



Financial Reporting Council

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By email to: AAT@FRC.org.uk

For the attention of Kate Dalby, Project Director

18 March, 2021

Dear Ms Dalby,

Proposal to adopt ISQM (UK) 1 *Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*, ISQM (UK) 2 *Engagement Quality Reviews*, and revise ISA (UK) 220 (Revised November 2019) *Quality Control For An Audit Of Financial Statements*

PricewaterhouseCoopers LLP (We) welcome the opportunity to respond to the FRC's consultation paper and impact assessment on the proposal to adopt ISQM (UK) 1 *Quality Management For Firms That Perform Audits Or Reviews Of Financial Statements, Or Other Assurance Or Related Services Engagements*, ISQM (UK) 2 *Engagement Quality Reviews*, and revise ISA (UK) 220 (Revised November 2019) *Quality Control For An Audit Of Financial Statements*.

We agree that the three standards will, individually and collectively, improve the quality of engagements through addressing key public interest issues related to the management of quality at a firm and engagement level and the performance of engagement quality reviews.

We support the principle of a quality management approach in ISQM (UK) 1. Refocusing the quality control standard to be based on an objective-driven and risk-based approach with appropriate responses will encourage a more proactive focus on quality management. We believe that building a firm's System of Quality Management (SoQM) around such an approach is in the best interest of audit quality. As a Network, we are in the process of implementing such an approach and in the UK we are well progressed in the implementation of a significant number of the new requirements in ISQM (UK) 1.

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We also support the establishment of ISQM (UK) 2 as a separate standard addressing the requirements relating to the performance of an engagement quality review (EQR), previously included within ISQC (UK) 1 and ISA (UK) 220 (Revised November 2019). We are well progressed in the implementation of the majority of the requirements included in these two new standards.

Finally, we welcome the FRC's approach of adopting the IAASB standards directly with no additional UK requirements other than the existing UK pluses and application material.

The experience and lessons we have learnt to date in the early assessment of the changes needed to implement ISQM 1 and the additional changes to ISQM 2 and ISA 220, based on the Exposure Drafts, together with the elements that we have already embedded into our policies and procedures, have informed our views in the responses to this consultation paper.

Our responses to the consultation questions are included in **Appendix 1** to this letter.

We hope our comments are helpful and if you have any questions or require any further information, please do not hesitate to contact me at [REDACTED].

Yours sincerely,

[REDACTED]

Hemione Hudson
UK Head of Audit, PricewaterhouseCoopers LLP



APPENDIX 1 - Consultation questions

Q1. Do you agree that ISQM (UK) 1, ISQM (UK) 2, and the revised ISA (UK) 220 should be adopted in the UK, alongside the related conforming amendments to other ISAs (UK)? If not, please give your reasons.

Yes.

Q2. If you agree that the ISQMs (UK) and ISAs (UK) should be revised to adopt the revisions to the underlying international standards, do you agree that the proposed UK supplementary material is appropriate? If not, please give your reasons and explain what further additions or subtractions should be made.

Yes.

Q3. Is the proposed effective date, which is consistent with the effective date of the IAASB's revised ISQMs and ISAs, appropriate? If not, please give reasons and indicate the effective date that you would consider appropriate.

Yes.

Early adoption of the revised standards is strongly encouraged by the FRC, however we believe that the full time allowed is needed to ensure that all aspects of the requirements are fully assessed and implemented effectively, in particular recognising the additional considerations relating to Network Services and Service Providers that require collaboration across a firm's Network.

Although we will follow the PwC Network guidelines as referred to in the previous paragraph, we have made significant progress in implementing several of the new requirements in the standards and we will continue to do so. However, some significant actions are needed to implement some of the requirements. In particular, in ISQM (UK) 1, some of the new requirements are not trivial, will take time to embed and in some instances are under the responsibility of our Network. For example, the new sections of ISQM (UK) 1 addressing Network Services and use of Service Providers may prove the most challenging elements for firms, both in understanding their respective scope and what is expected in complying with those requirements. We have performed a high level analysis to understand the areas of additional work and our analysis supports our view that the full time until the effective date is necessary for effective implementation.

Q4. ISQM (UK) 1 requires the auditor to establish a monitoring and remediation process that identifies, evaluates and responds to findings that result in one or more deficiencies in the firm's system of quality management. Do you agree with this approach or should the standard include requirements for firms also identify, evaluate and respond to positive outcomes and opportunities? Please give reasons for your response.

We agree with the requirement in the standard to establish a monitoring and remediation process that identifies, evaluates and responds to findings that result in one or more deficiencies in the firm's system of quality management and where positive outcomes or opportunities are identified the firm is encouraged, but not required, to evaluate and respond to them.



As part of our root cause and remediation analysis in external and internal engagement inspections, we not only understand the factors that caused the deficiency but we also evaluate 'best practices' identified to embed these in the remedial actions. This has proven a positive exercise that is performed on a regular basis, as generally there are characteristics, behaviours or conditions that 'best in class' engagements exhibit that are not present in engagements with quality issues. This indicates practices and opportunities that we can apply more extensively across all engagements or highlights opportunities to enhance the SoQM.

However, we believe that the more prescriptive the standard becomes, the more challenges it presents to make it scalable and applicable to different types of firms. Hence, including requirements for firms to also identify, evaluate and respond to positive outcomes and opportunities may impact on the flexibility in the design of the SoQM which is critical to the success of the standard. Based on our experience to date, whilst the identification and evaluation of deficiencies in an engagement is relatively clear, it may not always be possible to clearly define or identify a positive outcome without having a critical mass of engagements to draw meaningful conclusions. As such, whilst we agree that the identification and evaluation of the drivers of high quality engagements is valuable and should be encouraged wherever possible, in our experience this is not practical in all cases and therefore should not be made a requirement.

We believe the additional guidance in par A157 and A158 of the 'Application and Other Explanatory Material' is sufficient to prompt firms to consider positive outcomes and opportunities in the context of quality without imposing it (e.g. if it becomes evident in the work performed but not having to consciously search for it).

Q5. The requirements in ISQM (UK) 2 are currently applicable to all engagements for which an engagement quality review is required to be performed. Do you believe that ISQM2 could be enhanced through further requirements and/or application material for non-[audit] assurance engagements? If so, please give your detailed reasons and explain how ISQM (UK) 2 could be enhanced, in the context of a non-[audit] assurance engagement.

We believe that the principles in the standard are broad enough to fully apply to both audit of financial statements and non-audit assurance engagements (NAAE). We do not think there is anything unique in nature to NAAEs, including engagements in connection with an investment circular under the FRC's Standards for Investment Reporting (SIRs), ISRE (UK) 2410 engagements, engagements to provide assurance on client assets to the FCA and ISAE (UK) 3000 engagements, that is not already covered in the principles established in the standard in relation to the appointment and eligibility of an engagement quality reviewer and their responsibilities relating to that review. Hence we do not think that further requirements or application material for the engagement quality review role on non-audit assurance engagements are needed.