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# *PricewaterhouseCoopers AG*

## Transparency Report 2017

26 October 2017



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# Introduction

The Transparency Report is published in accordance with Art. 40(1) and Sec. 33 (b) (iii) of Directive 2014/56/EU of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts Art. 45(5) (e) and Art. 13 of Regulation (EU) No 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC of the Directive on Statutory Audits of annual accounts and consolidated accounts 2006/43/2014/537/EC.

This Transparency Report relates to the Financial Year ending 30 June 2017 (“the 2016/17 Financial Year”).

This Transparency Report was approved by the Board of Directors of PricewaterhouseCoopers AG and signed on its behalf by Dr. Markus R. Neuhaus (Chairman of the Board of Directors) and Urs Honegger (Delegate of the Board of Directors and CEO) on 26 October 2017.

## Legal structure and ownership of the firm

PricewaterhouseCoopers AG, Zurich, a Swiss limited liability company, is the operating company of the PwC group of companies in Switzerland and Liechtenstein. The company provides a range of assurance and consulting services. Its business is organised in four lines of services: Assurance, Tax & Legal, Advisory and Internal Firm Services.

All shares of PricewaterhouseCoopers AG are held by PricewaterhouseCoopers Holding GmbH, Zurich ("PwC Holding").

PwC Holding is held by the partnership PwC Partner, Urs Honegger, Markus Neuhaus & Co., Zurich, (hereinafter "PwC Partner") a limited Partnership ("Kommanditgesellschaft") as defined in the Swiss Code of Obligations. The members of PwC Partner are the ultimate holders of PricewaterhouseCoopers AG. All have an employment contract with PricewaterhouseCoopers AG and are commonly referred to as "Partners".

The Partners' Meeting of PwC Partner is, inter alia, responsible for electing the Chairman and the Territory Senior Partner. The Territory Senior Partner acts as CEO of PricewaterhouseCoopers AG. In the Partners' Meeting each Partner has one vote.

As of 30 June 2017 there were 181 Partners in the four lines of services:

- 88 Assurance Partners
- 56 Tax & Legal Partners
- 32 Advisory Partners
- 5 Internal Firm Services Partners

PricewaterhouseCoopers AG operates in 14 offices: Aarau, Basel, Bern, Chur, Geneva, Lausanne, Lugano, Lucerne, Neuchâtel, Sion, St. Gallen, Winterthur, Zug and Zurich.

## The PwC Network and its governance

### The PwC Network

PwC is a global Network of separate firms, operating locally in countries around the world. PwC firms are members of PricewaterhouseCoopers International Limited and have the right to use the PricewaterhouseCoopers name. As members of the PwC Network, PwC firms share knowledge, skills and resources. This membership facilitates PwC firms to work together to provide high-quality services on a global scale to international and local clients, while retaining the advantages of being local businesses – including being knowledgeable about local laws, regulations, standards and practices.

Being a member of the PwC Network means firms also agree to abide by certain common policies and maintain the standards of the PwC Network. Each firm engages in quality-control and compliance monitoring activities, covering the provision of services, ethics and business conduct, and the compliance with specific, strict standards for independence monitoring and protection.

### The PwC Network firms and total turnovers

Member State	Name of firm
Austria	PwC Wirtschaftsprüfung GmbH, Wien
Austria	PwC Oberösterreich Wirtschaftsprüfung und Steuerberatung GmbH, Linz
Austria	PwC Kärnten Wirtschaftsprüfung und Steuerberatung GmbH, Klagenfurt
Austria	PricewaterhouseCoopers Vorarlberg Wirtschaftsprüfungs GmbH, Dornbirn
Austria	PwC Steiermark Wirtschaftsprüfung und Steuerberatung GmbH, Graz
Austria	PwC Salzburg Wirtschaftsprüfung und Steuerberatung GmbH, Salzburg
Austria	PwC Österreich GmbH, Wien
Belgium	PwC Bedrijfsrevisoren bcvba/Reviseurs d'entreprises scrl
Belgium	PwC Audit Services SPRL
Bulgaria	PricewaterhouseCoopers Audit OOD
Croatia	PricewaterhouseCoopers d.o.o
Cyprus	PricewaterhouseCoopers Limited
Czech Republic	PricewaterhouseCoopers Audit s.r.o
Denmark	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab
Estonia	AS PricewaterhouseCoopers
Finland	PricewaterhouseCoopers Oy
Finland	PwC Julkistarkastus Oy

Member State	Name of firm
France	PricewaterhouseCoopers Audit SAS
France	PricewaterhouseCoopers Entreprises SARL
France	Diagnostic Révision Conseil SAS
France	PricewaterhouseCoopers PME Commissariat aux comptes
France	PricewaterhouseCoopers PME CAC
France	PricewaterhouseCoopers France
France	Ampersand Audit
France	Ampersand Associés
France	FNP Commissaires Associés
France	Fiduciaire d'Expertises Comptables et d'Etudes Economiques – Fidorex
France	Société Fiduciaire d'Expertise Comptable et de Révision – Sofecor
France	M. Philippe Aerts
France	M. Jean-François Bourrin
France	M. Jean-Laurent Bracieux
France	M. Didier Brun
France	M. Didier Cavanie
France	M. Hubert de Rocquigny
France	M. François Miane
France	M. Yves Moutou
France	M. Claude Palméro
France	M. Antoine Priollaud
Germany	PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft
Germany	Wibera WPG AG
Germany	PwC FS Tax GmbH Wirtschaftsprüfungsgesellschaft
Greece	PricewaterhouseCoopers Auditing Company SA
Hungary	PricewaterhouseCoopers Könyvvizsgáló Kft.
Iceland	PricewaterhouseCoopers ehf
Ireland	PricewaterhouseCoopers
Italy	PricewaterhouseCoopers Spa
Latvia	PricewaterhouseCoopers SIA
Liechtenstein	PricewaterhouseCoopers GmbH, Vaduz
Lithuania	PricewaterhouseCoopers UAB
Luxembourg	PricewaterhouseCoopers, Société coopérative
Malta	PricewaterhouseCoopers
Netherlands	PricewaterhouseCoopers Accountants N.V.
Netherlands	Coöperatie PricewaterhouseCoopers Nederland U.A
Norway	PricewaterhouseCoopers AS
Poland	PricewaterhouseCoopers Polska sp. z.o.o.

Member State	Name of firm
Poland	PricewaterhouseCoopers sp. z.o.o.
Portugal	PricewaterhouseCoopers & Associados-Sociedade de Revisores Oficiais do Contas Lda
Romania	PricewaterhouseCoopers Audit S.R.L.
Slovak Republic	PricewaterhouseCoopers Slovensko s.r.o.
Slovenia	PricewaterhouseCoopers d.o.o.
Spain	PricewaterhouseCoopers Auditores, S.L.
Sweden	PricewaterhouseCoopers AB
Sweden	Ohrlings PricewaterhouseCoopers AB
UK	PricewaterhouseCoopers LLP
UK	PricewaterhouseCoopers AS LLP
UK	James Chalmers
UK	Richard Sexton

The total turnover achieved by statutory auditors and audit firms (i.e. from EU or EEA Member States) that are members of the PwC network resulting from the statutory audit of annual and consolidated financial statements is approximately Euros 3 billion. This represents the turnover from each entity's most recent financial year converted to Euros at the exchange rate prevailing at that financial year end date.

#### PricewaterhouseCoopers International Limited

PricewaterhouseCoopers International Limited ("PwCIL") is a UK private company limited by guarantee. PwCIL acts as a coordinating entity for PwC firms and does not practise accountancy or provide services to clients. PwCIL works to develop and implement policies and initiatives to create a common and coordinated approach for PwC firms in key areas such as strategy, brand, risk and quality. PwC firms use the PwC name and draw on the resources and methodologies of the PwC Network. In return, PwC firms are required to comply with common policies and the standards of the PwC Network.

A PwC firm of PwCIL cannot act as agent of PwCIL or any other PwC firm, and it is only liable for its own acts or omissions and not those of PwCIL or any other PwC firm. PwCIL has no right or ability to control any 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 of the Network, agrees the strategic direction of the Network and facilitates alignment for the execution of strategy.
- **Network Executive Team** is appointed by and reports to the Network Leadership Team. Its members are responsible for leading teams drawn from Network firms to coordinate activities across all areas of our business.

Urs Honegger, the CEO of PricewaterhouseCoopers AG, is a member of the Strategy Council and maintains the relationships with the Network Leadership Team.

Julie Fitzgerald, member of the Management Board of PricewaterhouseCoopers AG, is a member of the Network Executive Team.

Clive Bellingham, Partner in Advisory of PricewaterhouseCoopers AG, has been a member of the Global Board since 15 April 2013.

# Governance structure of the firm

## Board of Directors

During the 2016/17 Financial Year, the Board of Directors of PricewaterhouseCoopers AG comprised:

- Dr. Markus R. Neuhaus (Chairman)
- Urs Honegger (Delegate)
- Heinz Hartmann (Member)

The Board of Directors has the mandatory responsibilities set out in the Swiss Code of Obligations and meets around six times per year.



Urs  
Honegger

Markus R.  
Neuhaus

Heinz  
Hartmann



Urs  
Honegger



Heinz  
Hartmann



Julie  
Fitzgerald



Alex  
Astolfi



Wolfgang  
Rieder



Andreas  
Staubli



Matthias  
Jeger



Markus R. Neuhaus

## Management Board

The management of the firm, subject to the responsibilities of the Board of Directors, is delegated to the Management Board. The Management Board is responsible for the overall management of the firm and holds monthly meetings.

The members of the Management Board in the 2016/17 Financial Year were:

- Urs Honegger (CEO)
- Heinz Hartmann (COO/CFO)
- Julie Fitzgerald (Growth & Markets Leader)
- Alex Astolfi (Assurance Leader)
- Wolfgang Rieder (Advisory Leader)
- Andreas Staubli (Tax & Legal Services Leader) until 30 June 2017
- Dieter Wirth (Tax & Legal Services Leader) as of 1 July 2017
- Matthias Jeger (Quality & Regulatory Affairs Leader)

## Swiss Oversight Board

The Swiss Oversight Board carries out an oversight role in the interest of the partnership as a whole. Its responsibilities are defined in the partnership agreement of PwC Partner and include the monitoring of the Management Board's performance.

The Swiss Oversight Board comprises of ten members, including the Chairman. The members are elected by the partners for a period of three years. Dr. Markus R. Neuhaus has been Chairman since 1 July 2012 and has been re-elected for a last period from 1 July 2017 until 30 June 2019.

# Internal quality control system

## Introduction

The following is a summary of the system of quality control that PricewaterhouseCoopers AG has adopted to oversee its auditing practice.

The member firms of the PwC Network come together through membership of PricewaterhouseCoopers International Limited ("PwCIL"), an English company limited by guarantee, with each member firm being a separate and independent legal entity. As part of the PwC Network, all member firms are obliged to abide by certain risk and quality policies issued by PwCIL and to conduct risk and quality reviews. The PwC Network audit and quality control standards are set out in various policies. PricewaterhouseCoopers AG's policies are based on these global policies, which are supplemented in order to comply with local professional standards and regulatory requirements.

## Quality Control Standards

Compliance with International Standards on Auditing ("ISA") requires PricewaterhouseCoopers AG to have a system of quality control over its auditing practice. These controls constitute an integral part of PricewaterhouseCoopers AG's day-to-day activities. The quality control system complies with the International Standard on Quality Control 1 ("ISQC 1"), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", issued by the International Federation of Accountants ("IFAC"). The IFAC standards and requirements, and therefore PricewaterhouseCoopers AG's quality control system, encompass the following six elements of quality control:

1. Leadership Responsibilities for Quality within the Firm
2. Relevant Ethical Requirements
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Human Resources
5. Engagement Performance
6. Monitoring

## 1. Leadership Responsibilities for Quality within the Firm

PricewaterhouseCoopers AG's leadership is committed to audit quality and has established a corporate culture embracing high standards of independence and professional ethics. This is embedded throughout the detailed policies issued by the firm's leadership, and also in the guidelines discussed below in relation to the relevant ethical requirements, human resources and engagement performance. This is also demonstrated by the dedication of resources to quality. In Assurance, the Risk Management Partner ("RMP") and the Chief Quality Officer ("CQO") are the two partners who are responsible for risk management and quality control, respectively. They have the requisite experience and authority to assume their responsibilities. Both partners are members of the Assurance Executive Board. Additionally the CQO is in his function as Leader of Quality & Regulatory Affairs a member of the Management Board of PricewaterhouseCoopers AG.

## 2. Relevant Ethical Requirements

At PwC, we adhere to 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.

In addition, our Network Standards applicable to all Network firms cover a variety of areas including ethics and business conduct, independence, anti-money laundering, anti-trust/anti-competition, anti-corruption, information protection, firm's and partner's taxes, sanctions laws, internal audit and insider trading. We take compliance with these ethical requirements seriously and strive to embrace the spirit and not just the letter of those requirements. All partners and staff undertake regular mandatory trainings and assessments, as well as submitting annual compliance confirmations, as part of the system to support appropriate understanding of the ethical requirements under which we operate. Partners and staff uphold and comply with the standards developed by the PwC Network and leadership in PricewaterhouseCoopers AG monitors compliance with these obligations.

PricewaterhouseCoopers AG has adopted the PwC Network Standards which include a Code of Conduct, and related policies that clearly describe the behaviours expected of our partners and other professionals – behaviours that will enable us to earn the trust that we seek. Because of the wide variety of situations that our professionals may face, our standards provide guidance under a broad range of circumstances, but all with a common goal – to do the right thing.

Upon hiring or admittance, all staff and partners of PricewaterhouseCoopers AG are provided with a copy of the PwC global and local Code of Conduct. They are expected to live by the values expressed in the code in the course of their professional careers.

## 3. Acceptance and Continuance of Client Relationships and Specific Engagements

### Considerations in accepting and continuing an audit client relationship

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, and have appropriately considered the integrity of the client. 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

PricewaterhouseCoopers AG 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 of 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.
- Member firms (including member firm leadership and risk management):
  - to facilitate the evaluation of the risks associated with accepting or continuing with clients and engagements;
  - 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 all other member firms in the Network have applied in assessing audit acceptance and continuance.

#### 4. Human Resources

PricewaterhouseCoopers AG partners and staff regularly receive comprehensive information on the culture, values and core attributes of PwC – Quality, Trust, Teamwork, Excellence and Leadership. PricewaterhouseCoopers AG aims to recruit only high-quality staff who are able to work as experts in accounting and other domains in support of audits and who share PricewaterhouseCoopers AG's strong sense of responsibility for auditing. The quality of new employees is assessed by means of a robust and comprehensive process.

**Professional Development:** Training and development is an ongoing process. Training starts when a person is hired and continues throughout his or her career. Our people participate in a variety of local, regional and international formal training courses and they will also be trained through on-the-job coaching and supervision.

**Supervision and Direction:** Each engagement partner is responsible, in consultation with others as appropriate, for staffing engagements with partners and staff that have the professional competence and experience required in the circumstances. Furthermore, each engagement partner is ultimately responsible for determining the extent of direction, supervision and review of the work of less experienced staff to whom work is delegated.

#### 5. Engagement Performance

**Consistent Global Methodology:** PricewaterhouseCoopers AG uses a consistent audit methodology and process for audit engagements. The methodology is enhanced as necessary to respond to the changing environment. All audit engagement partners and staff receive ongoing training in this methodology.

**Comprehensive Policies and Procedures:** To complement PwC's global guidelines, PricewaterhouseCoopers AG has in place comprehensive policies and procedures governing our local accounting and auditing practice. These are updated on an ongoing basis to reflect new technical developments and changes in the economic environment. These policies cover not only professional and regulatory guidelines, but also reflect the guidance that PricewaterhouseCoopers AG provides to its staff and partners about how best to implement them. They are available in electronic form and are accessible at all times.

**Risk and Quality:** Technical consultation is a key element of quality control. PricewaterhouseCoopers AG has formal guidelines setting out the circumstances under which consultation is mandatory. Our consultative culture also means, however, that our engagement teams regularly consult with other experts beyond the scope of the formal requirements.

PricewaterhouseCoopers AG is supported by an Assurance Technical Office ("ATO"). The ATO also tracks new developments in accounting and auditing and regularly provides updates on these to assurance staff and partners.

#### PwC Audit

As a member of the PwC Network, PricewaterhouseCoopers AG also 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. This is supplemented with our local territory professional and regulatory requirements for limited statutory examinations of small and medium-sized entities and for regulatory audits in the financial service industry.

#### Aura

As a member of the PwC Network, PricewaterhouseCoopers AG has access to and uses Aura, which is the application that powers PwC's audits and supports its Assurance practices. It provides engagement teams with an application that integrates a broad range of capabilities, including built-in tools to promote audit quality, consistency and ease of documentation. Aura also integrates with a variety of other tools and applications, creating one work space for client work. Our audit work is planned, executed and documented using Aura which supports teams in applying our methodology effectively, by creating a transparent linkage between risks identified and the work done to address those risks, as well as providing comprehensive project management capabilities.

The PwC Audit Guide explains PwC's methodology. The Guide along with PwC's technology-based audit support tools, templates and content support engagement teams in conducting assurance and related services engagements.

#### Developed technology

We continue to invest in audit technology that builds quality into the audit and enhances our ability to provide insights to our clients. Our technology is built and implemented globally ensuring consistency across the PwC Network.

These new tools that enhance audit quality and efficiency through automation, connectivity and mobility include:

- **Aura Now** is an online, multi-engagement dashboard tool that allows teams to monitor progress towards completion and other key information across their portfolio of Aura engagement databases. It visualises the progress of an engagement, which enables our people to prioritise their efforts. It also provides information regarding readiness for file archiving to assist in preparing for and timing of archiving the audit file.
- **Count** is an electronic portal that allows our teams to create instructions for our teams to execute and document all aspects of an inventory count observation electronically. It was built by PwC in response to feedback from teams that using a mobile device would improve the quality and execution of inventory counts.
- **Connect** is our collaborative workflow tool, providing fast, efficient and secure information sharing at every stage of the audit. It monitors the status of requests and information between our clients and the engagement team on a real time basis. Connect provides visibility for both our clients and us to be able to check progress on the go, anytime, anywhere.
- **Halo** is our new data auditing suite of tools allowing us to identify and assess risks and determine where to focus on audit efforts. The analytical and visualisation capabilities allow us to analyse patterns and trends, identifying unusual and high-risk transactions and to provide invaluable insight to both ourselves and our clients. Halo comprises four key components – acquisition of client data, transformation of data and applications for automated testing and analysis of data. For example, Halo for Journals allows engagement teams to gather all journal entries and utilise built-in functionality to apply engagement-specific criteria designed to aim at testing on higher risk entries.

## 6. Monitoring

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

PricewaterhouseCoopers AG is responsible for monitoring the effectiveness of its quality control systems. This includes effective monitoring processes aimed at evaluating whether the policies and procedures which constitute our Quality Management System are designed appropriately and operating effectively to provide reasonable assurance that our audit engagements are performed in compliance with laws, regulations and professional standards.

Our firm's monitoring program is based on the PwC Network's Global Assurance Quality Review (GAQR) Program. This program which is based on professional standards relating to quality control including ISQC1, contains policies, procedures, tools and guidance which are used by PwC Network firms. The GAQR program is coordinated by a central team which consists of a GAQR Leader with a group of International Team Leaders (ITL) who are senior partners seconded to the GAQR central team by PwC member firms. Provision of oversight by the ITLs and their continuous involvement and support enable a consistent and effective performance of reviews across the PwC Network.

Our firm's monitoring procedures include an ongoing assessment of the design and effectiveness of our quality management system, as well as a review of completed engagements (Engagement Compliance Reviews - ECR). The results of these procedures form the basis for the continuous improvement of our quality management system.

ECRs are risk-focused reviews of completed engagements covering, on a periodic basis, individuals in our firm who are authorized 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 engagement related policies and procedures.

Reviews are led by experienced Assurance partners, 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 utilize a range of GAQR-approved checklists and tools when conducting their review procedures.

The results of the quality reviews are reported to our firm's leadership who is 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 sanctions in accordance with our firm's accountability framework.

Partners and employees of our firm are informed about the review results and the actions taken to enable them to draw the necessary conclusions for the performance of engagements. In addition, the GAQR 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 firms which enables our partners to consider these findings in planning and performing their audit work.

Quality monitoring is an integral part of PricewaterhouseCoopers AG's continuous improvement programme. PricewaterhouseCoopers AG constantly evaluates inputs from formal programmes and a variety of informal sources in an ongoing effort to improve policies, procedures and the consistency of work quality. Instances of failure to meet performance standards are treated very seriously and the partner responsible is instructed to improve performance. Appropriate steps are taken to achieve improvement through all possible means, including, where appropriate, the imposition of financial penalties.

On the basis of the reviews performed as outlined above, the Management Board of PricewaterhouseCoopers AG is satisfied that PricewaterhouseCoopers AG's internal quality control system is operating effectively. Any matters identified through the various monitoring and review processes are addressed with appropriate corrective actions.

## Root cause analysis

We perform analyses to identify potential factors contributing to our firm's audit quality so that we can take actions to continuously improve. One of our primary objectives when conducting such analyses is to identify how our firm can provide the best possible environment for our engagement teams to deliver a quality audit. We look at audits both with and without deficiencies—whether identified through our own internal inspections process or through external inspections—to help identify possible distinctions and learning opportunities.

For individual audits, a team of reviewers that is independent from the engagement team identifies potential factors contributing to the quality of the audit. We consider factors relevant to technical knowledge, supervision and review, professional scepticism, engagement resources and training, among others. Potential causal factors are identified by evaluating engagement information, performing interviews, and reviewing audit working papers, as appropriate to understand the factors that may have contributed to audit quality (the "why of the why").

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, whether the engagement was subject to a pre-issuance review, 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 practise. We believe these analyses contribute significantly to the continuing effectiveness of our quality controls.

## External inspections

PricewaterhouseCoopers AG is eligible to undertake statutory audit work by virtue of the authorisation granted to it by the Federal Audit Oversight Authority ("FAOA"). Each year, as part of its monitoring responsibilities, the FAOA undertakes an inspection of the quality of PricewaterhouseCoopers AG's work as statutory auditor.

The FAOA reviews both the member firm's system of quality control, as well as a selection of individual engagements.

PricewaterhouseCoopers AG has been inspected every year since 2008. The 2016 inspection by the FAOA included detailed engagement reviews of FY15 audits. The FAOA issued their report in June 2017.

As every third year the FAOA and the US Public Company Accounting Oversight Board ("PCAOB") are conducting a joint inspection in 2017.

Based on their earlier inspections, the FAOA confirmed PricewaterhouseCoopers AG's continuing authorisation to carry out statutory audit work in Switzerland. The findings raised by the FAOA review were included in PricewaterhouseCoopers AG's remediation plan and contribute to the quality in Assurance services.

## Public interest audit clients listed on an EU regulated market

The list of audit clients below shows the legally required information only.

During the period covered by this Transparency Report, PricewaterhouseCoopers AG prepared audit reports for public interest audit clients incorporated outside the EU which have bonds or equity securities listed on an EU regulated market.

Audit client	Listed at
ARYZTA AG	Irish Stock Exchange (ISE)
BB Biotech AG	Deutsche Börse, Italian Stock Exchange (Borsa Italiana)
Cavotec SA	Nasdaq OMX Stockholm
EDAG Engineering Group AG	Deutsche Börse
EFG International AG	Luxembourg Stock Exchange (LuxX)
Eurofima Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial	Bolsa de Madrid (BME), Deutsche Börse, London Stock Exchange (LSE)
General Exploration Partners, Inc.	Oslo Stock Exchange (Norway)
GeNeuro SA	Euronext Paris
Highlight Communications AG	Deutsche Börse
International Petroleum Corporation	Nasdaq OMX Stockholm
Novartis AG	London Stock Exchange (LSE)
Philip Morris International Inc.	Euronext Paris
Shamaran Petroleum Corporation	Nasdaq, OMX Stockholm
Swiss Life AG	Irish Stock Exchange (ISE), Luxembourg Stock Exchange (LuxX)
Swiss Re Corporate Solutions Ltd	Irish Stock Exchange (ISE)
Swiss Reinsurance Company Ltd	Irish Stock Exchange (ISE)
Zürich Versicherungs-Gesellschaft AG	Deutsche Börse, Luxembourg Stock Exchange (LuxX)

# Independence

As auditors of financial statements and providers of other types of professional services, PwC firms and their 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.

## Organisation

PwC Switzerland's General Counsel and Territory Risk Management Partner, a partner with appropriate seniority and standing within the firm, is designated as the "Partner Responsible for Independence" ("PRI"). The PRI is responsible for the implementation of the Independence Policies including managing the related independence processes which ensure that partners and staff are knowledgeable about independence matters and providing support to the business. The PRI reports directly to the Territory Senior Partner / CEO of the firm.

## Policies and practices

The PwC Network's Independence Policy, which is based on the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA"), contains minimum standards with which PwC member firms have agreed to comply with, including processes that are to be followed to maintain independence from clients, when necessary.

The independence requirements of the United States Securities and Exchange Commission ("SEC"), those of the PCAOB as well as those of the new EU audit legislation are, in certain instances, more restrictive than the firm's policy. Given the reach of these requirements and their impact on PwC network firms, the firm's policy identifies key areas where these requirements are more restrictive.

PricewaterhouseCoopers AG also supplements the PwC Network's Independence Policy as required by more restrictive local regulation in Swiss and Liechtenstein law, in Swiss Financial Market Supervisory Authority ("FINMA") regulations and in the Guidelines on Independence of EXPERTsuisse (former Swiss Institute of Certified Accountants and Tax Consultants).

The firm's independence policy covers, inter alia, 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 the Statements of Permitted Services ("SOPS"), which provide practical guidance on the application of the policy in respect of non-audit services to assurance clients and related entities; and
- business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on the purchasing of goods and services acquired in the normal course of business.

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

These policies and processes are designed to help PwC comply 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.

The independence requirements of the United States Securities and Exchange Commission ("SEC") and those of the PCAOB are, in certain instances, more restrictive than the firm's policy. Given the reach of these requirements and their impact on PwC firms, the firm's policy identifies key areas where these requirements are more restrictive. The Independence Policy will shortly be additionally enhanced with more stringent restrictions based on the new EU audit legislation. Until then, compliance with the EU rules is ensured through ad interim consultation processes within the PwC.

## Independence-related tools

As a member of the PwC Network, the firm has access to a number of tools which support PwC member firms and their personnel in executing and complying with the 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 status of clients of the firm before entering into a new non-audit engagement or business relationship. This system drives the 'Independence List' and also feeds Independence Checkpoint;
- the Independence Checkpoint ("Checkpoint") which facilitates the pre-clearance of publicly traded securities by all partners, directors and practise managers before acquisition and records their subsequent purchases and disposals. Where a member firm wins a new audit client, this system automatically informs those holding securities in that client of the requirement to sell the relevant securities where required;
- the Authorisation for Services ("AFS") system, which is a global system that facilitates communication between a non-audit services engagement leader and the audit engagement leader, documenting the potential independence threats of the service and proposed safeguards, and acts as a record of the audit partner's conclusion on the acceptability of providing 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). PricewaterhouseCoopers AG also has a number of Switzerland-specific systems, which include:
  - a rotation-tracking system which monitors compliance with the firm's audit-rotation policies for engagement leaders, other key audit partners and leading staff involved in an audit; in cases where the EU legislation becomes applicable, the system in question can adequately monitor compliance with the requirements of the EU-regulation 537-2014, art. 17 paragraph 7, according to which the rotation of audit partners responsible for carrying out a statutory audit follows a 7/3 rhythm; and
  - a database that records all approved business relationships entered into by PricewaterhouseCoopers AG. These relationships are reviewed on a six-monthly basis to ensure their ongoing permissibility.

## Training and confirmations

PricewaterhouseCoopers AG provides all partners and staff with annual training in independence matters. Various milestone training courses relevant to a change in position or role are offered. Additionally, all partners and staff annually receive mandatory computer-based training on the firm's independence policies and compliance-related topics. Face-to-face training, e.g. on the provision of services, is delivered to partners and staff members on an as-needed basis by the firm's independence specialists and risk and quality teams. Completion of all independence training courses is monitored and non-completion can lead to disciplinary actions being taken.

PricewaterhouseCoopers AG requires all partners and staff, first when joining the firm and annually thereafter, to confirm their compliance with all aspects of the firm's independence policy, including their own personal independence. In addition, all partners and directors confirm that all services and business relationships for which they are responsible comply with policy and that the firm's processes have been followed in accepting these engagements and relationships. These confirmations serve two primary purposes: To identify any threats to independence that may have arisen; and to provide a periodic reminder of the firm's independence policies and procedures. These annual confirmations are supplemented by periodic and ad-hoc engagement-level confirmations for all assurance clients of the firm.

**Independence monitoring and disciplinary policy**

The effectiveness of our quality control system in managing compliance with independence requirements is subject to internal reviews on an ongoing basis. In addition to the confirmations described above this is achieved through a monitoring and testing programme, which includes the following:

- quality-control reviews of engagements to confirm compliance with risk-management processes, including independence;
- personal-independence-compliance testing of a random selection of partners and leading staff;
- compliance testing of independence controls and processes; and
- annual assessment of the firm's adherence to the PwC Network's independence-risk-management standards.

In addition, policies and guidances are reviewed and revised whenever changes occur, such as updates to laws and regulations, when PwC Network policies and guidances change or as a result of the above mentioned reviews or findings of our monitoring and testing programme.

The results of PricewaterhouseCoopers AG's monitoring and testing programme are reported to its management on a regular basis.

The investigations of any identified breaches of independence policies also serve to identify the need for improvements in the firm's systems and processes and for additional guidance and training.

**Disciplinary Policy**

PwC member firms are required to have disciplinary policies and mechanisms in place to promote compliance with independence policies and processes, and to report and address any breach of independence requirements.

This would include discussion with the client's audit committee or those charged with governance regarding the nature of the breach, an evaluation of the impact of the breach on the independence of the firm and the need for safeguards to maintain objectivity. Although most breaches are minor and attributable to an oversight, all breaches are taken seriously and investigated as appropriate.

At PricewaterhouseCoopers AG, a partner or staff member may be subject to a warning, reprimand, financial penalty or another disciplinary action (including dismissal) for a violation of independence policy.

## Continuing professional education of partners and staff in auditing

PricewaterhouseCoopers AG, and the other PwC firms in the Network are committed to delivering quality audits around the world. To maximise consistency in the Network, a formal curriculum developed at the Network level provides access to courses covering the PwC audit approach and tools, updates on auditing standards and their implications, and areas of audit risk and engagement quality.

This formal learning is delivered using blended learning, which includes remote access and classroom learning. This learning supports our focus on audit quality and provides our practitioners with the opportunity to sharpen their professional judgement, scepticism, technical and professional skills.

Our Learning & Education leader then considers what additional training is appropriate – formal and/or informal – to address specific local needs in the way of videos, workshops and forums for staff to share their experiences. This training is then supplemented with learning from others, whether by receiving and discussing feedback, or by shadowing, observing and/or working with others in order to support them on the job.

PricewaterhouseCoopers AG's internal training includes a broad range of technical content, as well as business and personal skills programmes. There are also specific training programmes available for partners and staff with clients in specialised industries. The content and delivery of training programmes are reviewed for compliance with the PwC global training policies. Their effectiveness is assessed by means of a number of feedback mechanisms. The high quality of training is ensured by the employment of instructors with appropriate expertise and experience.

PricewaterhouseCoopers AG maintains documents that are updated on an ongoing basis and are accessible by all assurance-practice partners and staff. These cover the policy, procedure and methodology for audit services, and include a collection of Swiss and international accounting, auditing and professional ethical standards. To ensure that their knowledge remains up to date, partners and staff receive regular communications on technical and regulatory developments as they arise. In relation to auditing, accounting and regulatory requirements, partners and staff have access to support from industry specialists in the relevant fields.

In the 2016/17 Financial Year, the Assurance training comprised the following:

- several technical-update training courses and various e-learning programmes for partners and experienced staff. The training focused on technical innovation. It also dealt with topics such as risk management, independence, audit methodology and accounting, which required enhanced knowledge due to regulatory inspection procedures;
- core training for less experienced staff to undertake the work assigned to them and develop their professional skills; and
- milestone training events (such as the New Manager Conference) for staff assuming a new role or promoted to one.

Completion of mandatory training is monitored. Failure to complete mandatory training by set deadlines results in disciplinary action being taken against the partner or staff member concerned.

In addition, PricewaterhouseCoopers AG has a national non-mandatory training programme and runs additional training events on site, as and when required.

Through their participation in the internal objective-setting and performance-appraisal processes, engagement leaders identify the current personal development needs of our staff, including those relating to the quality of work. Unsatisfactory work results in reduced performance-based remuneration.

The PwC Global Code of Conduct and PricewaterhouseCoopers AG's Code of Conduct set expectations with regard to behaviour and values. Mandatory ethics and business-conduct training cover the Code of Conduct, as well as topics related to professional ethics, auditing, accounting and other regulatory matters.

PricewaterhouseCoopers AG also monitors compliance with continuing professional development requirements, including the completion of mandatory training programmes, so that the services the firm provides are delivered by staff who have the appropriate experience and qualifications as required by the relevant legislation and/or professional regulations.

## Financial information

An analysis of the gross fee revenues of PwC Switzerland for the financial year ending 30 June is shown below:

Financial information (new requirements)	FY2017	FY2016
(i) Total audit revenue for clients listed in the EU/EEA;	56	54
(ii) All other revenue.	821	798
<b>Total</b>	<b>876</b>	<b>852</b>

Gross fee revenue includes fees earned by partners and staff of other PwC firms working on PwC Switzerland mandates as well as invoices incurred by PwC and invoiced to clients. The figure excludes value added tax.

## Remuneration

Partners are remunerated solely by PricewaterhouseCoopers AG, except for the annual interest on partners' capital, which is being paid by PwC Partner, Urs Honegger, Markus Neuhaus & Co, and except for the 3 Swiss Strategy& Partners who are being compensated from the funds generated by the GSA Joint Venture and paid through PricewaterhouseCoopers AG. Audit partners are not permitted to be incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients. The individual remuneration of the partners is based on the Partner Income System which is applied to all partners.

The partners' remuneration comprises three interrelated profit-dependent components:

- Responsibility income – reflecting the partner's current responsibilities
- Performance income – reflecting how a partner has performed
- Equity income – reflecting the overall profitability of the firm

The weighting of the above criteria varies depending on the roles and responsibilities.

The final allocation to individual partners is made by the Management Board of PricewaterhouseCoopers AG, once their performance has been assessed and the annual financial statements have been approved. Each partner's performance remuneration is determined by assessing achievements against an individually-tailored balanced scorecard of objectives, based on the partner's role. These objectives include ensuring that we deliver quality services and maintain our independence and integrity.

The Board of Directors of PricewaterhouseCoopers AG determines the necessary regulations and guidelines after consulting with the Swiss Oversight Board. Responsibility for the annual partner remuneration process lies with the Management Board of PricewaterhouseCoopers AG. The Swiss Oversight Board oversees the process and the correct application of the regulations.

PricewaterhouseCoopers AG

Zurich 26 October 2017



Dr. Markus R. Neuhaus  
Chairman of the Board of Directors



Urs Honegger  
Delegate of the Board of Directors and CEO

[www.pwc.ch](http://www.pwc.ch)