

# Moss Adams LLP

## Quality Management Exposure Draft Comment Letter

Submitted by email to: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

This letter provides our responses to the Exposure Draft of the ASB's Proposed Quality Management Standards, which comprise:

- Proposed Statement on Quality Management Standards (SQMS), *A Firm's System of Quality Management* (SQMS No. 1)
- Proposed SQMS, *Engagement Quality Reviews* (SQMS No. 2)
- Proposed Statement on Auditing Standards *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (QM SAS)

### PART 1: SQMS No. 1

**1a.** Which of the following best describes your view of the proposed SQMS No. 1? Please choose only one.

- I support the proposed SQMS No. 1.
- I somewhat oppose the proposed SQMS No. 1.
- I strongly oppose the proposed SQMS No. 1.

Please provide additional details regarding your response.

Overall, we support the ASB's efforts to modernize and update the AICPA quality control standards to better reflect the current environment and to increase the emphasis on a suitably robust system of quality management. In addition, we support ASB's convergence of its quality management standards with those of the IAASB, while allowing for special differences appropriate for the U.S. environment. We appreciate that this standard represents a proactive approach to quality management as it emphasizes continual flow of information to promote remediation and improvement. We believe the proactive approach combined with the need for firms to reevaluate their systems of quality management via an annual evaluation will promote focus on and improvement of quality.

We support the requirement for individual firms to customize the design, implementation, and operation of their systems of quality management based on the nature and circumstances specific to each firm and of the engagements performed.

**1b.** The fundamental aspects of proposed SQMS No. 1 are summarized in pages 8-14 of the Explanatory Memorandum. Please provide your views on (any or all of) the fundamental aspects.

***New Approach Focused on Quality Management:*** The principles-based approach taken in SQMS No. 1, centered on the 8 components to quality, is theoretically sound. However, we are finding the practical application of the model very complicated as we

develop our implementation approach. We have worked through some of our quality management processes with the proposed standard in mind and found some aspects of the model difficult to apply and document in a holistic manner. The integration of the various components of quality causes complexities. The process of identifying and assessing quality risks to achieving quality objectives often extends beyond a single component. Further, processes supporting quality management support various quality objectives. Thus, the linkages of control activities to quality objectives will be multifaceted.

Using the Information and Communication Component as an example, there are risks pertaining to the quality objectives set forth in paragraph 34 of SQMS No. 1 which cascade into risks that pertain to other components. (e.g., information supporting judgments on whether to accept or continue a client relationship). Building a system that documents our risk assessment and related responses to demonstrate how our QM system achieves the requirements in SQMS No. 1 will be very challenging to develop and maintain. We agree with the principles-based approach but acknowledge and bring to your attention the intensive time and effort firms will have to undertake to properly implement the standard and maintain compliance going forward.

**Convergence:** As stated, we support the ASB's efforts to converge these standards with those of the IAASB. We fully agree with the ASB that it would be exponentially impracticable for firms to comply with multiple sets of auditing and quality management standards (e.g., ASB, IAASB, PCAOB). Thus, any outreach the ASB can conduct to promote the PCAOB to converge, to the extent possible, its forthcoming standards with those of the IAASB and the AICPA would greatly benefit the profession. To the extent there are differences between ASB and PCAOB standards, a clear reconciliation between standards would positively promote audit quality in the U.S.

**Scalability:** We understand the intention is that the approach to quality management should be scalable for firms of different sizes, nature of services, and complexity, and we agree that is an important foundational concept in the standard. However, we have concerns that without supplemental materials to assist implementation, there could be wide disparities across firms in the outcomes. The combination of a principle-based approach standard that allows scalability with a firm's own risk tolerances should result in each firm meeting the same principles and objectives of the standard, even when some firms' systems of quality management may be less complex due to their own circumstances. We believe that nonauthoritative guidance with many illustrations and examples, including other forms of implementation guidance such as videos and panels of firms demonstrating their thought processes for implementation, all designed to assist firms of different sizes and complexities with their implementation efforts will be critical to keeping an even playing field, regardless of the size or complexity of the firm and its practice.

**1c.** Are the requirements in SQMS No. 1 clear and understandable? Please answer yes or no.

Yes, however building upon our response to Question 1b, understanding and applying the principles-based approach is taking multiple reviews of the standard, conversations within our firm, conversations with peer groups, and review of IAASB implementation materials. Even with the efforts we have expended thus far, we're still working through the nuances of the standard and the way we would apply it.

Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

The implementation of the requirements entails a great deal of thought and evaluation to determine how to approach implementation. We have been challenged to understand how to efficiently approach implementation and the level (depth) to which we need to address the more pervasive components: governance and leadership, resources, and information and communication. Part of the challenge in application is comparing our existing system of quality management, which has developed over time, to the requirements of SQMS No. 1 to determine whether and how our system meets the standard. Taking technological resources as an example of a challenge with the depth of application, we anticipate 1) evaluating a multitude of resources to determine whether they present significant risks or responses to the system of quality management (supporting engagement performance, client acceptance and continuance, human resources, ethical requirements, etc.) and 2) for those resources deemed part of the system, documenting and testing them annually. It is not clear how deep to dive into these resources in our implementation process. While it is up to each firm to make that decision in designing a suitable system of quality management, the standard is so open-ended there is no clear “end” to implementation.

Even if the standard is clear and understandable, due to the principles-based nature of the standard, the interpretation of them could vary widely across firms and peer reviewers. While we understand and acknowledge the rationale for taking a principles-based approach, there are inherent complications to this approach. As firms set their own risk tolerances, the extent of the system of quality management could be wide-ranging. Thus, an external assessment of compliance with SQMS No. 1, such as when subject to peer review, will be difficult to measure. As noted in our response to Question 1b related to scalability, it will be critical to keeping an even playing field across firms.

Finally, as noted above, we encourage the AICPA to keep scalability in mind when creating implementation materials. The application of the standard will vary greatly and having materials that address small, mid-size, and large firms will enhance understanding.

**1d.** Is the application material in SQMS No. 1 helpful in supporting the application of the requirements? Please answer yes or no.

Yes, to the extent we’ve evaluated SQMS No. 1 the application material has been helpful. Thus far in our review, we have identified a few issues noted in the next section. Additionally, we believe implementation materials will be essential to promote understanding of the standard.

Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

- **Paragraph 35d(ii):** *The firm establishes policies or procedures that address the following circumstances: The firm is obligated by law or regulation to accept a client relationship or specific engagement.*

- We could not identify an example or scenario in which this requirement would apply. It would be helpful for the application guidance to elaborate as to what types of scenarios the ASB anticipates with this requirement.
- **Paragraph A44:** *The nature and circumstances of the firm and its engagements may be such that the firm may not find it necessary to establish additional quality objectives.*
  - Given the comprehensive nature of the quality objectives established in SQMS No. 1, most firms would have reasonable assurance that any relevant quality objective is achieved if those in SQMS No. 1 are met. We understand there may be rare circumstances where additional objectives are warranted. Paragraph A44 provides guidance that additional quality objectives may not be necessary, but we would like this wording to be stronger to indicate that identifying additional objectives is likely the exception rather than the rule.
- **Paragraph A165:** *Examples of policies and procedures that a firm may establish to apply a cyclical basis for the inspection of completed engagements for each engagement partner include the following policies or procedures that*
  - *set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial statements once every three years, and for all other engagement partners, once every five years.*
  - Providing specific cycles for inspection (3 and 5 years) in the application guidance may have the effect of being presumptively mandatory. Firms should be permitted to set their own cycles. Thus, we suggest revising the guidance to address having different cycles based on the nature of the work engagement partners perform without specifying cycles (e.g., once every X and Y years).

**1e.** Do you have any other comments on proposed SQMS No. 1?

We have the following editorial comments:

- “Response” vs “Response to quality risk” - Throughout the document the phrase commonly used is “response to quality risk.” We noted a few instances where “response” was used (e.g., A40, A41, A120). For clarity, it would help to use the phrase “response(s) to quality risk” throughout the document.
- Throughout the document, there are indexed references (e.g., 17a, 17b, 17c) back to defined terms in paragraph 17. However, paragraph 17 is not referenced in such a manner, thus either the references throughout should be revised to reference paragraph 17 or the terms in paragraph 17 should be indexed.

## PART 2: Scalability of SQMS No. 1

**2a.** Is the new quality management approach in SQMS No. 1 scalable? Please answer yes or no.

Yes

**2b.** Would additional application material regarding scalability be helpful? Please answer yes or no.

See our response to Question 1b. We strongly suggest that the AICPA develop implementation materials that illustrate how the standard is scalable to various sizes and complexities of firms, that will support adherence to the principles and quality objectives regardless of complexity.

**2c.** Please provide additional details regarding your responses to 2a and 2b. If applicable, identify any requirements in proposed SQMS No. 1 that may inhibit scalability or requirements for which additional application material regarding scalability would be helpful.

See our response to Question 1b.

## PART 3: SQMS No. 2

**3a.** Which of the following best describes your view of the proposed SQMS No. 2? Please choose only one.

- I support the proposed SQMS No. 2.
- I somewhat oppose the proposed SQMS No. 2.
- I strongly oppose the proposed SQMS No. 2.

Please provide additional details regarding your response.

**3b.** Are the requirements in SQMS No. 2 clear and understandable? Please answer yes or no.

Yes, based on our initial reading of SQMS No. 2, although our review has not been extensive.

Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

None noted at this time.

**3c.** Is the application material in SQMS No. 2 helpful in supporting the application of the requirements? Please answer yes or no.

Yes, based on our initial reading of SQMS No. 2.

Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

None noted at this time.

**3d.** Do you have any other comments on proposed SQMS No. 2?

We have a comment on the effective date, please see response to Question 5.

## PART 4: QM SAS

**4a.** Which of the following best describes your view of the proposed QM SAS? Please choose only one.

- I support the proposed QM SAS
- I somewhat oppose the proposed QM SAS
- I strongly oppose the proposed QM SAS

Please provide additional details regarding your response.

None noted at this time.

**4b.** Are the requirements in QM SAS clear and understandable? Please answer yes or no.

Yes, based on our initial reading of QM SAS, although our review has not been extensive.

Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

None noted at this time.

**4c.** Is the application material in QM SAS helpful in supporting the application of the requirements? Please answer yes or no.

Yes, based on our initial reading of QM SAS.

Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

None noted at this time.

**4d.** Do you have any other comments on the proposed QM SAS?

None noted at this time.

## PART 5. Effective dates and implementation period

**5.** Are the effective dates clear? Please answer yes or no.

Yes, with one exception noted below.

Please provide additional details regarding your response, and, if applicable, describe what is not clear.

Effective date of SQMS No. 2 for engagements other than audits and reviews of financial statements is based upon when such engagements **begin**. When such an engagement “begins” may not be clearly understood by all practitioners.

11. This proposed SQMS is effective for...

- b. other engagements in the firm’s accounting and auditing practice beginning on or after [December 15, 2023]

The explanatory memo (page 25 of the ED) provides context to when an engagement begins and references the applicable section of the AICPA Code of Professional Conduct (ET section 0.400.39). To better assist practitioners in understanding the effective date, we suggest the reference to the Code be included as a footnote to paragraph 11, as the explanatory memo will not be subject to codification when the standards are finalized.

Further, we encourage education and outreach on the various effective dates of these standards to promote proper implementation.

6. Is an 18-month implementation period appropriate? Please answer yes or no.

Yes

Please provide additional details regarding your response, and, if applicable, explain what implementation period would be more appropriate.

We believe 18 months is an appropriate implementation period only with associated implementation guidance. We have spent considerable time reading and working to apply the proposed standard as well as those of the IAASB. We found the implementation materials the IAASB has issued so far (e.g., webinars, practice aids) to be extremely beneficial in furthering our understanding of the standard and how to apply it in our practice. Thus, issuance of nonauthoritative tools is a key element to promote comprehension and proper implementation of these standards and should be available at the beginning of the 18-month implementation period. Thus, we suggest the implementation period take into effect the AICPA's timeline to issue additional nonauthoritative guidance.

## PART 6. Other issues for consideration.

7. Please indicate your level of agreement that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. Please choose only one.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

Please provide additional details regarding your response, and if applicable, provide examples of safeguards that could lower the self-review threat to an acceptable level.

We generally agree with the prohibition of engagement team members or the engagement quality reviewer of an engagement from performing an inspection of that engagement (Paragraph 40.b of SQMS No. 1). However, the definition in SQMS No. 1 of engagement team is as follows:

All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external specialist and

internal auditors who provide direct assistance on an engagement. (Ref: par. A14)

We are unclear to what extent providing advice or consultation on a technical matter related to a specific engagement constitutes “performing procedures” and the standard does not address this. In some firms, a centralized group (e.g., “national office”) may provide technical consultations on engagements while also having responsibility for planning and oversight of internal inspections. Understanding what constitutes “performing procedures” and having more guidance as to the relevant considerations to make when determining what constitutes the engagement team under SQMS No. 1 will be critical.

Paragraph A168 of SQMS No. 1 notes that a self-review threat may arise when an individual who performs another type of monitoring activity participated in designing, executing, or operating the response being monitored. Many mid to large size firms support national practice groups that perform administrative functions over audit practices such as developing quality management policies, designing audit methodologies, and creating tools and templates to promote understanding and consistency. It would seem that such functions then create a self-review threat if those involved then plan or coordinate an internal inspection, even if not performing inspections themselves. It would be very helpful to address this common scenario in terms of considerations when assessing the self-review threat and safeguards that could be employed.

**8a.** Should a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement? Please answer yes or no.

Yes

**8b.** If you answered YES to 8a, what is the appropriate length of the required cooling-off period?

We support a cooling-off period that aligns with PCAOB standards to promote consistency. With limited exceptions, the PCAOB prohibits the person who served as the engagement partner during either of the two audits preceding the audit subject to the engagement quality review from serving as the engagement quality reviewer.

**8c.** If you answered NO to 8a, please provide additional details regarding your response and provide examples of safeguards that could lower the objectivity threat to an acceptable level.

**9a.** Should the engagement quality review be required to be completed before the report is dated, rather than before the report is released? Please answer yes or no.

Yes

Please provide additional details regarding your response. [Note that the ASB is interested in hearing whether your firm currently requires that the engagement quality review be completed before the report is dated.]

We support convergence with the IAASB on this matter. Having the engagement quality review completed prior to the report date supports the concept of having sufficient, appropriate evidence to support the auditor’s opinion. We support consistency among the standards on this matter.

Currently, our firm requires the engagement quality review to be completed prior to issuance of the report which is consistent with extant guidance.

## **PART 7. Demographic data**

Name: Erica Forhan, Director of Audit and Attest

Organization Name: Moss Adams

Firm size, if applicable: 3,400 professionals