people on how well the firm is living its values. We use an online tool, People Perspectives, to collect feedback several times throughout the year. We can review results by team and location, which allows us to respond in a timely and targeted way. PwC Australia is one of only a small number of organisations in Australia (13%) that makes its People Perspectives results, including all feedback and responses, transparent to all its partners and people.

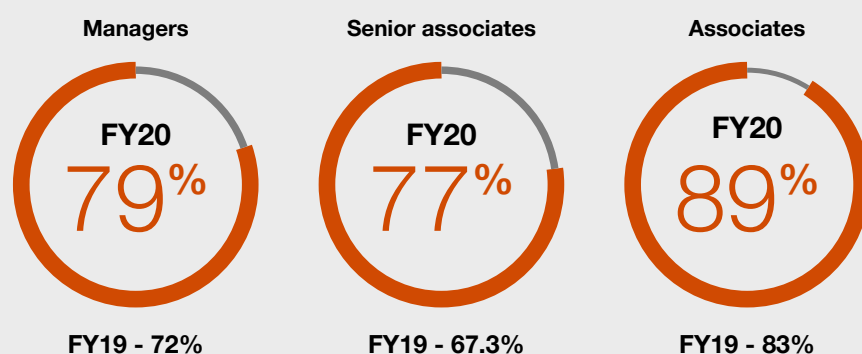
Professional development

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 each year, specific to their grade, focused on increasing their knowledge and experience in relation to quality.

Assurance quality cycles of experience

Introduced in 2020, 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 will be a prerequisite for promotion to senior manager, director and for admission to partnership.

Average retention rate by staff level



18 years
Partner average
years of experience

Case study

Virtual learning series



To support our experienced auditors, in 2020 PwC Australia created a virtual learning series including a variety of content spanning transformation initiatives related to our digital audit platform, technical accounting continuing professional development provided by our experts in the field as well as learning sessions focused on a range of regulatory matters.

Not only did the virtual learning series demonstrate an innovative way of developing and delivering content for our people it also provided opportunity for connection and peer group reflection between our partner and manager cohorts. The virtual learning series included live streamed sessions from leaders and experts as well as self paced content such as pre-recorded podcasts for learners to listen to on the go.

The intent of the virtual learning series was two-fold. An engaging learning experience able to be delivered virtually within the constraints of a COVID-19 working environment, while also upskilling our experienced auditors with required continuous professional development they need to continue to perform high quality audits.

The virtual learning series received one of the best learning effectiveness scores ever with 9/10 learners commenting favourably about the approach, content and learning design.

Continuing professional education

PwC is both 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, during 2019 and 2020 we delivered Digital Academies for all Assurance people across all grades 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 FY20

Average hours achieved by Partners and staff

22	46	68
Online	Classroom	Total

Total hours completed **172,308**

Assurance training FY19

Average hours achieved by Partners and staff

16	45	61
Online	Classroom	Total

Total hours completed **145,610**

Number of hours of auditing and accounting training mandated by PwC by grade FY20

Partners	Managers	Senior associates	Associates
30	32	45	65

Our audit approach

PwC Australia uses a range of cutting-edge methods, processes, technologies and approaches to ensure continuous improvement in the performance of our audit engagements. We are committed to delivering exceptional quality, building trust and embracing innovation.

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 audit methodology, the technology we use, and in making the right amount of time and resources available. We pay close attention to what our various stakeholders require from us, what they tell us we need to improve and to the findings of regulatory inspections on the quality of our work. Details of the most recent regulatory findings can be found in the Monitoring section of this report. Just as important are 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.

The PwC Audit



People

Data and technology can help reveal insights, but it takes an inquisitive person with well-rounded business knowledge to understand what those insights mean.

We recruit professionals with these capabilities - people who can deliver the highest quality outcomes in terms of client service and compliance.



Technology

As technological change accelerates, our clients want to trust their business information with organisations that don't merely keep up but lead the way.

We've made a global commitment to offer leading audit technology, and we've invested heavily in tools to match our approach. The result is enhanced delivery of quality and insight to our clients.



Approach

We've built our audit approach around our people and our technology.

We've designed it to give us more time with our clients, understanding the things that matter to their business.

That's more time understanding client concerns, and more time focusing on the inherent risks we see. And it's not just what those risks are, but how they change over time and how they compare with peer companies.



The PwC Audit

Tools and technologies to support our audit

At the heart of our approach to audit and assurance 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 Platinum

PwC Audit is underpinned by Aura Platinum, our global audit documentation system which is used across the entire PwC network. Aura Platinum is the heart of 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. Smart dashboards show teams audit progress and the impact of scoping decisions more quickly.

Audit technology

Aura Platinum is supported by a series of technology-based audit support tools and templates which are accessible via a range of electronic devices ranging from PCs to smartphones. These tools increasingly integrate with Aura, populating audit evidence directly into Aura. The main tools include:

The Connect Suite is our collaborative platform where we share data, document requests and audit status. It provides fast, efficient and secure information sharing with our clients and multi-location audit teams at every stage of the audit:

- **Connect** monitors the status of requests and information between our clients and the engagement team in real-time. Audit and client teams know where things stand at all times through a consolidated dashboard showing all sites, digitisation of engagement matters, and automated key performance indicators.
- **Connect Audit Manager** streamlines, standardises and automates group and component teams coordination for multi-location and statutory/regulatory audits. It provides a single digital platform to see all outbound and inbound work and digitises the entire coordination process so there's greater transparency, compliance and quality for complex multi-location audits.

Halo is our market-leading audit technology that allows us to identify and assess risks and determine where to focus audit efforts. Halo interrogates, tests and analyses huge volumes of business-critical data, analysing whole populations, spotting and visualising anomalies and trends in financial information. It enables us to analyse patterns and trends, identify unusual and high-risk transactions, and provide valuable insight to our teams and our clients.

Count facilitates the end-to-end process for inventory counts, allowing 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's Confirmation System is a web-based application that allows third-party confirmations to be securely created, sent, responded to and managed end-to-end. It includes flexible technology that works for virtually all confirmation types and provides detailed real-time status of confirmation activity.

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

Digital Lab, 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.

Case study

The future of audit



We are reimagining how we do audits, using technology and data today, tomorrow and in the future. Our audits are becoming increasingly digital and this continued focus on deploying technology enhances the client experience, the team experience and our audit quality.

At every phase of the audit we are embracing the use of automation through technologies such as machine learning, robotics and data analytics tools in our audits to deliver improved quality, confidence and a data-enabled audit. Our team members are encouraged to build automations which are then reviewed and shared in our Digital Lab. This drives consistency and quality throughout the practice.

On a recent engagement, a team used the following automations on their audit:

- Our **bank confirmations bot** automates the testing of bank confirmations using robotic process automation technology combined with optical character recognition.
- A **loan existence testing bot** extracted information from scanned contracts and system screenshots to pre-populate an audit working paper with information to test the existence of loans and the accuracy of interest income.
- The **analysis of incident register tool** involves a two step approach to examine client incident registers. It uses a data analysis tool to first cleanse and organise the raw data, and then applies filters to perform a scoping assessment to identify relevant incidents for further investigation by the team, to determine reportability by the auditor under the Corporations Act 2001 (Cth).
- The **Val-erie** bot automates the extraction of information from external valuation reports using optical character recognition technology and populates a workbook to compare against client prepared schedules.

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 demonstrate 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

Evolving delivery model

We continue to evolve the way we deliver our services so our people give our clients an even better experience, improve the quality of what we do and create economic capacity to invest in the future. 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 tech 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.

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 Platinum which has capabilities to effectively monitor the progress of the engagement to make sure that all work has been completed and reviewed by relevant individuals, including the engagement leader.

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, risks of material financial statement misstatement and a team's responses to those risks, and specific accounting, auditing, and financial reporting and disclosure issues.

Consultation culture

Consultation is key to ensuring audit quality. While we have formal protocols about mandatory consultation, in the pursuit of quality, we regularly consult more than the minimum requirement. For example, our engagement teams routinely speak with experts in areas such as taxation, risk, valuation, actuarial and other specialities.

Central Assurance Quality group

Our central Assurance Quality group comprises technical accounting, auditing, risk management and financial reporting specialists. 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.

Risk Review Panels

PwC Australia uses a system of Risk Review Panels to provide additional support to engagements with higher risk attributes. These may be audits that involve sensitive market or event-driven issues, significant judgements or differences of opinion. The panels comprise engagement leaders, Quality Review Partners, Risk management partners, Risk & Quality partners, and accounting technical and other specialists, as appropriate for the audit engagement.

Assurance Quality Partner (AQP) network

The firm's AQP network of experienced partners and senior professionals supports sharing, learning and communication activities aimed at improving audit quality at each operating unit level. They act as the first point of contact for audit engagement teams, escalate issues, as well as lead local training.

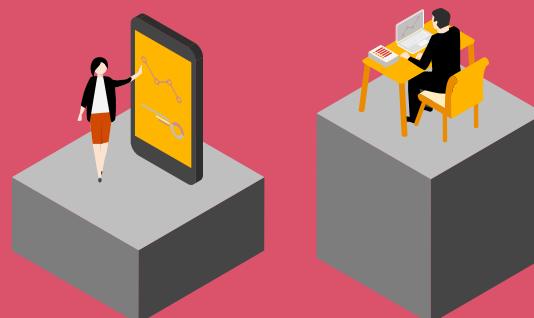
Technical support

1 to 10

Ratio of partners serving in technical/audit quality support roles to the total number of audit signing partners

Restatements

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



Case study

Impairment toolkit

The escalation of COVID-19 in March 2020 created significant economic impacts for many Australian businesses and greater uncertainty about what their future financial results would be. With the June 2020 financial reporting season approaching fast, we knew that the June 2020 impairment assessment for businesses would be more complex and judgemental than ever. In particular, there were questions around how to incorporate the greater uncertainty into the assessment and what market information would be available to inform the assessment. Many businesses would be undertaking a complex impairment assessment for the first time in years.

We established an Impairment Task Force, consisting of over 20 experienced partners and staff to work together. The Impairment Task Force included experts in assurance, deals, valuations, technical accounting, audit methodology, economic modelling, taxation and accounting advisory across three streams, integrating common content and messages from different perspectives to reinforce their importance.

	Stream 1 Client readiness	Stream 2 Team readiness	Stream 3 Sustainable ongoing support
Aim	Improve audit quality by providing sessions to clients on how to be audit ready in their impairment assessment. Historically, a lack of robustness or lateness of client information has been a root cause of quality findings on impairment audit work.	Improve audit quality by refining the skills of our audit staff.	Improve audit quality on impairment by making consistent information available to the hundreds of audit teams to guide their work.
Key outputs	The Impairment Smart Class, which comprised a series of eLearns and other supporting materials. Over 5 hours of online training could be accessed by individuals at their own pace. The Smart Class culminated in a one hour webcast to give clients the opportunity to ask questions of our expert panel. In addition, we ran a Webcast for Non Executive Directors to assist them in understanding their obligations.	Mandatory 3.5 hours of virtual learning for all senior associates to partners, held in June 2020. Consisted of a technical quiz and videos from experts on what to expect in a client's impairment assessment and how to respond as an auditor. It culminated in an expert panel that took over 77 questions.	An extensive toolkit taking participants through their impairment journey, from initial conversations with clients, assessing impairment models for accounting requirements, working with experts, designing and documenting appropriate audit procedures and final reporting. Contained insights from the Impairment Task Force's wide range of experts and practical examples.
Measurement of success	Smart Class materials were accessed by 2,500 people, with just over 950 viewing the webcast. In terms of feedback, the average rating was 8/10.	Virtual learning was completed by over 1,000 participants. In terms of feedback, the average rating was 4.3/5 for the question "I will apply what I learnt to my work".	Impairment toolkit was accessed by over 800 unique PwC Australia users in the month of June 2020.

Monitoring

We recognise that quality in the Assurance services we deliver to clients is key 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 - the “first line of defence”. 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.

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 engagements are performed in compliance with laws, regulations and professional standards - the “second line of defence”.

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. 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 based on professional standards relating to quality control including the International Standard on Quality Control (ISQC) 1 as well as PwC network policies, procedures, tools and guidance.

Engagement compliance reviews

PwC periodically conducts risk-focused 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 independent teams of partners, directors, senior managers and other specialists. Review teams use a range of PwC network approved checklists and tools and receive appropriate training. The findings are independently moderated by our Global Assurance Quality Inspections Review 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

Finally, the PwC network coordinates an inspection programme to review the design and operating effectiveness of our SoQM - the “third line of defence”. Our SoQM is reviewed every three years under this programme, with targeted reviews in the intervening period. 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.

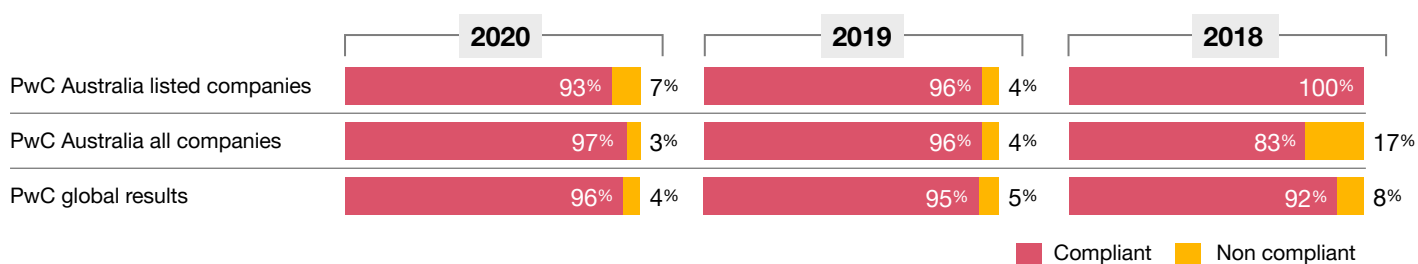


PwC internal inspection results

PwC Australia summarises inspection outcomes 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 each of 2020 and 2019 there was one file for a listed company rated as Non compliant with PwC network standards. 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.



PwC audit 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 2019 and covered its 2018-2019 inspection. 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 2019 and covered its 2018-2019 inspection. 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 18% of the audit areas they reviewed. This compared to an average of 26% 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), 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 above 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 has not yet finalised its inspection report. PCAOB reports are publicly available on their website.

The results of all inspections are reported to our firm's leadership, who analyse the findings and implement remedial actions as necessary. In situations where adverse quality issues are identified on engagements, 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 about relevant quality review 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)

FY20



98

audit engagements
were reviewed

FY19



82

audit engagements
were reviewed

Covering % of the firm's responsible individuals

FY20



73%

of the firm's
responsible individuals

FY19



62%

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, 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 10 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. The equity partners may vote on all such matters, while fixed share partners can vote in some circumstances. As at 30 June 2020 there were 695 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

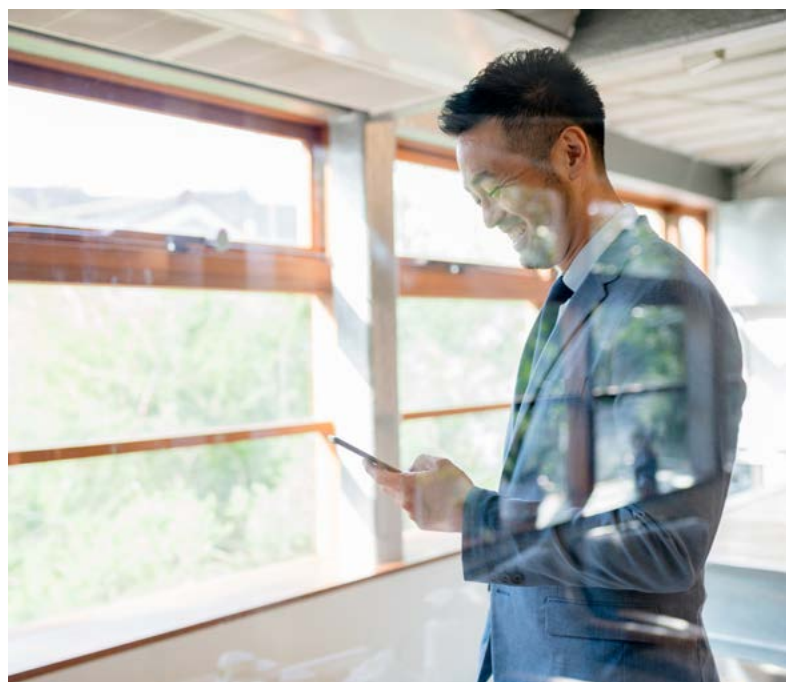
Firms in the PwC network are members in, or have other connections to, PwCIL, an English private company limited by guarantee. PwCIL does not practise accountancy or provide services to clients. Rather its purpose is to act as a coordinating entity for member firms in the PwC network. Focusing on key 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 the PwC network 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.



Appendix 1

Audits conducted in the financial year ended 30 June 2020

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

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

Listed companies and listed registered schemes that meet the definition of listed per Section 9 of the Corporations Act 2001 (cont'd)

- | | |
|---|--|
| 86. Macquarie Group Limited | 131. Rural Funds Group |
| 87. Macquarie Telecom Group Limited | 132. Salmat Limited |
| 88. Maggie Beer Holdings Ltd (formerly Longtable Group Limited) | 133. Saturn Metals Limited |
| 89. Mali Lithium Limited (formerly Birimian Limited) | 134. Seek Limited |
| 90. Marvel Gold Limited (formerly Graphex Mining Limited) | 135. Select Harvests Limited |
| 91. MC Mining Limited | 136. Service Stream Limited |
| 92. McPherson's Limited | 137. Shaver Shop Group Limited |
| 93. Medibank Private Limited | 138. Shine Justice Ltd |
| 94. Mesoblast Limited | 139. Silex Systems Limited |
| 95. MG Unit Trust (Murray Goulburn Co-Operative Co Limited) | 140. Simavita Limited |
| 96. Mincor Resources NL | 141. Sipa Resources Limited |
| 97. Mirrabooka Investments Limited | 142. Smartgroup Corporation Ltd |
| 98. Mirvac Limited | 143. Sonic Healthcare Limited |
| 99. MSL Solutions Limited | 144. Southern Cross Media Group Limited |
| 100. Myer Holdings Limited | 145. SPDR S&P/ASX 200 Fund |
| 101. Nova Eye Medical Limited (formerly Ellex Medical Lasers Limited) | 146. SPDR S&P/ASX 50 Fund |
| 102. NB Global Corporate Income Trust | 147. SPDR S&P/ASX 200 Listed Property Fund |
| 103. NextDC Limited | 148. Speedcast International Limited |
| 104. NIB Holdings Limited | 149. St. Barbara Limited |
| 105. Nitro Software Limited | 150. Starpharma Holdings Limited |
| 106. Novonix Limited | 151. Stockland Corporation Limited |
| 107. OceanaGold Corporation | 152. Summit Resources Ltd |
| 108. OFX Group Limited | 153. Sugar Terminals Limited |
| 109. Openpay Group Ltd | 154. Super Retail Group Limited |
| 110. Orbital Corporation Limited | 155. Syrah Resources Limited |
| 111. Orora Limited | 156. TasFoods Limited |
| 112. Paladin Energy Ltd | 157. Telix Pharmaceuticals Limited |
| 113. Peel Mining Limited | 158. The Citadel Group Limited |
| 114. Pandal Group Limited | 159. The Reject Shop Limited |
| 115. Perenti Global Limited (formerly Ausdrill Limited) | 160. Thorn Group Limited |
| 116. Perseus Mining Limited | 161. Tiger Resources Limited |
| 117. Pharmaxis Ltd | 162. Tilt Renewables Limited |
| 118. Pinnacle Investment Management Group Limited | 163. Transurban Group |
| 119. Pioneer Credit Limited | 164. Triton Minerals Limited |
| 120. Platinum Asia Investments Limited | 165. Troy Resources Limited |
| 121. Platinum Asset Management Limited | 166. Universal Biosensors Inc |
| 122. Platinum Capital Limited | 167. Vault Intelligence Limited |
| 123. QBE Insurance Group Limited | 168. Virtus Health Limited |
| 124. Qube Holdings Limited | 169. Viva Energy Group Limited |
| 125. Redflex Holdings Limited | 170. Vocus Group Limited |
| 126. RedFlow Limited | 171. Waypoint REIT (formerly Viva Energy REIT) |
| 127. Retail Food Group Limited | 172. Wellard Limited |
| 128. RFM Poultry | 173. Westpac Banking Corporation |
| 129. Ricegrowers Limited | 174. White Energy Company Limited |
| 130. Rio Tinto Limited | |

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

1. Australian Unity Bank Limited
2. Bank of America, National Association
3. Bank of Communications Co., Ltd.
4. Commonwealth Bank of Australia
5. Greater Bank Limited
6. HSBC Bank Australia Limited
7. Hunter United Employee's Credit Union Limited
8. Judo Capital Holdings Limited
9. Macquarie Bank Limited
10. Macquarie Group Limited
11. Newcastle Permanent Building Society
12. PayPal Australia Pty Limited
13. Police & Nurses Limited (trading as P&N Bank)
14. Queensland Country Bank Limited
15. Rabobank Australia Limited
16. Westpac Banking Corporation

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. Achmea Schadeverzekeringen N.V.
2. AIA Australia Limited
3. AIG Australia Limited
4. Allianz Australia Limited
5. Allianz Australia Insurance Limited
6. Atradius Credito Y Cauccion S.A. De Seguros Y Reaseguros
7. Australian Unity Limited
8. Avant Insurance Limited
9. AXA Corporate Solutions Assurance
10. Chubb Insurance Australia Ltd
11. Chubb Holdings Australia Pty Ltd
12. Colonial Mutual Life Assurance Society Limited
13. (The) Combined Life Insurance Company of Australia Ltd
14. Commonwealth Insurance Limited
15. Hannover Life Re of Australasia Ltd
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

AQAB Executive summary

Introduction

In December 2019 PricewaterhouseCoopers Australia (PwC) established an Audit Quality Advisory Board (AQAB) to consider and challenge PwC's approach to audit quality. Under its charter, the AQAB is to report its findings to the CEO and Managing Partner Assurance of PwC on an annual basis. The Board's role is advisory. The Board is expected to make recommendations to PwC management based on its high-level review of audit quality matters but does not make any binding decisions on behalf of PwC or its management. This is the first annual report of the AQAB to PwC.

Recent times have seen a stronger focus both internationally and in Australia on auditor independence and audit quality. The international accounting profession has acknowledged that auditor independence, in fact and appearance, is fundamental to public confidence in the financial statement audit. Various bodies globally, including the International Ethics Standards Board for Accountants, are currently developing proposals aimed at strengthening independence requirements, including in relation to non-assurance services and audit fees, and the standards expected for audit quality management by firms.

In Australia, the Parliamentary Joint Committee on Corporations and Financial Services is conducting an inquiry into regulation of auditing in Australia and has issued an interim report containing 10 recommendations the Committee considers will provide greater transparency, balance and trust in the auditing industry in Australia. The primary responsibility for executing the audit of financial statements to an acceptable level of quality, rests with the audit firm engaged to undertake the audit consistent with the requirements of legislation, regulation and professional standards. For this reason, measures undertaken by audit firms to deliver quality audits, while maintaining their independence, are critically important for users of financial reports, and for a firm's reputation and standing.

PwC's Audit Quality Framework

PwC has developed and implemented an audit quality framework and related policies to satisfy its regulatory and professional obligations and meet its obligations as a member of the PwC global network. The framework and policies are based on PwC's global approach to audit quality – which has been designed to be risk based and can be tailored to account for specific local requirements of all firms within the PwC network. The Australian Auditing Standards, along with other Australian regulatory and professional standard requirements, are accommodated in the framework.

As an important element of its Audit Quality Framework, the results of inspections of audit quality undertaken by peer teams across the PwC network, and by the Australian Securities and Investments Commission (ASIC), are subject to root cause analysis and the development of quality improvement actions. These are used to inform the audit leadership on the necessary adjustments that are required to improve the quality of audits undertaken. This may involve amending or enhancing policies or procedures in certain quality control areas, and/or placing greater emphasis on matters in staff communications and/or training.

The importance of audit quality within PwC is reinforced by the leadership of the firm and Assurance business unit through a variety of channels, namely staff communication (internal website, emails, and town hall meetings) and face-to-face (physical and virtual) training. Such communication is designed to maintain and demonstrate 'tone at the top' within all assurance activities and build a culture focused on quality at all levels within the firm.

The global spread of COVID-19 has impacted the work of many, including auditors. The accounting profession has advised that changes in how, and where, auditors are undertaking their work may necessitate firms to respond to the changing environment. These responses include a consideration of quality control policies and procedures, a heightened awareness of fraud or error, including fraudulent financial reporting. The importance of the exercise of professional scepticism is expected to be top of mind in performing audit procedures. PwC has issued a range of updates for Partners and staff including guidance on best practice for auditing outside of the clients' premises, inventory audit steps, and accounting treatments influenced by the economic environment, e.g. impairments.

PwC publishes annually a Transparency Report, pursuant to the Corporations Act and Regulations, which focuses on audit quality. The report is informative for both stakeholders and staff, providing information on the governance of the audit business, policies and procedures, audit quality performance and financial performance (including revenues). The report also provides assurance that 'PwC Australia believes that the quality control system described in this (Transparency) report complies with the applicable regulations and provides a reasonable basis for believing that audits carried out by the firm consistently meet the required quality standards.'

AQAB Observations and Recommendations

In this first report, the AQAB has taken a broad review of the PwC audit business with a particular focus on the steps taken by the firm to embed audit quality into its operations. This has included consideration of the firm's quality management system, its approach to recruitment, learning and development, its approach to accountability and reward, and other measures taken to embed audit quality into the culture of the audit business. In this context, the Board considered information provided by PwC on the results of inspections of audits undertaken by ASIC and the PwC network and steps taken by the firm to address issues arising from these inspections, as well as other measures taken to improve the performance of the audit business.

The Board is comfortable that the approach adopted by PwC supports an appropriate emphasis on audit quality. The firm's quality management system is designed to deliver audits that satisfy regulatory, professional and firm specific requirements for audits being undertaken. In addition, PwC has been responsive to implementing new measures to reinforce requirements where this has been considered an appropriate response. Significantly also, the emphasis given to audit quality by the leadership of the PwC Assurance business unit has been consistent, providing clear communications to those undertaking audits of the importance PwC places on delivering quality audits – in the public interest, and in the firm's interest.

As is generally the case, the challenge for organisations is aligning their people with organisational goals so that services delivered meet the standards expected. Inherent in the approach adopted by PwC to address this challenge is a recognition that recruitment and learning and development are fundamental to organisational success. PwC has a structured recruitment program and an extensive learning and development framework to support partners and staff in undertaking audits in a more complex and technically challenging world. In addition, PwC regularly undertakes surveys of partners and staff, both at the audit engagement level and at the firm-wide level.

ASIC annually reports on its inspections which focus on audit quality and promoting compliance with the requirements of the Corporations Act, Auditing Standards and Professional and Ethical Standards. ASIC selects a number of the firm's audit clients that are public interest entities (PIE) based on risk. The 2019 ASIC inspections results for PwC identified issues in 18% of audits areas across a sample of 10 audit files (compared to 12% in the prior year). Similarly, the PwC Network undertakes an inspection of audits on a systematic basis, with each partner having one engagement reviewed every five years, unless the partner's work engagements are categorised as higher profile clients, in which case it is every three years. The results of the recent PwC network reviews identified a non-compliance rate of 3% and a rate of 24% for the category of "Compliant with Improvement Required". This was from a sample of 33 audits. Common themes identified from these reviews, based on the firm's root cause analysis, were the need for a more disciplined planning process to consistently build a solid foundation for the execution of the audit, and the clarity and consistency in documenting the audit approach adopted and the judgements made in assessing the sufficiency of the audit evidence obtained.

The reviews also highlighted the need for a more consistent application of existing guidance and tools, and more consistently documenting how IT risks, and the reliability of data and information have been addressed in the audit.

These reviews necessarily highlight issues to be considered for further emphasis in PwC's audit training and/or audit methodology. The review by the AQAB considered such inspection results as part of its wider consideration of opportunities for PwC to enhance its performance and the quality of audits undertaken.

The AQAB has made four recommendations to reinforce the importance of further measures which can be taken to support the emphasis on delivering quality audits by PwC, as follows:

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 business 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.
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:
 - a develop a respectful culture of challenge that encourages partners and staff to speak freely, and speak up on better ways of delivering audit services and on improving organisational performance, and
 - b determine the priorities and methods for monitoring progress, and regular communications.
3. Against the background of the external inspection results, PwC provides greater emphasis to:
 - a 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; and
 - b 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.
4. PwC gives further consideration to the firm's accountability framework in respect of:
 - a 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; and
 - b how to integrate the processes for partners and staff so that they are mutually reinforcing in achieving quality outcomes and enhanced organisational alignment.

Future Agenda

The AQAB is planning to review in subsequent reports steps taken by PwC to address the recommendations above, including additional steps taken by PwC to enhance confidence in its approach to delivering quality audit services in Australia.

The Board anticipates its forward agenda will include consideration of:

- initiatives taken by PwC to respond to the recommendations of the AQAB and to further improve audit quality and promote better practice approaches in auditing
- the approach taken to the resourcing of audit teams, and
- how the impact of the COVID-19 pandemic and associated disruptions might have impacted quality, and the responses taken by the firm
- the processes employed by the firm to maintain independence from audit clients.

The Board will also consider the views of stakeholders, partners and staff in setting its forward programme.

PwC Response to each recommendation

Recommendation 1

During FY21 we will highlight that quality underpins all we do and specifically define our purpose and values in the context of audit quality, to bring them to life for our team members. We will update relevant policy documents and embed these discussions in our core audit learning and development curriculum.

Responsibility: Matt Graham (Assurance Leader)

Date: 30 June 2021

Recommendation 2

We understand that our ability to exercise professional scepticism as auditors is reliant on an underlying culture of challenge.

We have commenced a review within our Assurance practice with a specific focus on the culture of speaking up and the mindset of scepticism. As part of this review we are utilising established methodologies for assessing culture and consulting widely with our partners and staff.

We will discuss the recommendations of that review with the AQAB and then implement them accordingly, including measures to monitor progress and more regular messaging.

Responsibility: Ewan Barron (Chief Culture Officer)

Date: 31 December 2020

Recommendation 3

In addition to the broader culture review discussed in recommendation #2, we will review 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.

Responsibility: Jan McCahey (Risk & Quality Leader)

Date: 31 March 2021

Recommendation 4

We are in the process of reviewing our accountability framework to respond to feedback from the AQAB as well as a separate, not yet complete, independent review by ASIC.

We will continue to enhance our accountability framework for the FY21 year in response to that feedback.

We commit to identifying significant ASIC inspection results as a standalone performance measure of quality and to reviewing the relativities of penalties and rewards under our performance and accountability frameworks so they incentivise quality performance. We will share these changes with the AQAB and include our progress in our 2021 Transparency Report.

Responsibility: Jan McCahey (Risk & Quality Leader)

Date: 31 December 2020



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PwC refers to the Australia member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. Liability limited by a scheme approved under Professional Standards Legislation. At PwC Australia our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 276,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.au

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