



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York 10017

March 16, 2020

Re: IESBA Exposure Draft – Proposed revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers

Dear Mr Siong

Introduction

We¹ appreciate and thank you for the opportunity to comment on the IESBA’s exposure draft regarding proposed revisions to the Code addressing the Objectivity of Engagement Quality Reviewers.

Overall Comment

We support the addition of guidance on this topic in the Code and believe that the additional material in the Code will help firms and audit teams consider and evaluate the threats to objectivity where a former engagement partner becomes the engagement quality reviewer on that client engagement. We do, however, have some concerns with the proposed “rule” and its placement which we explain below.

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to “PwC”, “we” and “our” refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652



Requests for specific comments:

Our responses to the specific questions raised in the ED follow.

Do you support the proposed guidance addressing the topic of the objectivity of an EQR?

Yes, we believe that the guidance contained in Section 120 is appropriate and helpful.

We believe that these considerations could potentially be applicable to professional accountants undertaking Agreed Upon Procedures. Therefore, an additional clause indicating that 120.14 may also be considered relevant for other types of engagements provided by professional accountants where an engagement quality reviewer (or equivalent) is appointed may be appropriate.

If so, do you support the location of the proposed guidance in Section 120 of the Code?

Yes, we agree with the location of the proposed guidance.

Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?

Principle of cooling-off

We continue to support the principle of a “cooling-off period” but do have concerns regarding the establishment of a bright line rule (2 years).

Focussing on audit engagements as the primary application, while we are comfortable with a 2-year cooling off as a rule of thumb and that best efforts should be used to adhere to this principle, we do not consider that a mandated requirement will always be in the best interests of promoting audit quality, taking into account potential specific engagement circumstances. There may be cases, albeit perhaps rare, where it is not possible to identify an engagement quality reviewer, who has served a cooling-off period, and who has the necessary authority and/or expertise to effectively evaluate and challenge the judgments. This may arise more commonly in smaller firms. In such cases, we believe that audit quality is best served by appointing the individual with the most appropriate experience and expertise to challenge the engagement team’s judgements and applying any necessary safeguards to address any threat to objectivity. Appointing an individual who may not have the requisite authority or skills, but who is not barred as a result of the cooling-off period might, in some cases, prove detrimental to audit quality.



Location of requirement/exception

We believe the implications and consequential effects of the potential locations for the requirement may not have been sufficiently explained. For example, we suggest there is a lack of clarity for the expected actions of the engagement partner in accordance with ISA 220 when becoming aware of deficiencies in the system of quality management related to non-compliance with the requirements of ISQM 2.

Our understanding is that a breach of the 2-year requirement in ISQM 2 (or indeed any eligibility requirement in ISQM 2) is a deficiency in the firm's system of quality management and would be evaluated and remediated under ISQM 1. While that is rightly a matter that the firm has to address, it is not clear how the firm would apply the appropriate use of judgement in evaluating the impact of a breach of such as rule on objectivity and the ability of the firm to complete the engagement and issue the report (in situations where an alternative reviewer has not or cannot be appointed).

The only available action to the engagement leader is to request a replacement EQ reviewer from the firm. If the firm is unable to do so, the auditor's report cannot be issued. Therefore, we are concerned that the consequences of locating the requirement in ISQM 2 may unduly restrict the ability of the firm to reach a sensible outcome compared to an ability to evaluate the impact of a breach, were the requirement to be in the Code.

For this reason, we do not believe that placing the requirement in ISQM 2 is the appropriate location and that appropriate flexibility in exceptional circumstances, which we believe is in the interests of promoting quality, is best achieved by locating the requirement within the Code.

Recommendation

Accordingly, we recommend that the issue of cooling-off be addressed fully in the Code, and that the IESBA adopt a position of allowing an exception to the general rule where this is in the interests of audit quality. In recommending this, we draw an analogy to the content of the IIS addressing the application of the Key Audit Partner rotation requirements for PIEs and the exception contained in paragraph R540.7. Such an exception would involve the firm discussing the matter with those charged with governance including the reasons why the required cooling-off is not possible and/or in the interests of audit quality and the need for any safeguards to reduce any threat to objectivity, which is not at an acceptable level.

Inclusion in the Code would also, in circumstances when the rule is inadvertently breached, permit the firm, in accordance with the provision in the Code today at R100.4, and in communication with those charged with governance, to evaluate the significance of the breach and its impact on the



accountant's ability to comply with the fundamental principles, and to take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily. We believe this would also address the audit engagement partner's responsibilities in accordance with ISA 220 for addressing a breach of ethical requirements/deficiency in the firm's system of quality management.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at samuel.l.burke@pwc.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sam', written in a cursive style.

Sam Burke
Global Independence Leader