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Independence Rules

The order also requires a review of PwC's independence-related quality-control policies and procedures, and extra training.

Jason Bramwell • Apr. 04, 2024

The Public Company Accounting Oversight Board (PCAOB) nailed Big Four firm PwC US with a $2.75 million fine on March 28 for quality-control violations related to auditor independence.

PwC's quality-control policies and procedures were found to be deficient because

independence."

As a result, PwC established an Independence Office intended to address independence risks due to the substantial tax and advisory services the firm provides clients outside of assurance.

"That office, which is a key pillar in PwC's system of quality control, comprises independence-focused individuals with specialized knowledge, and is responsible for maintaining PwC's independence policies, processes, and controls, and for developing the firm's independence training courses," the PCAOB said. "The Independence Office is also intended to serve as a resource when independence-related questions arise, including by providing ad hoc guidance on an as-needed basis."

However, in 2018, numerous PwC leaders and partners failed to consult with the firm's Independence Office or conduct other appropriate independence analysis as PwC explored the possibility of terminating its audit relationship with an unnamed issuer—a software supplier that PwC used (as a consumer) in a variety of both internal and client-facing business activities—to allow for a joint business relationship (JBR) with that company, according to the PCAOB.

PwC did not raise the JBR-related discussions to its Independence Office—or perform an appropriate analysis of PwC's independence in light of those discussions—until PCAOB investigators raised questions about PwC's independence from the issuer.

"Auditor independence is essential to maintaining trust in our capital market system," PCAOB Chair Erica Williams said in a statement last Thursday. "Firms must have effective guardrails in place to enforce independence and uphold the integrity of their audits."

The PCAOB further found that, in 2018, members of PwC's tax group prepared and

to the PCAOB. Both during and after the meeting, the CEO expressed enthusiasm for a JBR with PwC, which the CEO understood might be worth tens of millions of dollars to the company.

Shortly after the November meeting, PwC and the company began exploring the possibility of transitioning the audit to another audit firm. At the same time, however, PwC planned to continue performing the audit of the company's financial statements for the year ending Dec. 31, 2018, and to also perform the next quarterly review. PwC's then-existing independence policies and procedures didn't require an Independence Office consultation in these circumstances, the PCAOB said.

PwC's Independence Office was informed of the November meeting and related discussions only after the PCAOB's Division of Enforcement and Investigations sent PwC a document and information request concerning PwC's independence from the issuer. That PCAOB request caused PwC to initiate a consultation with its Independence Office. The Independence Office then considered the results of that meeting, as well as PwC's other non-audit interactions with and involving the software supplier, and determined that there was "a risk that a reasonable investor could conclude that PwC was not independent of the issuer in 2018," the PCAOB said. PwC was terminated as the software supplier's auditor before completing the 2018 audit.

Without admitting or denying the board's findings, PwC agreed to the PCAOB's order against the firm, which censures the firm, imposes a $2.75 million civil money penalty on the firm, and requires the firm to complete remedial undertakings. Those remedial undertakings require that PwC:

- Review and revise or supplement, as necessary, its independence-related quality-control policies and procedures;

- Make certain communications to the firm's professionals regarding certain

authoritative literature or other sources and consult, on a timely basis, when appropriate" said Robert Rice, director of the PCAOB's Division of Enforcement and Investigations. "If a firm does not appropriately design and maintain such policies and procedures, or does not adequately communicate them, we will not hesitate to hold the firm accountable for that failure."

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