



PwC New Zealand | Assurance

Transparency Report 2020





Contents

SECTION ONE:

Our year in audit quality

- 03 Welcome to our first PwC New Zealand Assurance Transparency Report
- 04 Building trust through transparency and audit quality
- 05 Audit Quality Balanced Scorecard
- 07 What is audit quality?
 - Delivering on audit quality
 - How we are working to continuously improve quality
 - PwC New Zealand's Independent Audit Advisory Board
- 10 What's next for audit in New Zealand?
- 11 Delivering audit quality during the COVID-19 pandemic
- 13 Helping the market understand the impact of COVID-19 on financial reporting

SECTION TWO:

Delivering on our commitment to quality

- 17 Our approach to audit quality
- 18 Our System of Quality Management
- 21 How we monitor quality
- 23 Leadership and culture
- 24 Leadership responsible for quality
- 25 Ethics and business conduct
- 27 Objectivity and independence
- 30 Our people
- 33 Our audit approach
- 35 Protecting data
- 36 Our legal and governance structure
- 37 The PwC network

APPENDIX:

- 38 Glossary of terms



SECTION 1

Our year in audit quality



Welcome to our first PwC New Zealand Assurance Transparency Report

We are delighted to release the first PwC New Zealand Assurance Transparency Report.

At PwC, our purpose is to build trust in society and solve important problems. As New Zealand's largest audit practice, we want to be part of providing greater insight into what's involved in audit and be open about how we are performing against expectations.

Quality audits are a critical component of a trusted and well-functioning capital market. Stakeholders need to have high levels of confidence in the transparency, objectivity and effectiveness of the audit process.

This report is the first of its kind in New Zealand. Its purpose is to provide transparency to our key stakeholders and the broader community on the quality management systems that underpin how we conduct our audit work, and outline our commitment to continually improving audit quality.

In this report you'll read about how our firm is governed, the culture and values that guide us as well as policies and processes we have in place. It includes our first Audit Quality Balanced Scorecard for the year to 30 June 2020. This Scorecard discloses how we are performing against key measures of audit quality such as internal inspection findings, training and culture and includes information about our audit reporting.

Over the past few years stakeholder expectations of audit have been shifting rapidly both in New Zealand and around the world. We recognise there is more to be done to maintain confidence and trust in audit.

In the last 18 months PwC New Zealand has introduced a range of initiatives to address the need to continually improve audit quality. We have established an independent external Audit Advisory Board to provide guidance and challenge on audit at our firm and increased our investment in ethics and independence training. We have also worked to better engage with our investor and director community on audit-related issues through forums and publications.

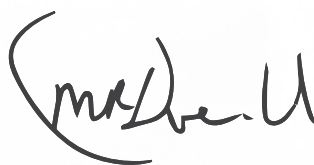
“

As New Zealand's largest audit practice, we want to be part of providing greater insight into what's involved in audit and be open about how we are performing against expectations.

The role of audit and financial reporting has never been more important as we work through the implications of COVID-19 on businesses. In this environment the function of an audit report as a source of information for investors to understand a business is crucial. We have worked closely with our clients to navigate and understand the challenges identified. We talk about this on pages 11-14.

This report is part of our journey to provide greater transparency about our New Zealand audit business and follows similar publications released across the PwC network.

We look forward to leading conversations with our clients and other stakeholders about the role and future of audit in this country.



MARK AVERILL
CEO AND
SENIOR PARTNER



Building trust through transparency and audit quality

Trust lies at the heart of everything we do at PwC. As auditors, we're acutely aware of a key driver of trust: the quality of our external audits. That's why we're pleased to present our first PwC New Zealand Assurance Transparency Report.

This report is in two parts. First, we outline our year in audit quality. This section covers:

- how we define audit quality;
- the initiatives we have developed to continuously improve quality, and;
- how we have responded to the challenges brought about by COVID-19.

In the second half of the report we lay out how we work to deliver quality including:

- how we maintain quality in our audit work;
- our policies, systems and processes for ensuring quality and independence;
- how we monitor our work, and;
- our approach to ensuring our people have the support they need to excel in their work.

Introducing our Audit Quality Balanced Scorecard for the year 30 June 2020

There are many factors that contribute to quality audits. To get a balanced picture of audit quality it's important to see a range of measures and it's for this reason we have introduced our first Audit Quality Balanced Scorecard.

This Scorecard outlines where we sit in relation to a variety of indicators that are integral to audit quality including independence, leadership in quality, people, training and inspection results. We also include details of our audit reporting and overall business. It illustrates how we are performing against key measures and, as we plan to include comparisons to previous years in future reports, how our audit practice adapts and improves over time.

Elsewhere in the report, we have included the findings from recent external inspections by the FMA and the Office of the Auditor-General.

As with any commitment to transparency there may be expectations that we haven't met or insights that

are challenging for us to reveal. Our ultimate goal is that investors, regulators, industry bodies, and the wider market have insight into how we operate and the steps we are taking to improve audit quality.

The audit of the future

Audits of the future will look different from today – in terms of how they are carried out and the people involved. We are at the forefront of these developments through our use of technology and our commitment to bringing a diverse range of people into the profession.

Innovation and new technology play a crucial role in supporting our services, meeting audit challenges in a digital age and in enhancing quality. We are using technology to improve the effectiveness of our audit procedures and generate greater insights. New platforms are allowing us to better connect with clients and improve project management.

Our people are critical to performing high quality audits. While the key skills of professional scepticism, curiosity and building relationships remain as important as ever, other expertise including data analysis and design thinking are increasingly valuable. We continue to invest in our people by providing ongoing professional and personal development, with in-depth training delivered at all levels.

Taken together, these different initiatives illustrate how our audit business is changing and highlight our commitment to continually improving audit quality.



LISA CROOKE
MANAGING PARTNER
ASSURANCE



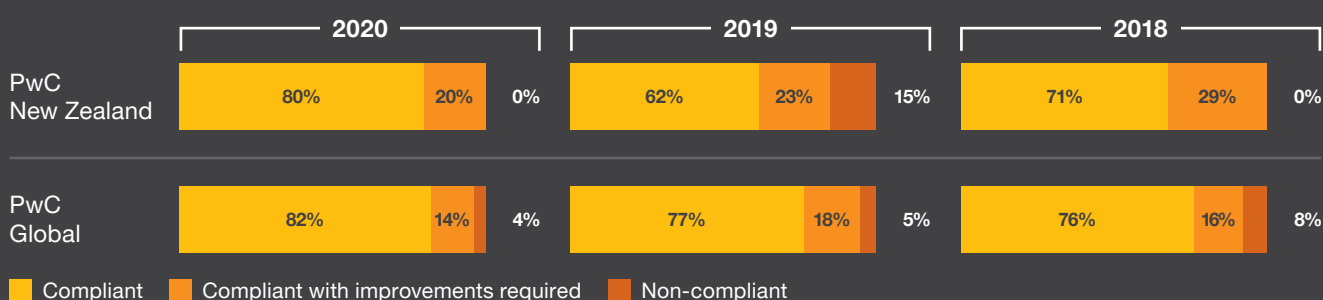
Audit Quality Balanced Scorecard

For the year
30 June 2020

Our drive for quality

As part of the PwC network, we are subject to globally coordinated quality inspections. The findings are moderated by PwC's Global Assurance Risk & Quality team.

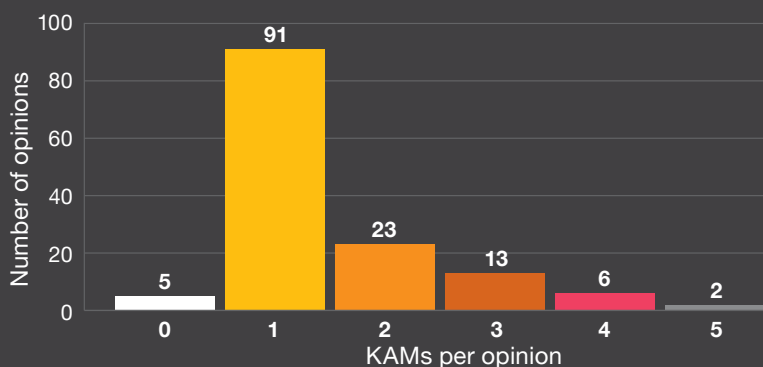
0 restatements for public companies identified by PwC inspections due to material error



In 2019 two files were rated as non-compliant. There were no material misstatements identified and additional audit work was not required.

Our audit reporting

Key audit matters (KAMs) are important tools for investors to understand the areas of most significance to the audit. Consultations represent areas where specialist assistance is required by audit teams.



COVID-19 consultations

176 PIE entities **235** non-PIE entities

140
Number of KAM
opinions issued

20
Opinions with going
concern uncertainty
highlighted

Our audit business

34% of NZX 50
audited by PwC

11% ratio of non-audit service fees
to audit fees for PIE entities

27% of PwC NZ revenue from
financial assurance services

See Appendix 1 for a glossary of terms

FMA and OAG external inspections fall outside the 30 June 2020 year. More information can be found on page 22.

Our leadership

We regularly survey our people to collect feedback on the behaviours that enhance audit quality demonstrated by partners and our specialist support teams.

242 Leadership in Quality surveys completed with average score of **8.9** out of **10**

Partner and Staff Culture Survey

Positive Neutral Negative



of the respondents believe that Assurance partners exhibit positive behaviours.



of the respondents believe they are supported by R&Q/CMAAS when they are resolving a problem.

Our people

The experience and expertise of our people is critical to delivering quality audits. We are also committed to helping build the next generation of auditors.

24 years

Financial Assurance partners' average years of audit experience

60

New financial assurance graduates

7

Specialist Assurance partners (RA, MVD, CMAAS) supporting audits

Licensed auditors

20 male **8** female

Qualified to sign audit reports

22 male **10** female

Assurance headcount

539 actual **530** budget

Retention rate

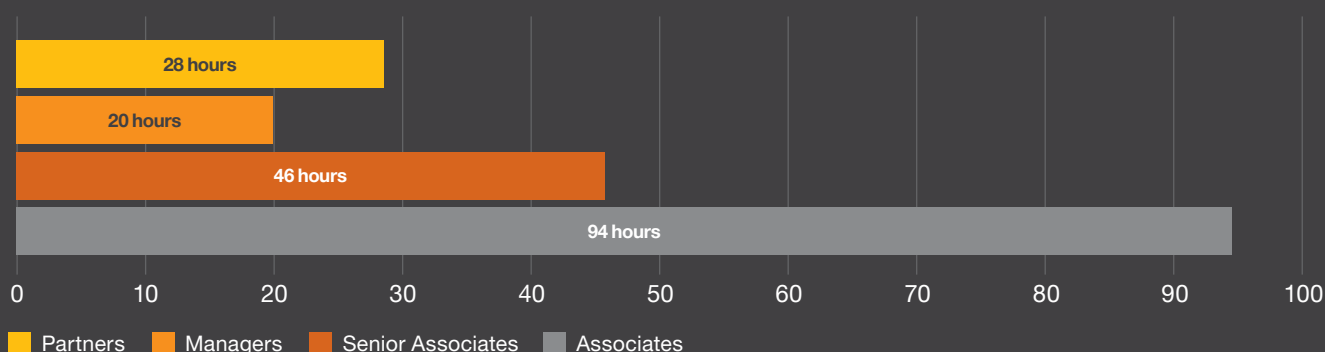
78% FY20 **78%** FY19

Our investment in training

Auditing and accounting training hours

Minimum number of hours of auditing and accounting training mandated and completed by PwC annually

Minimum structured professional training requirement **20** hours per annum



Assurance Training FY20

Average hours achieved by partners and staff

40
online

27
classroom

67
total

Total hours completed: **33,956**

Independence Training FY20

Time spent by every staff member

70mins

In addition, every assurance partner attended a targeted 30 minute training

Time spent by every partner

100mins

1,875

Monthly audit knowledge quizzes completed

What is audit quality?

At PwC, 'audit quality' means that we consistently:



Comply with auditing standards



Exercise professional scepticism



Use our experience and expertise 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

Recognising our role in the capital markets, 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 including identifying where an entity needs to improve financial reporting processes, resourcing and the quality of supporting workpapers
- plan our work and resolve issues in a timely and thorough fashion
- remain alert for issues that need deeper analysis
- act with professionalism
- provide reliable and informative audit reports.

Lisa Crooke

Managing Partner, Assurance

Karen Shires

Chief Risk Officer

Delivering on audit quality

Delivering quality audits is core to our purpose. We recognise that sometimes our work falls below the standards that we set for ourselves or are set by our regulators. 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.

How we are working to continuously improve audit quality

Over the past 18 months PwC New Zealand has continued to focus on quality and developed a range of audit quality initiatives to maintain trust and confidence in the critical role that audit plays. These measures are working to strengthen our audit processes and procedures at a time of unprecedented economic uncertainty and increasing complexity of business, regulatory and governance requirements.

These include:

- increasing our investment in ethics and independence training, and our consideration of how we communicate independence;
- requiring all our partners and directors to complete the NZICA two hour professional scepticism elearn;
- establishing an internal Independence Risk Panel to consider independence perceptions over and above the formal requirements of the independence standards when initiating non-assurance services for audit clients;
- engaging our investor and director community on audit-related issues and exploring how we can best seek to narrow the expectation gap;
- discussing audit quality indicators with the entities we audit from the outset;
- adding the position of Chief Risk Officer (a senior partner) to the firm's Executive Leadership Team, ensuring trust and independence matters are integral to the firm's strategy; and
- establishing an external Audit Advisory Board of three independent members.



PwC New Zealand's Independent Audit Advisory Board

In October 2020 we announced the launch of an independent Audit Advisory Board to provide guidance and challenge related to audit quality at PwC New Zealand.

The Board consists of three independent members who advise the firm on a range of matters including PwC's audit quality management systems and processes, learning and development programme and how the firm is responding to structural changes in the profession. It follows the introduction of similar boards and committees by PwC in a number of other markets including Australia, the United States and the United Kingdom.

The three members of the Board who bring unique perspectives from their considerable experience are:



WARREN ALLEN

Warren chairs the Board. He is the former Chief Executive of the External Reporting Board and current Chair of the Audit and Risk Committee for the Ministry of Foreign Affairs & Trade, and Porirua City Council. He is also the Committee Chair, Audit and Risk Committee for the Office of the Auditor-General. Warren is a former audit partner at EY and a Past President of the global accountancy body – International Federation of Accountants.



ALISON POSA

Alison is an internationally experienced CFO and director. She is currently a non-executive director for City Forests and AsureQuality where she is the Chair of the Risk Committee and member of the Audit Committee. She has held senior positions with Fletcher Challenge, Mondelez International and Kraft Foods.



STEPHEN LAYBURN

Stephen is a commercial barrister with experience in a wide range of corporate and commercial matters. He has worked at Hesketh Henry, Bell Gully and Simpson Grierson. He is also a member of the Commercial & Business Law Committee of the New Zealand Law Society and an external counsel to the NZX Markets Disciplinary Tribunal.

An Audit Advisory Board member must not be a current director of, or in a governance role or a financial reporting oversight role (CEO/CFO for example) with, an entity audited by PwC.

The Board meets three times a year and reports its recommendations to the firm. It met for the first time on 24 September. In our 2021 Transparency Report we will report on the activity and recommendations of the Audit Advisory Board.

What's next for audit in New Zealand?

How could international developments impact this country?

In recent years, reports have been released around the world examining the state of auditing. Earlier in 2020, PwC New Zealand in conjunction with Dr David Hay and Debbie Van Dyk from the University of Auckland, carried out research into 16 different reports into audit from around the world. Some of them, like the Brydon review in the United Kingdom, recommend sweeping changes, while others describe options without making a recommendation.

The purpose of our research into the various reports produced in other countries was to investigate the recommendations made, examine their relevance to New Zealand and inform the debate about the future of audit in this country.

The research found that, with change gathering pace in countries including the United Kingdom and Australia, there is a growing need for New Zealand's audit practices to change too – we cannot be left behind. Audit must continually improve to deliver value, stay relevant and meet stakeholder expectations. All New Zealanders are affected in some way by the quality of external auditing so building trust and confidence in its processes and functions is vital.

Climate-related financial disclosure

Mandatory climate-related financial disclosure is a proposed compliance obligation currently making its way through Parliament. New Zealand would become the first country in the world to mandate disclosure on climate risks for approximately 200 companies on the NZX. Impacted organisations could be required to make disclosures as early as 2023.

Based on our research, major changes to auditing in New Zealand that are likely to occur in the coming years include:


- the prohibition of non-audit services to public interest audit clients;
- the public release of regulator inspection reports;
- the publishing of transparency reports by audit firms; and
- more reporting on going concern considerations by directors, followed by increased responsibility for auditors.

Other changes that are likely in the medium or longer term include:

- reporting on internal controls, with management taking the initial responsibility and auditors required to give an opinion;
- auditors taking more responsibility for fraud;
- the reform to the limitation of liability of auditors in New Zealand;
- changes to make the corporate governance duties of audit committee members clearer; and
- although not identified in the research, mandatory tendering of audit after ten years or an explanation as to why not tendered looks likely based on the Australian Parliamentary inquiry into the regulation of auditing recommendations.

Audit practices around the world will continue to adapt and change to meet the changing expectations of investors, regulators and industry bodies. We expect audit in New Zealand to develop further in line with these changes and look forward to contributing to these further enhancements.

(Hay D., Shires K., Van Dyk D., *The way forward for auditing in New Zealand: in light of recent international reviews*, 29 July 2020)



Delivering audit quality during the COVID-19 pandemic

Our response to COVID-19

The global COVID-19 pandemic has had an unprecedented impact on 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.

Our first priority was to keep our people healthy and give them the flexibility to care for themselves and their loved ones. At the same time, we were also focused on continuing to run our business and serve our clients. Our existing tools and technology allowed our people to shift to working in different ways and to continue to coordinate and communicate with our clients.

Prioritising the wellbeing of our people

To help ensure the wellbeing of our people we closed our offices and halted travel in advance of the Alert Level 4 lockdown in New Zealand.

Firm leadership provided frequent, transparent updates about the impact of business decisions on job performance and job security. We published a set of key principles for our people to guide us on how we operated and navigated the impact of COVID-19. In addition, alongside our range of existing wellbeing resources, we offered our people tools to help manage physical, mental and social health as well as the opportunity to hear from external health and mental health experts and practitioners. These initiatives helped our people care for themselves and their loved ones.

Using technology to support our teams

Our teams transitioned quickly and seamlessly to working remotely. Our network audit technology infrastructure and tools, 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.

Identifying and addressing risks related to COVID-19

The COVID-19 pandemic meant we faced a number of new and unique challenges in our audit work. These 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 early 2020 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.

“

The COVID-19 pandemic meant we faced a number of new and unique challenges in our audit work.



Measures for ensuring quality

In New Zealand we developed detailed policy and guidance to help teams navigate the rapid development of the COVID-19 impact prior to the start of Alert Level 4 lockdown restrictions.

Importantly we implemented a new policy, for all audits of public interest entities being completed after 23 March 2020, that required a formal consultation with respect to the consideration of COVID-19 (financial reporting and auditing impacts) with senior audit partners, independent of the audit, prior to issuance of any audit report. This was in addition to normal engagement partner and Engagement Quality Control Review (EQCR) and any other usually required technical consultations.

We delivered real time guidance to our audit professionals in the form of webcasts and podcasts on conducting an audit in a period of uncertainty, including, but not limited to, considerations related to virtual auditing, auditing asset impairments, physical inventory observations, and assessing going concern.

We developed detailed guidance for all our audit and assurance teams that covered:

- the issuance of mandatory COVID-19 audit checklists to ensure relevant audit areas were given appropriate consideration;
- inventory observation considerations where there was an inability to attend stockcounts;
- risks to the control environment arising from remote working;
- professional scepticism in a COVID-19 environment;
- tools to assist teams consider the appropriateness of the going concern basis of accounting; and
- specialist resources to use when auditing asset impairment.

We also leveraged the materials developed by our network to provide consistent leadership and guidance on audit quality and equip our teams to consider their client's unique circumstances and respond accordingly.

Helping the market understand the impact of COVID-19 on financial reporting

As part of our work navigating the impact of COVID-19 on New Zealand business, we produced analysis and commentary considering the implications for financial reporting and the capital markets. The purpose of these initiatives was to help both our people, our clients and the wider market understand the changing landscape and how to work through the various challenges.

Some specific examples of our work in helping the market understand the effect of COVID-19 include:



Our Accounting Technical team led by partners Stephen Hogg and Tiniya du Plessis produced information for clients and wider stakeholders on specific areas of concern including fair value and impairment considerations, wage subsidy accounting and leasing implications via regular podcasts, webinars and publications. Examples include:

Podcasts

- *Implications of COVID-19 for financial reporting in New Zealand* (April 2020)
- *Impairment considerations in relation to COVID-19* (May 2020)

Newsletters

- *In Brief: Accounting implications of tax depreciation of buildings* (April 2020)
- *In Brief: COVID-19 Wage Subsidy Scheme* (April 2020)
- *In Brief: COVID-19 Lease Concessions – Accounting implications* (May 2020)



Our Chief Risk Officer, Karen Shires developed a traffic light tool to indicate where the readers of audit reports should focus their attention. The traffic lights helped to clearly explain to readers the areas of an audit report that could be a cause for concern. The tool was communicated through a range of channels including general business media.

Audit report type



Clean
(the audit report does not include any areas of concern)



Clean but with a warning
(the audit report includes some areas of concern for users of financial reports to be aware of)



Qualified
(a report where the auditor has not had all the necessary information needed)



KAREN SHIRES
CHIEF RISK
OFFICER



We analysed the financial reports of the 36 NZX50 listed companies that have financial year ends from 31 March to 30 June to determine how companies had responded to the financial reporting impacts of COVID-19 and what impact there had been on the audit reports. In addition to informing our clients, these three reports were covered in the New Zealand Herald ensuring a wide audience could access our analysis.

Reports



COVID-19: the likely impact on audit reports
(May 2020)



How has COVID-19 affected financial reporting? Analysis of March to May NZX50 reporters
(August 2020)



How has COVID-19 affected financial reporting? Analysis of June NZX50 reporters
(October 2020)

Media coverage

- *How auditors are approaching company accounts.* Interview with PwC Chief Risk Officer Karen Shires (New Zealand Herald, 20 April 2020)
- *Corporate disclosure stayed high during COVID-19.* Interview with PwC Chief Risk Officer Karen Shires (New Zealand Herald, 6 September 2020)
- *Corporate NZ's accounts weather the Covid storm – PwC.* Interview with PwC Chief Risk Officer Karen Shires (New Zealand Herald, 3 November 2020)



Education for Directors and other key audit stakeholders

Audit quality is a function of many factors. One of these is the quality of the accounting records and technical analysis presented for audit by entities. As auditors we have a role in helping educate clients about the information we need for audit and the expectations of the Financial Markets Authority with respect to maintaining accounting records. PwC New Zealand held the following education forums in 2020:

Considerations for financial reporting during COVID-19 (17 April 2020)

Rob Everett (CEO) Financial Markets Authority, Joost van Amelsfort (Head of Market Supervision) NZX, Julia Hoare (Non-Executive Director) and Karen Shires (CRO) PwC New Zealand discussed the financial reporting impacts and obligations for directors during the COVID-19 crisis.

Audit & Risk Committee round-tables to discuss the implications of COVID-19

This specialist stream within our PwC Non-Executive Programme focused on the topics and issues facing Audit & Risk Committees. The focus has been on navigating the reporting season covering topics such as impairment. We have held four sessions with this group to date.

Lessons from the reporting season and the road ahead (13 October 2020)

The major lessons for boards from the recent reporting season were discussed including how auditors have responded and what the priority questions Non-Executive Directors should be asking executive teams regarding financial reporting. At the session insights from regulatory change now influencing reporting in the Australian market were shared. Panelists included: Mary-Jane Daly (Non-Executive Director), Karen Shires (CRO) PwC New Zealand and Regina Fikkers (Accounting and Regulatory Leader) PwC Australia.



KEREN BLAKEY
CHAIR, NON-EXECUTIVE DIRECTOR
PROGRAMME SPONSOR





SECTION 2

Delivering on our commitment to quality



Our approach to audit quality

Focus on quality

Our focus is to strengthen trust and transparency with our clients, the capital markets and wider society.

We invest significant and increasing resources in continuous improvement across all of our business. This investment is targeted at areas, including:

- training (technical, independence, ethical and behavioural);
- enhancing methodologies;
- adding resources to key areas such as our data technicians;
- quality functions including expert and specialist support in considering impairment and valuations; and
- exploring new ways of delivering our work using technology and tools.

Our quality objectives

The PwC network has established a framework for quality management with specific objectives for audit quality. This integrates quality management into business processes and the firmwide risk management process. Our overall quality objective is:

“...to have the necessary capabilities in our organisation and to deploy our people to consistently use our methodologies, processes and technology in the delivery of services in an effective and efficient manner to fulfil the valid expectations of our clients and other stakeholders.”

Our System of Quality Management (SoQM) must be designed and operated so that our objectives are achieved with reasonable assurance.

The right capabilities

Our engagement teams can only deliver quality audit services if they have access to the necessary capabilities – both in terms of people and technology. That’s why our quality objectives focus on having the right people supported by effective methodologies, processes, and technology, appropriately directed and supervised.

To help us achieve these objectives, there are a number of dedicated functions at a PwC network level that develop practical tools, guidance and systems to support and monitor audit quality. These elements have been integrated and aligned by our network to create a comprehensive, holistic and interconnected quality management framework.

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 entity’s management are free of ‘material misstatements’ – reaching a professional judgement on whether the financial statements present a fair picture of the entity’s financial performance and position. To carry out this assessment effectively, the auditor needs to use all the capabilities and experience that have been built up over years 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 objectives focus on having the right people supported by effective methodologies, processes, and technology, appropriately directed and supervised.

Our System of Quality Management

Our quality management process



Achievement of the quality objectives is supported by a **system of quality management** established by our firm and Assurance leadership, business process owners, and partners and staff.

Our System of Quality Management (SoQM) 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 analyses and implementing remedial actions; and
- establishing a quality-related recognition and accountability framework to be used in appraisals, remuneration, and career progression decisions.



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 to 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, also provide a key tool in the ongoing monitoring and continuous improvement of our SoQM.

We use AQIs with an aim to predict quality issues, Real Time Assurance with an aim to prevent quality issues, Root Cause Analysis to learn from quality issues and a Recognition and Accountability Framework to reinforce quality behaviours, culture and actions.

These programmes, by design, require ongoing monitoring and continuous improvement, particularly Assurance Quality Indicators, which we expect will evolve significantly over time and as we continue to use and learn from these measures.



Aim to Prevent: Real Time Assurance

We have developed a Real Time Quality Assurance (RTA) programme designed to provide preventative monitoring that helps coach and support engagement teams get the 'right work' completed in real time, during the performance phase of the audit.

Our RTA process has been aligned to meet the global network assurance RTA requirements and is a well embedded quality monitoring programme within PwC New Zealand's assurance practice. The programme consists of two elements.

- a review of individual engagements in real time; and
- the use of a dashboard that sits across all of our in progress electronic audit files.

The engagement review programme operates on an annual basis across the country, with a sample of audit partners and engagements being selected for RTA. RTA reviewers are sourced from within our Risk & Quality function as well as from senior professional staff from the assurance practice.

In addition to the full file reviews, we also carry out targeted real time reviews, being a deep dive on a specific area. The topics selected reflect findings raised in recent reviews (internal and external) or that have been noted in recent queries to/consultations with the Risk & Quality and Methodology teams.

Findings are evaluated to identify the root cause giving rise to the finding, reported to Assurance Leadership on a periodic basis and communicated back to the assurance practice in various forms, including webex sessions and audit quiz questions, and are incorporated into our Audit Quality Indicators (AQI's).

RTA Dashboard

In addition to the RTA programme is the RTA Dashboard. The RTA dashboard is run quarterly by the Risk & Quality team to flag potential issues as indicated by exceptions noted when running various scripts across all audit files, such as planning not signed off before the balance date, completion not signed off by the report date, and non-standard materiality settings. The exceptions flagged in the dashboard are then followed up with the audit teams to assess whether there is an issue and, if so, what actions are needed to resolve it. These may be as straightforward as the audit team updating reporting dates in the file details or more complex, with the audit team then resolving the issues with guidance from the Risk & Quality or Methodology teams.



Learn: Root cause analysis

We perform analysis to identify potential factors contributing to our firm's audit quality so that we can take actions to continuously improve. Our primary objectives when conducting such analysis is to understand what our findings tell us about our SoQM and to identify how our firm can provide the best possible environment for our engagement teams to deliver a quality audit. We look at quality findings from all sources including our own ongoing monitoring of our SoQM as well as network inspections 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 changes and learning opportunities.

For individual audits, an objective team of reviewers identifies potential factors contributing to the overall quality of the audit. We consider factors relevant to:

- technical knowledge;
- supervision and review;
- professional scepticism;
- engagement resources; and
- training, amongst others.

Potential causal factors are identified by evaluating engagement information, performing interviews, and reviewing selected audit working papers to understand the factors that may have contributed to audit quality.

In addition, the data compiled for audits both with and without deficiencies is compared and contrasted to identify whether certain factors appear to correlate to audit quality.

Examples of this data include:

- the hours incurred on the audit;
- whether key engagement team members are in the same geography as the client;
- the number of years that key engagement team members have been on the engagement;
- the number of other audits that engagement partners are involved in; and
- the timing of when the audit work was performed.

Our goal is to understand how quality audits may differ from those with deficiencies, and to use these learnings to continuously improve all of our audits. We evaluate the results of these analyses to identify enhancements that may be useful to implement across the practice. We believe these analyses contribute significantly to the continuing effectiveness of our quality controls.



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 all engagement leaders accountable for quality outcomes beyond compliance. 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 our 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 behaviour and sufficient to incentivise the right behaviours to achieve the quality objectives.

Our audit partners are required to have one of their three primary performance objectives for the year focused on audit quality as part of their annual performance plan. Further, consistent with PES 1 (Professional and Ethical Standard 1) issued by the New Zealand Auditing and Assurance Standards Board and our own standards, no audit partner may have objectives of, or be rewarded for selling services. At the end of the financial year a partner's performance is assessed based on whether objectives have been achieved and includes as a core element the outcomes from the RAF. A poor quality result or an ethics or independence matter has a direct and significant impact on an audit partner's financial income for the year.

Acceptance and continuance

Considerations in undertaking the audit

Our principles for determining whether to accept a new client or continue serving an existing client are fundamental to delivering quality, which we believe goes hand-in-hand with our purpose to build trust in society. We have established policies and procedures for the acceptance of client relationships and audit engagements that consider whether we are competent to perform the engagement and have the necessary capabilities including time and resources, can comply with relevant ethical requirements, including independence, have appropriately considered the integrity of the client and whether we will receive a fair return for the engagement. We reassess these considerations in determining whether we should continue with the client engagement and have in place policies and procedures related to withdrawing from an engagement or a client relationship when necessary.

Client and Engagement Acceptance and Continuance

PwC New Zealand has implemented a process to identify acceptable clients based on the PwC network's proprietary decision support systems for audit client acceptance and retention (called Acceptance and Continuance (A&C)).

A&C facilitates a determination by the engagement team, business management and risk management specialists on whether the risks related to an existing client or a potential

client are manageable, and whether or not PwC should be associated with the particular client and its management.

More specifically, this system enables:

Engagement teams:

- To document their consideration of matters required by professional standards related to acceptance and continuance;
- To identify and document issues or risk factors and their resolution, for example through consultation by adjusting the resource plan or audit approach or putting in place other safeguards to mitigate identified risks or by declining to perform the engagement; and
- To facilitate the evaluation of the risks associated with accepting or continuing with a client and engagement.

PwC New Zealand (leadership and risk management):

- To facilitate the evaluation of the risks associated with accepting or continuing with clients and engagements. When necessary a risk panel involving senior audit partners is convened to assess the continuance of a client relationship or engagement;
- To provide an overview of the risks associated with accepting or continuing with clients and engagements across the client portfolio; and
- To understand the methodology, basis and minimum considerations that all other member firms in the network have applied in assessing audit acceptance and continuance.

How we monitor quality

Monitoring assurance quality

Responsibility for appropriate quality management lies with the leadership of PwC New Zealand – the “*first line of defence*”.

Our firm’s monitoring procedures include an ongoing assessment aimed at evaluating whether the policies and procedures which constitute our SoQM are designed appropriately and operating effectively to provide reasonable assurance that our audit and non-audit assurance engagements are performed in compliance with laws, regulations and professional standards – the “*second line of defence*”.

Our monitoring also encompasses a review of completed engagements (Engagement Compliance Reviews- ECR) 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 ISQC 1 as well as network policies, procedures, tools and guidance.

Examples of Audit Quality Measures – inspections

- Number of internal PwC global inspections (ECRs) rated as compliant, compliant with improvements required, non-compliant
- ECRs rated as compliant, compliant with improvements required, non-compliant related to total number of ECRs (%)
- Number of restatements in public company financial statements due to material misstatements identified in internal inspections

First line of defence – leadership

Second line of defence – monitoring procedures

Third line of defence – inspection programmes

ECRs are risk-focused reviews by PwC international teams of completed engagements covering, on a periodic basis, individuals in our firm who are authorised to sign audit or non-audit assurance reports. The review assesses whether an engagement was performed in compliance with PwC Audit guidance, applicable professional standards and other applicable engagement-related policies and procedures. Each signer is reviewed at least once every two years, unless a more frequent review is required based on the profile of that signer’s client engagements.

Reviews are led by experienced assurance partners from international network firms, supported by independent teams of partners, directors, and senior managers and other specialists. Review teams receive training to support them in fulfilling their responsibilities, and utilise a range of checklists and tools developed at the network level when conducting their review procedures.

In addition to the ECRs, we run a cold review programme to annually review completed engagements for engagement leaders that are not captured by the ECR programme described above. These reviews are led by an experienced Executive Director, reporting to the Chief Risk Officer and carried out by an experienced and objective team of partners, directors and senior managers, applying the same checklists as used in the ECR programme.

Finally, the PwC network coordinates an inspection programme to review the design and operating effectiveness of our SoQM – the “*third line of defence*”. The use of a central team to monitor these inspections across the network enables a consistent view and sharing of relevant experience across the PwC network.

The results of the inspections are reported to our firm's leadership who are responsible for analysing the findings and implementing remedial actions as necessary. In situations where adverse quality issues on engagements are identified, based on the nature and circumstances of the issues, the responsible partner or our firm's Assurance leadership personnel may be subject to additional mentoring, training or further sanctions in accordance with our firm's Recognition and Accountability Framework described above.

External inspections and outcomes

In addition to the PwC network and internal quality reviews, PwC New Zealand is also subject to regular inspections by regulatory and professional bodies.

FMA reviews

The FMA is responsible for auditor regulation under the Auditor Regulation Act 2011. The FMA carries out a quality review of the systems, policies and procedures of registered audit firms and licensed auditors at least once every four years.

The last review of PwC New Zealand was performed in February 2019. These findings formed part of the FMA's Audit Quality Monitoring Report issued in November 2019. (A copy of this report is available on the FMA's website). The audit files the FMA select for review are either based on perceived risk, or at random.

The FMA does not publicly identify the results of its reviews by firm. However the number of large, medium and small firms included in each inspection cycle is disclosed. Due to the small number of firms included in each FMA Monitoring Report disclosure by one firm may result in another firm's results being identifiable. For this reason we have not included the results of any FMA inspection visit in this transparency report.

In 2019 the FMA reviewed six engagement files.

We developed and implemented a quality improvement plan to address the matters arising from the file reviews undertaken by the FMA.

The FMA also selected a sample of engagements to consider independence matters and looked at aspects of our quality management system.

Following the review the FMA requested that PwC New Zealand provide additional training to all of our partners on independence in appearance and take measures to restrict retired partners from taking Directorships at audit clients (see page 29). In response PwC delivered additional training on independence in appearance to all our partners and staff.

Partners and employees of our firm are informed about the review results and the actions taken to enable them to consider how the findings relate to the performance of their engagements. In addition, the Global Assurance Quality – Inspections (GAQ-I) Leader informs engagement partners of our firm, who are responsible for group audits involving cross-border work, about relevant quality review findings in other PwC member firms. This helps our engagement leaders to consider these findings in planning and performing their audit work.

This included classroom training, an online webinar and an elearning module.

PwC New Zealand was not included in the most recent FMA Audit Quality Monitoring Report issued in November 2020. Our next inspection by the FMA is scheduled for 2021.

Referrals

From time to time work carried out by PwC New Zealand may be referred to the New Zealand Institute of Chartered Accountants (NZICA), the front line regulator of licensed audit firms, for further review. One such matter was in respect of prohibited services undertaken by PwC Australia at an audit client of PwC New Zealand in 2018 which although identified by PwC New Zealand was not appropriately dealt with in terms of PES 1 (Professional and Ethical Standard 1). We fully remediated this matter at the request of NZICA in 2019 and provided additional training to our audit partners in June 2020 on how to remediate breaches of independence should they occur.

At any time there may be matters in progress which are dealt with on a confidential basis pending resolution or further investigation. This includes the complaint made by Mr Colin Armer to the FMA in September 2019. The FMA forwarded Mr Armer's concerns regarding Fonterra's audits for 2015 to 2018 (inclusive) to NZICA. This matter continues to be investigated.

OAG inspections

The firm is also subject to reviews by the Office of the Auditor-General (OAG) for engagements that are completed on its behalf. These are undertaken on a periodic basis such that an auditor (referred to as an Appointed Auditor (AA)) appointed by the OAG to undertake audits, with the support of PwC, on the Auditor-General's behalf is reviewed at regular intervals.

During the 2019 calendar year six audit partners who are AAs were subject to review by the OAG. These included audits with balance dates: 31 December 2017 to 30 June 2018.

All files reviewed were compliant.

Leadership and culture

Our purpose and values

Our purpose and values are the foundation of our success. Our purpose is to “*build trust in society and solve important problems.*”, and our values are designed to help us deliver on that purpose. Our purpose 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. This forms the foundation of our system of quality management and permeates 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. An important part of delivering quality is building a culture across the PwC network of 284,000 people that emphasises that quality is the responsibility of everyone including our 1,600-plus people in New Zealand.

When working with our clients and our colleagues to build trust in society and solve important problems, we:



Act with
integrity



Make a
difference



Care



Work
together



Reimagine
the possible

Leadership in quality – tone at the top

Leadership in quality is created and maintained by the tone from the top. Our CEO, leadership team and engagement leaders communicate and reinforce our quality messages throughout the firm. As part of ensuring tone at the top we added the position of Chief Risk Officer (a senior audit partner) to the firm’s leadership team in 2019. This means quality and independence matters are integral to the firm’s strategy and have appropriate focus.

We track whether our people believe that our leaders’ messaging conveys the importance of quality to the success of our firm. Based on this tracking, we are confident our people understand our audit quality objectives.

In 2020 we introduced a leadership in quality survey for our audit staff to anonymously provide feedback on audit engagement leaders and the EQCR. Audit staff completed 242 surveys during the period from February to 30 June on the engagements they worked on. The average score was 8.9 out of 10.

The survey seeks to measure the audit engagement leader and the EQCR’s leadership in quality throughout

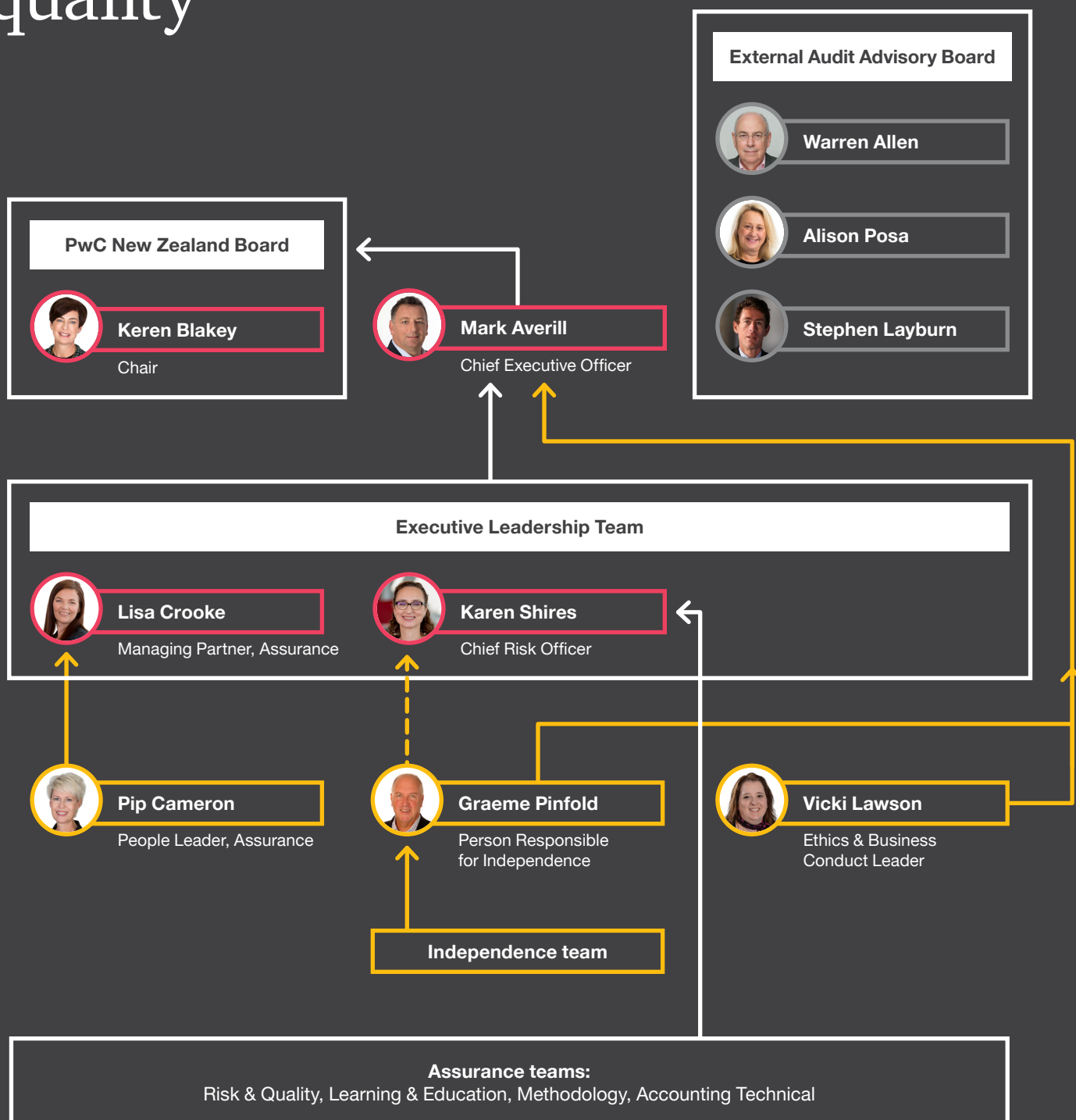
the engagement. The survey asks 14 questions. The survey results are shared with the engagement leaders and EQCRs for their own self development and feeds into their performance appraisals.

In 2020 we also undertook a one-off leadership culture survey which included questions that reflect on aspects of audit quality. The survey asked for quantitative and qualitative feedback on the behaviours of leadership, and the support provided by our R&Q and CMAAS teams.

Examples of Audit Quality Measures – culture

- Questions asked in partner and staff culture survey:
 - Thinking of the Assurance Partner group overall how do you rate the Partners on exhibiting positive behaviours?
 - When you need help on a problem, do you feel that you are appropriately supported by R&Q/CMAAS to resolve the problem?
- Average score from Leadership in Quality Surveys

Leadership responsible for quality



Ethics and business conduct

At PwC, we take our ethical responsibilities seriously and we strive to embrace the spirit – 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.

Vicki Lawson is the firm's Ethics & Business Conduct Leader and has oversight of our Ethics and Business Conduct programme. She is an Assurance Partner and reports directly to the CEO. Vicki is supported by an Ethics and Business Conduct Committee which includes senior leaders from across the firm. Current membership of the Committee includes three Assurance Directors from offices throughout New Zealand.



VICKI LAWSON
ETHICS & BUSINESS
CONDUCT LEADER

Professional standards

We comply with the fundamental principles of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants, which are:

- **Integrity** – to be straightforward and honest in all professional and business relationships.
- **Objectivity** – to not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
- **Professional Competence and Due Care** – to 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 practise, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not 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** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Code of Conduct

We have a **Code of Conduct**, and related policies that clearly describe the behaviours expected of our people. These behaviours enable us to build public trust. Because of the wide variety of situations that our people may face, our standards provide guidance under a broad range of circumstances, but all with a common goal to do the right thing.



How we work to ensure ethical compliance

We work hard to ensure our people understand and follow ethical requirements. On joining the firm, all staff and partners of PwC New Zealand are given the PwC Global Code of Conduct and are expected to live by the values expressed in it during the course of their professional careers.

Everyone at PwC New Zealand has a responsibility to report and express concerns, and to do so fairly, honestly, and professionally when dealing with a difficult situation or when observing behaviours inconsistent with the Code of Conduct. We have an accountability framework to facilitate remediation of behaviours that are inconsistent with the Code of Conduct. There is also a confidential Ethics & Conduct hotline that can be used by all staff and external parties to report ethical issues and concerns.

[Our code of conduct and hotline can be found here.](#)

All partners and staff undertake annual mandatory training and submit annual compliance confirmations, as part of the system to support appropriate understanding of the ethical requirements under which we operate.



Objectivity and independence

As auditors of financial statements and providers of other types of professional services, PwC New Zealand partners and staff are expected to comply with the fundamental principles of objectivity, integrity and professional behaviour. In relation to assurance clients, independence underpins these requirements. Compliance with these principles is fundamental to serving the capital markets and our clients.

The PwC Global Independence Policy, which is based on the IESBA International Code of Ethics for Professional Accountants, including International Independence Standards, contains minimum standards with which PwC member firms have agreed to comply, including processes that are to be followed to maintain independence from clients, when necessary. PwC New Zealand supplements the PwC Global Independence Policy as required by PES 1 (Professional and Ethical Standard 1) issued by the New Zealand Auditing and Assurance Standards Board where they are more restrictive than the network's policy.

Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

1

Independence of mind – being unaffected by influences that could compromise professional judgement ensuring our people act with integrity, exercise objectivity and professional scepticism.

2

Independence in appearance – avoiding any significant facts and circumstances that could lead to a third party concluding an audit, review or assurance team member's PwC's integrity, objectivity or professional scepticism has been compromised.

Graeme Pinfold is the designated PwC New Zealand Executive Director (former Partner and Licensed Auditor with 35 years experience). He is responsible for independence and the implementation of the PwC Global Independence Policy. This includes managing the related independence processes and providing support to the business. He has previously chaired the Professional Standards Board and is currently the chair the CAANZ Trans Tasman Audit Advisory Committee. Graeme is supported by a team of independence specialists and reports directly to the CEO.



GRAEME PINFOLD
EXECUTIVE DIRECTOR
– INDEPENDENCE

Independence policies and practices

The PwC Global Independence Policy covers, among others, the following 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 by partners, staff, the firm and its pension schemes;
- non-audit services and fee arrangements. The policy is supported by Statements of Permitted Services ('SOPS'), which provide practical guidance on the application of the policy in respect of non-audit services to audit clients and related entities;
- business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on purchasing of goods and services acquired in the normal course of business; and
- independence requirements related to the rotation of key audit partners.

These policies and processes are designed to ensure PwC complies with relevant professional and regulatory standards of independence that apply to the provision of assurance services. Policies and supporting guidance are reviewed and revised when changes arise such as updates to laws and regulations or in response to operational matters.

Independence-related systems and tools

As a member of the PwC network, PwC New Zealand uses global systems and tools which support our people in executing and complying with our independence policies and procedures. These include:

- The **Central Entity Service** ('CES'), which contains information about corporate entities including public interest audit clients and SEC restricted clients and their related securities. CES assists in determining the independence restriction status of clients of the member firm and those of other PwC member firms before entering into a new non-audit engagement or business relationship. This system also feeds Independence Checkpoint and Authorisation for Services;
- **Independence Checkpoint** which facilitates the pre-clearance of publicly traded securities by all partners and practice managers before acquisition and records their subsequent purchases and disposals. Where a PwC member firm wins a new audit client, this system automatically informs those holding securities in that client of the requirement to sell the security where required;
- **Authorisation for Services** ('AFS') that facilitates communication between a non-audit services engagement leader and the audit engagement leader, regarding a proposed non-audit service, documenting the analysis of any potential independence threats created by the service and proposed safeguards, where deemed necessary, and acts as a record of the audit partner's conclusion on the permissibility of the service; and
- **Global Breaches Reporting System** which is designed to be used to report any breaches of external auditor independence regulations (e.g. those set by regulation or professional requirements) where the breach has cross-border implications (e.g. where a breach occurs in one territory which affects an audit relationship in another territory).

PwC New Zealand also has a number of New Zealand-specific systems including:

- A rotation tracking system which monitors compliance with PwC New Zealand audit rotation policies for engagement leaders and other key audit partners involved in an audit.
- A database that records all approved business relationships entered into by PwC New Zealand. These relationships are reviewed on a six monthly basis to ensure their ongoing permissibility.

Independence training and confirmations

PwC New Zealand provides all partners and staff with ongoing training in independence matters. This includes computer-based training on a range of independence topics and face-to-face training from our independence, and, risk and quality teams.

All partners and practice staff are required to complete an annual compliance confirmation, where they confirm their compliance with relevant aspects of the member firm's independence policy, including their own personal independence. In addition, all partners confirm that all non-audit services and business relationships for which they are responsible comply with policy and that the required processes have been followed in accepting these engagements and relationships. These annual confirmations are supplemented by periodic and ad-hoc engagement level confirmations for all audit staff working on audit clients.

Independence monitoring and disciplinary policy

We monitor the effectiveness of our quality control system in managing compliance with independence requirements. In addition to the confirmations described above, as part of this monitoring, we perform:

- compliance testing of independence controls and processes;
- personal independence compliance testing of a random selection of, at a minimum, partners as a means of monitoring compliance with independence policies; and
- an annual assessment of PwC New Zealand's adherence with the PwC Global Independence Policy.

The results of our monitoring and testing are reported to the firm's management on a regular basis, with a summary reported to them on an annual basis.

There are disciplinary policies and mechanisms in place that are designed to promote compliance with independence policies and processes, and that require any breaches of independence requirements to be reported and addressed, with accountability for compliance feeding into the RAF.

Breach management would include discussion with the client's audit committee regarding the nature of the breach, an evaluation of the impact of the breach on the independence of the member firm and the need for safeguards to maintain objectivity. Although our experience tells us that most breaches are minor and attributable to an oversight, all breaches are taken seriously and investigated as appropriate. The investigations of any identified breaches of independence policies also serve to identify the need for improvements in our systems and processes and for additional guidance and training.

Non-audit services provided to audit clients – independence risk panel

Stakeholder expectations have been changing around the world as to the nature and level of non-audit services that are provided to audit clients. To respond to the changing expectations PwC New Zealand introduced a requirement in June 2019 for an independence risk panel to consider the independence perceptions over and above the formal requirements of the independence standards when initiating certain non-assurance services with audit clients.

Accepting governance roles

Partners and staff are prohibited from accepting directorships and other executive appointments with an audit client/related entity of any PwC firm. This prohibition applies regardless of whether the individual provides professional services to that audit client or related entity.

In response to a request from the FMA, PwC New Zealand introduced a formal reporting process led by the PRI for considering governance role appointment requests:

- by current partners nearing retirement wishing to join Boards and
- retired partners wishing to take up governance role appointments.

Consideration is given to many factors including: whether the client is an audit client of PwC New Zealand or another member firm, what role the partner had within PwC New Zealand and how many years post retirement the retired partner is.

Our people

People strategy

The foundation of audit quality is the quality of our people trusted to deliver the assurance. Our people strategy is focused on being the 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.

Examples of Audit Quality Measures – people

- Average staff retention rate
- Actual versus budgeted headcount

Diversity and inclusion

At PwC, we're committed to creating a culture of belonging. We are focused on diversity and fostering an inclusive environment in which our people are comfortable bringing their 'whole selves' to work, feel that they belong and are valued and are free to speak up. 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.

PwC New Zealand's diversity target aims 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.



PIP CAMERON
PEOPLE LEADER
– ASSURANCE

Wellbeing

The wellbeing of our people is important to us. We have a range of tools and programmes available including access to the Headspace app, Employee Assistance Programme (EAP) and our team of Mental Health First Aiders. We regularly organise wellbeing events which involve bringing in clinical experts and specialists as well as health and mindfulness challenges for our people. This year we offered our people the KYND app to provide physical, mental and social health insights from Dr Tom Mulholland. These initiatives helped our people care for themselves and their loved ones.

Recruitment

PwC New Zealand aims to recruit, train, develop and retain the best and the brightest people who share in the firm's strong sense of responsibility for delivering high-quality services. Our hiring standards include a structured interview process with behaviour-based questions built from The PwC Professional framework, assessment of academic records, and background checks. In FY20, we recruited over 300 new people, including 131 university graduates. In Assurance we recruited over 100 graduates and summer interns.

Team selection, experience and supervision

On audit engagements, the engagement leader must staff their work 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

We collect real time feedback on people performance, values and progression via our Snapshot tool, a simple, mobile-enabled technology. Snapshot captures data on five Assurance quality dimensions: accounting and technical knowledge, auditing skills, professional scepticism, issues management, review and supervision. We also use Workday to allow staff to provide real time feedback on an upwards and peer basis and complements Snapshot.

Career progression and The PwC Professional framework

PwC New Zealand uses The 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 and Coaches regularly to discuss their goals, objectives, development, progression and performance.

Professional development

Providing our people with the ability to meet their professional and personal commitments is a critical component of our people experience and retention strategy. Throughout our people's careers, they are presented with career development opportunities, classroom and on-demand learning, and on-the-job real time coaching/development. Our on-demand learning portfolio facilitates personalised learning with access to Continuing Professional Education (CPE) and non-CPE educational materials, including webcasts, podcasts, articles, videos, and courses.

Achieving a professional credential supports our firm's commitment to quality through consistent examination and certification standards. Our goal is to provide our staff with a more individualised path to progression and

support them in prioritising and managing their time more effectively when preparing professional exams.

Continuing education

We, and other PwC member firms, are committed to delivering quality assurance services around the world. To maximise consistency in the network the formal curriculum, developed at the network level, aligned with International Standards on Auditing, provides access to training materials covering the PwC audit approach and tools – this includes updates on auditing standards and their implications, as well as areas of audit risk and areas of focus for quality improvement.

This formal learning is delivered using a blend of delivery approaches, which include remote access, classroom learning, and on-the-job support. The curriculum supports our primary training objective of audit quality, while providing practitioners with the opportunity to strengthen their technical and professional skills, including professional judgement while applying a sceptical mindset.

Continuing education

Continuing education is a must for all our people. At the core of a good auditor is a natural curiosity to dig deeper, look further and be professionally sceptical.





The modular content along with innovative learning approaches has led to formal recognition from the broader learning community. In both 2017 and 2018, PwC's Learning and Education programme won a Brandon Hall Group silver award for excellence in the "Best Strategy for a Corporate Learning University" © 2017, 2018 Brandon Hall Group, Inc. The design of the curriculum allows us to select, based on local needs, when we will deliver the training. Our Learning & Education leader then considers what additional training is appropriate – formal and/or informal – to address any additional specific local needs. This localised curriculum focuses on areas identified through our real time assurance programme, results of engagement quality reviews, regulator focus areas and any other New Zealand specific areas impacting on client's financial reporting and our audit.

The delivery approach continues to evolve to respond to how our people learn. As demonstrated through the lockdown restrictions of COVID-19 we are able to continuously deliver learning opportunities. Regular training is provided through our 'Financial Assurance Live' (FAL) webex sessions supported by monthly audit knowledge quizzes. FALs are tailored to the hot topics arising from results of monitoring including inspections reviews, consultation themes and changes to the accounting and auditing standards.

All Licenced Auditors and Registered Auditors are required to comply with the International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements issued by the International Accounting Education Standards Board. Compliance with IES 8 is monitored internally. The objective of this IES is to ensure that Engagement Leaders develop and maintain professional competence that is able to be demonstrated by the achievement of specific learning outcomes in respect of key competence areas such as technical, professional skills and professional values, ethics and attitudes, as defined in IES 8. A prioritised learning plan to ensure this objective is met is developed by each Engagement Leader to identify their individual training needs and an assessment is completed on an annual basis to determine if learning outcomes have been met.

Examples of Audit Quality Measures – training

- Average training hours per audit professional
- Minimum number of hours of auditing and accounting training mandated by PwC and completed annually

Our audit approach

PwC New Zealand uses a range of cutting-edge methods, processes, technologies, and approaches to ensure continuous improvement in the quality and performance of our audit engagements.

The PwC Audit

The quality and effectiveness of an audit 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 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. 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.

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 and develop 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 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 greater quality and insight to our clients.

Approach +

We've built our audit around our people and our technology. We've designed it to give us more time with our clients, understanding the key areas of audit focus in their business. That's more time understanding client concerns, and more time focusing on the inherent risks we see, including how they change over time and how they compare with peer companies.

= The PwC Audit

Tools and technologies to support our audit

As a member of the PwC network, PwC New Zealand has access to and uses PwC Audit, a common audit methodology and process. This methodology is based on the International Standards on Auditing (ISAs), with additional PwC policy and guidance provided where appropriate. PwC Audit policies and procedures are designed to facilitate audits conducted in compliance with all ISA requirements that are relevant to each individual audit engagement. Our common audit methodology provides the framework to enable PwC member firms to consistently comply in all respects with applicable professional standards, regulations and legal requirements.



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 and consistently, 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



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 data 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 on which we can focus our audit testing 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, counters to record results directly onto their mobile device or tablet and engagement teams to export final results into Aura.

PwC's Confirmation System makes it easy for clients to return requested information securely. Automated, flexible technology means it works for virtually all confirmation types-from accounts receivable to derivatives to loans to inventory.

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 and automate portions of the audit.

Direction, coaching and supervision

Engagement leaders and senior engagement team members are responsible and accountable for providing quality coaching throughout the audit and supervising the work completed by junior members of the team. Teams utilise 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.

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 and quality, financial instruments valuation, actuarial, corporate finance, methodology and other specialities. Protocols exist to resolve the situations where a difference of opinion arises between the engagement leader and either the QRP, another Assurance partner or central functions such as the quality team.

Quality team

Our central teams comprises technical accounting, auditing, and financial reporting specialists as well as risk and quality. These specialists play a vital role in keeping our policies and guidance in these areas current by tracking new developments in accounting and auditing and providing those updates to professional staff.

Quality Review Partners (QRP)

Specific audit engagements are assigned a QRP (or EQCR) as part of the firm's system of quality management as required by professional standards. These senior individuals, who have the necessary experience and technical knowledge, are involved in the most critical aspects of the audit. For example, they independently assess and review the areas relating to 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.

Protecting data

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 adversely impact our reputation. We take the protection of confidential and personal data very seriously.

Our client focus 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 of Limit Protect Respect has enabled us to strengthen our information security organisation, align to industry good practice and improve our internal control frameworks.

Data privacy

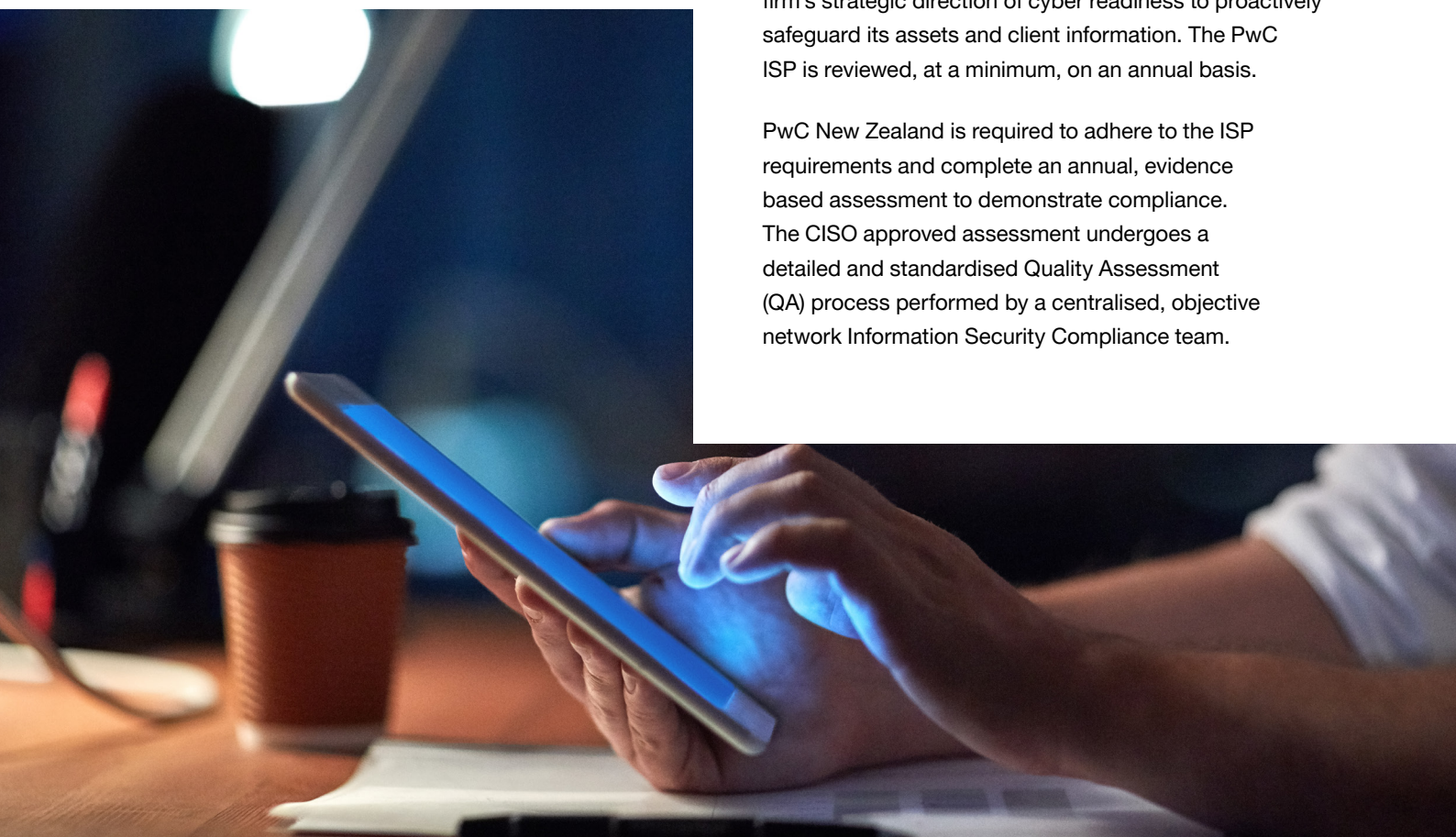
The firm maintains a robust and consistent approach to the management of all personal data, with everyone in our organisation having a role to play in safeguarding personal data. We have continued to build on our data protection readiness programme, to ensure compliance with applicable privacy laws, including the Privacy Act 2020. We are committed to embedding good data management practices across our business.

Information security

Information security is a high priority for the PwC network. Member firms are accountable to their people, clients, suppliers, and other stakeholders to protect information that is entrusted to them.

The PwC Information Security Policy (ISP) is aligned with ISO/IEC 27001, financial services industry standards, and other reputable frameworks (COBIT, NIST, etc.) as benchmarks for security effectiveness across the network of Member firms. 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 New Zealand 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.



Our legal and governance structure

CEO and Executive Leadership

Team: providing leadership

PwC New Zealand'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, and then a further term of two years. PwC New Zealand's CEO is Mark Averill, who was first elected in October 2016, and then re-elected for a further four year term in October 2020.

The CEO is also responsible for appointments to the firm's Executive Leadership Team and other senior management positions.

Under the CEO's leadership, the Executive Leadership Team 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 Leadership Team](#) can be found on PwC New Zealand's website.

Board of Partners: providing oversight

The [Board of Partners](#) 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, the Chair, and four partners who are all elected by partner vote. The names of the current members of the Board of Partners can be found on PwC New Zealand's [website](#).

Partners

Certain matters are reserved for partner vote. These matters include the election of the CEO, the Chair and members of the Board of Partners, 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.

All partners have an equal vote in all such matters. As at 1 July 2020 there were 124 partners in PwC New Zealand.



The 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, PricewaterhouseCoopers International Limited (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 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 Board does not have an external role. Board members are elected by partners from all PwC firms around the world every four years.
- **Network Leadership Team**, which is responsible for setting the overall strategy for the PwC network and the standards to which the PwC firms agree to adhere.
- **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 network firms to coordinate activities across all areas of our business.

APPENDIX:

Glossary of terms

A&C – Acceptance and Continuance

AA – Appointed Auditor

AQIs – Assurance Quality Indicators

Assurance – the line of service responsible for delivering assurance including audit, risk assurance and capital markets work.

CMAAS – Capital Market Accounting Advisory Services (our Accounting Technical team)

ECR – Engagement Compliance Reviews

EQCR – Engagement Quality Control Reviewer

FA – Financial Assurance

FMA – Financial Markets Authority

KAM – Key Audit Matter

Monthly audit knowledge quizzes – Quizzes completed by our people to test their audit knowledge

MVD – Market Value Direct (our financial instrument valuations team)

OAG – Office of the Auditor-General

PIE – Public interest entity

QRP – Quality Review Partners

R&Q – Risk and Quality

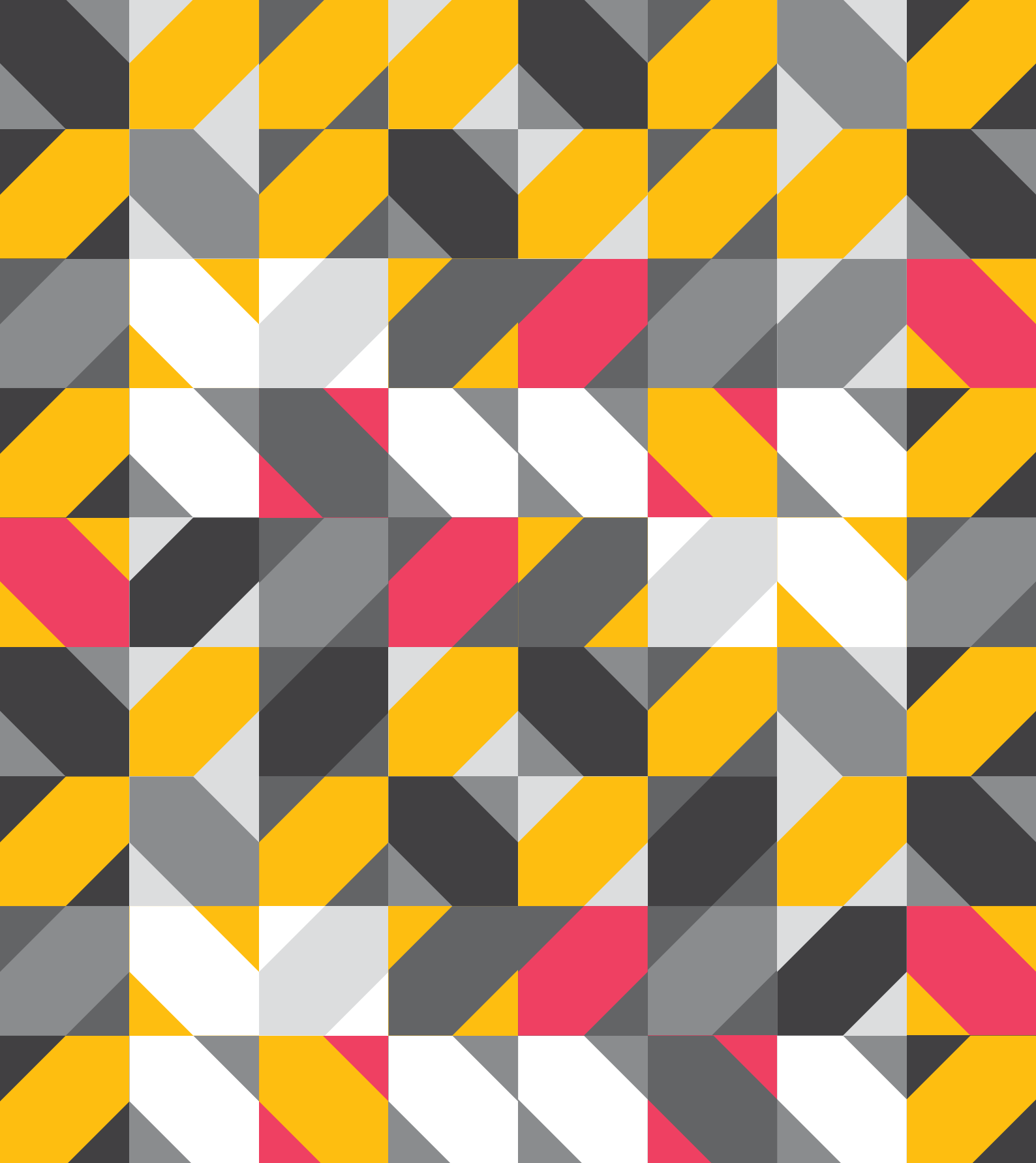
RA – Risk Assurance

RAF – Recognition and Accountability Framework

RTA – Real Time Quality Assurance

SoQM – System of Quality Management





This content is accurate as at 2 December 2020. This content is for general information purposes only, and should not be used as a substitute for consultation with our professional advisors. To find an advisor and to see more of our general guidance for businesses, please visit our website at www.pwc.co.nz

© 2020 PricewaterhouseCoopers New Zealand. All rights reserved. 'PwC' and 'PricewaterhouseCoopers' refer to the New Zealand 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.