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Ms. Sherry Hazel  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775  
Via email to [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

**Re: ASB Proposed Statements on Quality Management Standards**

Dear Ms. Hazel:

Dixon Hughes Goodman LLP (DHG) welcomes the opportunity to comment on the Auditing Standards Board's (ASB) Proposed Statements on Quality Management Standards *A Firm's System of Quality Management* and *Engagement Quality Reviews* and the Proposed Statement on Auditing Standards *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (collectively known as, "the Proposed Quality Management Standards"). DHG ranks among the top 20 professional services firms in the nation, providing assurance, tax, and advisory services. With more than 2,000 professionals across the United States, the DHG team serves clients in 50 states and internationally, and is a member of Praxity, a global alliance of independent firms.

DHG is supportive of the ASB's efforts in advancing the quality control standards by incorporating a new quality management approach that focuses on proactively identifying and responding to risks to quality, and we commend the ASB for their efforts in developing scalable standards that considers the views of numerous stakeholders while aligning with the International Auditing and Assurance Standards Board (IAASB) standards.

We would like to also stress the importance of convergence with other global standard setters and regulators, including the Public Company Accounting Oversight Board (PCAOB), to promote consistency and alignment of the requirements of the quality management standards. We believe such convergence will ensure the fundamental concepts are aligned and minimize unnecessary differences or incremental efforts without a corresponding benefit to audit quality. Furthermore, to ensure effective and efficient adoption of the standards, it is imperative that sufficient implementation guidance is provided, particularly as it relates to effectively (and consistently) applying the risk assessment process and investigating the root cause of the deficiencies noted during the firm's annual assessment.



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This letter includes our views, observations, and recommendations on the Proposed Quality Management Standards, including responses to certain questions specifically requested for comment by the ASB (refer to Appendix A). Our responses are framed by our experiences serving numerous private companies, middle-market public issuers, and non-issuer brokers and dealers, and include our concerns regarding the potential implications the proposals could have for medium to larger-sized accounting firms.

\* \* \* \*

In closing, DHG is supportive of the ASB's effort to enhance firms' management of engagement quality and at the same time incorporate a new quality management approach that focuses on proactively identifying and responding to risks to quality and we appreciate the opportunity provided by the ASB to comment on these proposals.

We would be pleased to discuss any questions the Board and its Staff may have concerning our comments. Please direct any questions to DHG's Professional Standards Group ([Professional.StandardsGroup@dhg.com](mailto:Professional.StandardsGroup@dhg.com)).

Sincerely,

*Dixon Hughes Goodman LLP*

Dixon Hughes Goodman LLP

## **Appendix A - Responses to Proposed Quality Management Standards Questions**

**Question #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.*

### *DHG Response*

DHG supports the Proposed Quality Management Standards and believes they will enhance quality from both a firm-wide perspective and in how assurance engagements are conducted, and are responsive to changes in the business environment and advances in technology. Furthermore, we support the fundamental aspects of the standard, which include an added emphasis on identifying and assessing risks that may impact engagement quality. We also believe the eight components included in the Proposed Statement on Quality Management Standards, *A Firm's System of Quality Management* (SQMS No. 1) are appropriate and support flexibility based on the nature and circumstances of firms and assurance engagements performed.

Additionally, we emphasize the importance of providing sufficient application materials and implementation guidance, particularly as it relates to determining the level of granularity expected in the risk identification and assessment component. Such materials would help promote consistent understanding (and applicability) for firms of all sizes and compositions, and potentially reduce unnecessary implementation costs. This application material could be in a number of formats including, but not limited to, first-time implementation guidance, practical examples, or Q&A.

For example, the IAASB during the proposal phase of their related quality management standards<sup>1</sup> provided draft examples<sup>2</sup> that were intended to illustrate how the proposed standards could be applied in a scalable manner by firms with varying circumstances. We believe these draft examples provide an illustrative path to effective implementation and strongly encourage the ASB to develop similar guidance that could be utilized by firms of various sizes and compositions in adopting the Proposed Quality Management Standards.

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<sup>1</sup> International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (ISQM 1)

<sup>2</sup> [Draft Examples: How the Nature and Circumstances of the Firm and the Engagements it Performs Affect the Implementation of Proposed ISQM 1](#)

Furthermore, we support the proposed requirements for evaluating findings and identifying deficiencies, and evaluating the severity and persuasiveness of the deficiencies, including investigating the root cause of identified deficiencies. However, there is potential risk that without sufficient application guidance, firms may not apply such analyses consistently, which could result in varying results that may not be in the spirit of the requirement. We believe a consistently applied root cause process can provide insight into potential systemic issues of identified deficiencies and assist firms in developing remedial actions that are directly responsive to such issues and highlight opportunities to enhance the firm's system of quality management.

A consistently applied root cause analysis could also provide the ASB insights into potential areas of profession-wide improvements. This information could help drive future standard setting projects and related guidance activities, such as developing indicators of audit quality that could provide additional insights on factors that may contribute to or detract from audit quality.

**Question #2:** *Respondents are asked to provide their views on the scalability of the new quality management approach. In addition, the ASB is seeking respondents' views on specific requirements in proposed SQMS No. 1 that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful.*

*DHG Response*

DHG believes the quality management approach in SQMS No. 1 provides a framework that can be scalable to firms of many sizes and compositions. However, we believe application guidance is needed to assist firms with implementation of the new standards. In developing such guidance, it is particularly important that real-life examples are provided that address the range of assurance services offered by firms, as well as the level of granularity expected through the risk identification and assessment process. Please refer to the response in Question 1 for the Draft Examples provided by the IAASB during the proposal phase.

**Question #6:** *Respondents are asked to provide their views on whether an 18-month implementation period is appropriate. If that period is not appropriate, please explain why and what implementation period would be appropriate.*

*DHG Response*

Implementation of the Proposed Quality Management Standards will require firms to bear considerable resources and costs to effectively adopt, and we believe the overall success of adoption could be negatively impacted by a compressed implementation timeframe. Sufficient time is needed to provide firms of various sizes and composition to evaluate, design, and implement the proposed standards,

including the development of sufficient post-adoption monitoring processes. Therefore, we do not believe an 18-month implementation period is appropriate and recommend that the implementation period should not be less than 24 months from the issuance of the final standards.

Furthermore, regardless of the implementation timeframe, we encourage the ASB perform a post-implementation economic analysis to better understand the benefits and challenges in adopting the Proposed Quality Management Standards.

**Question #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.*

*DHG Response*

We believe it is appropriate to preclude the inspection of completed engagements by those involved in the engagement. However, we do recognize the operational challenges this provision could have for firms of smaller sizes, particular those with a small number of partners/principals. Regardless, we believe this requirement is an instrumental part of enhancing audit quality and such challenges could be mitigated by additional application guidance.

**Question #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.*

*DHG Response*

We support the requirement for a two-year cooling-off period before a former engagement partner can serve as an engagement quality reviewer on that engagement. However, similar to the self-inspection provision discussed in Question #7 above, there could be operational challenges for firms with a small number of partners/principals. Therefore, we suggest the ASB consider an exception to the cooling-off provision for firms with less than 10 audit partners/principals, similar to the partner rotation exemption provided by the Securities and Exchange Commission (SEC)<sup>3</sup>, provided the firm is subject to a peer review at least once every three years.

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<sup>3</sup> See Regulation S-X, Section 210.2-01 (c) (6) (ii).



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**Question #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.*

*DHG Response*

We believe the engagement quality review (EQR) should be completed before the report is dated, rather than before the report is released. Furthermore, we are not aware of reasons that would justify a difference from the IAASB's standards.