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June 8, 2021

By email: CommentLetters@aicpa-cima.com

Ms. Jennifer Burns
Audit and Attest Standards
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10105

RE: Proposed Statement on Quality Management Standards, *A Firm's System of Quality Management* (SQMS No. 1); Proposed Statement on Quality Management Standards, *Engagement Quality Reviews* (SQMS No. 2); and Proposed Statement on Auditing Standards, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (QM SAS) – (collectively the “Quality Management Standards”)

Dear Ms. Burns:

We appreciate the opportunity to comment on the Auditing Standards Board's (the Board) Proposed Standards on Quality Management Standards (the Proposed Standards). We acknowledge and appreciate the effort and consideration that went into the drafting of the Proposed Standards and commend the Board for publishing the Proposed Standards in a format that is easy to follow. We recognize the significance of a firm's system of quality management in driving audit quality and agree that it is an appropriate time to revisit the existing quality control standards. The evolution of audit and other attest services requires quality management standards that are responsive to the current business environment and adaptive to future developments.

Within this letter we have provided observations on predominant themes and have included in the appendix detailed responses to certain questions on which the Board requested feedback.

Consistency with the international quality management standards

As a member firm operating within a global network, we strongly support the Board's initiative to position the Proposed Standards to be as consistent as possible with the international quality management standards. Being able to deploy one comprehensive system of quality management across a global network best supports consistent audit quality globally. Requiring firms to comply with multiple quality management standards in various jurisdictions would create significant challenges. While we have included responses to questions within the appendix to reflect our opinions on specific proposed incremental or alternative requirements, we focused primarily on areas where changes to the international standards are being proposed or where we think there is opportunity for additional clarification or examples. We generally believe that the requirements in the Proposed Standards are sufficiently principles-based to provide a framework for an effective quality management system.

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The role of quality management standards and auditing standards

Future quality management standards should focus on the system of quality control at the firm level while also stressing the importance of the inter-relationship of quality management and the auditing standards. We appreciate the release of the Proposed Standards that recognizes this inter-relationship between quality management at the firm level, the engagement quality review function, and the engagement team.

We appreciate the Board's and Staff's consideration of our comments and observations in support of revising the quality management standards to enhance audit quality. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Matt Doyle (212-256-1990 or mdoyle@kpmg.com) or Harry Cohen (212-954-3293 or hcohen@kpmg.com).

Sincerely,

KPMG LLP

Appendix

Below are responses to select questions outlined in the Proposed Standards for which we had specific input, recommendations, or concerns.

1. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 1 are clear and understandable and whether the application material is helpful in supporting the application of those requirements.

Evaluating identified deficiencies in the firm's system of quality management

We believe additional clarity around how firms should evaluate the severity and pervasiveness of identified deficiencies would help firms more effectively implement the requirements. A lack of clarity could lead to inconsistencies in how firms evaluate deficiencies and the impact on the overall assessment of effectiveness of the system of quality management. Specifically, we believe additional direction in the form of examples and implementation guidance could be provided as to:

- when and where root cause analysis of identified deficiencies needs to be performed and whether each identified deficiency should be subject to root cause analysis or rather whether identified deficiencies of similar nature may be aggregated; and
- how firms should evaluate the effect of identified deficiencies in context of the system as a whole, including examples as to what constitutes a failure in a firm's system of quality management.

A14 Quality risks and responses to risks relevant to group audit engagements

Paragraph A14 states that quality risks and the responses to those risks relevant to group audit engagements may be different for engagement team members who are firm personnel than for engagement team members who are external to the firm. However, it is not clear what the different response at the firm level would be. If the intention of the Board is to highlight a different response at that level, additional examples and implementation guidance providing clarity as to how that response differs from the response at the individual engagement team level would be helpful. Alternatively, if the intention is that the different response is solely at the engagement team level, we believe this section could be clarified by referring to the guidance for engagement teams in the Proposed QM SAS.

A140 Communication about firm's system of quality management to governmental organizations

Paragraph A140 introduces the concept that the firm may take into account the size and complexity of a governmental organization, the range of its stakeholders, the nature of the services it provides, and the roles and responsibilities of those charged with governance when determining whether it is appropriate to communicate to those charged with governance of a governmental organization about the firm's system of quality management. It is not clear how various organizational and operational aspects of the governmental organization subject to the services a firm provides influences whether it is appropriate to communicate information about the firm's system of quality management. We also do not believe that the considerations for communicating to a governmental organization should be different than those for communicating to those charged with governance in paragraph A139. We suggest aligning the guidance for engagement of governmental organizations with that for other entities or clearly delineating why different considerations are necessary.

Applicable regulatory agencies in the Relevant Ethical Requirements

The section on Relevant Ethical Requirements refers to “applicable regulatory agencies.” Paragraph 1.400.050 of the AICPA Code of Conduct uses the terms “governmental bodies, commissions, or other regulatory agencies” with whose ethical requirements members are required to comply. The broader reference in the Proposed Standards could be interpreted to scope in additional entities and requirements. We suggest aligning the reference in the Proposed Standards with the definition in the AICPA Code of Conduct to avoid the risk of unintentionally expanding the scope of complying with the quality management standard to requirements of agencies that are not contemplated in the AICPA Code of Conduct.

4. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents’ views on whether the requirements in the proposed QM SAS are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.

- Paragraph A38 uses the term “listed entities” when it states “For example, certain requirements related to independence may be applicable only when performing audits of listed entities”. Use of this term does not align with the AICPA Code of Conduct and its inclusion is inconsistent with other areas of the proposed standards where similar references were deleted for jurisdictional purposes.
- Paragraph A44 deletes the example from the IESBA Code contained in the international quality management standard. We believe this is an opportunity to reference the conceptual frameworks embedded in the AICPA Code of Conduct as an alternative example that is relevant to practitioners in the US. There are a number of examples in the AICPA Code of Conduct that could be provided, such as those in section 1.295 Non-attest Services which highlights several “safeguards” that are required.
- Paragraph A45 provides reference to SQMS No. 1 regarding the establishment of policies and procedures for breaches of relevant ethical requirements. Section 1.298 Breach of an Independence Interpretation of the AICPA Code of Conduct also contains specific requirements regarding appropriate response to breaches of independence. We believe it would be helpful to include reference to the relevant AICPA Code of Conduct requirements.
- Paragraph A48 could be interpreted to imply that government audit organizations are exempt from relevant ethical requirements and may, instead, take a threats and safeguards approach. We believe the intent is that there is an expectation that government audit organizations comply with the relevant ethical requirements except in certain limited circumstances. We suggest clarifying the language to reflect this intent as follows.

A48. Government audit organizations are expected to comply with the relevant independence requirements of the AICPA Code of Conduct except in certain limited circumstances. Law or regulation may ~~provide~~ **require** safeguards for the independence of governmental audit organizations and the auditors they employ. ~~However, in the absence of law or regulation, governmental audit organizations may establish supplemental safeguards to assist the auditor or audit organization in maintaining independence.~~ Additionally, when law or regulation does

not permit withdrawal from the engagement, the auditor may disclose in the auditor's report the circumstances affecting the auditor's independence.

- 7. Respondents are asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. If not, please explain why and provide examples of safeguards that could lower the self-review threat to an acceptable level.**

We agree with the guidance in the Proposed Standards that those individuals involved in an engagement should be precluded from inspecting those engagements. This is consistent with the relevant requirements in the corresponding international quality management standard and is necessary to avoid the threat of self-review.

- 8. Respondents are asked for their views on whether a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement, and (a) if so, the appropriate length of the required cooling-off period, or (b) if not, please explain why and provide examples of safeguards that could lower the objectivity threat to an acceptable level.**

We agree with the guidance in the Proposed Standards that a cooling-off period of two-years be required before a former engagement partner can serve as an engagement quality reviewer on that engagement. This is consistent with the relevant requirement in the corresponding international quality management standard and is necessary to lower the objectivity threat.

- 9. Respondents are asked for their views on whether the engagement quality review should be required to be completed before the report is dated, rather than before the report is released.**

We agree with the guidance in the Proposed Standards that the engagement quality review be required to be completed before the report is dated, rather than before the report is released. This is consistent with the relevant requirement in the corresponding international quality management standard and is appropriate given the completion of the engagement quality review is necessary for the engagement partner to determine whether the audit has been performed in accordance with the standards before dating the audit opinion.