



August 31, 2021

Ms. Sherry Hazel  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

**RE: 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)**

Dear Ms. Hazel:

We appreciate the opportunity to comment on proposed SQMS No. 1, SQMS No. 2, and QM SAS. Overall, we support the intent of the proposed revisions to the ASB’s standards, including the strategic objective of convergence with the quality management standards of the International Auditing and Assurance Standards Board (IAASB). However, to fully realize the ASB’s objectives in proposing these revisions and support consistent application, we believe that certain changes are necessary, in particular in relation to the proposed QM SAS.

**Overview - Proposed QM SAS**

We support the intent of the revisions, which is to promote consideration of risks to quality at the engagement level, and support many of the proposed revisions. We agree that the engagement partner needs to be sufficiently and appropriately involved throughout the audit to be able to take overall responsibility for the quality of the engagement.

However, in building a framework that best supports audit quality, it is important that the requirements in the QM SAS are grounded in a risk-based approach, and are sufficiently principles-based so that they can be appropriately applied across a variety of engagement team structures in a scalable manner, commensurate with the size and complexity of the entity being audited. We are concerned that the proposed SAS is not capable of being effectively implemented in light of the variety of audit delivery models that exist today and how such models (and the technology that supports them) are likely to evolve in the future. New audit delivery models, through which quality is often reinforced through quality control procedures embedded in their design, are typically governed by a firm’s System of Quality Management (SoQM); engagement partners should be able to rely on these firm-level controls to support the execution of quality audits. It is important that the SAS reflect the changing nature of audits and not introduce prescriptive requirements that may impede, rather than support, audit quality. In revising AU-C section 220, the ASB should establish principles-based requirements that promote appropriate review and supervision, and develop accompanying material to support the application of those requirements in various circumstances.



We support the assignment of responsibility to others to assist the engagement partner in fulfilling their quality responsibilities. In principle, we believe that the engagement partner should assign responsibility for aspects of quality to those most qualified to deliver on it. In our view, the engagement partner can retain overall responsibility for the engagement while delegating elements of execution that support that responsibility. It is also important to acknowledge that the firm's policies and procedures are applied to specific engagements or structures based on their assessed risks; not all engagements have the same risks and therefore different responses may be appropriate in order to achieve the same quality objective.

Paragraph 8 of the proposed QM SAS acknowledges that, in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks, or actions to other members of the engagement team. In our view, paragraph 4 of PCAOB AS 1201, *Supervision of the Audit Engagement*, better articulates the concept of additional engagement team members who assist the engagement partner with supervision of the work of other engagement team members and promotes greater accountability by those to which such work is assigned or delegated. We note this concept was similarly articulated in paragraph 6 of extant AU-C section 220, which specifies that "The engagement partner may use the assistance of other members of the engagement team or other personnel within the firm in meeting the requirements of this section." This terminology acknowledges that the engagement partner remains ultimately responsible for quality on the engagement, but also recognizes other suitably qualified members of the engagement team may perform a significant role with respect to direction, supervision, and review in order to achieve audit quality in the context of the specific engagement. We believe this concept should be explicitly retained in the ASB's standards; moving away from it could result in a significant change in practice without a commensurate increase in audit quality and creates an unnecessary divergence from PCAOB standards.

In our view, the proposed SAS needs to be revised to better reflect the principle of shared accountability for aspects of quality, and what would practically be achievable by the engagement partner. Although the application material provides examples of how the requirements can be applied in certain situations, we are concerned with the overall shift in the proposed QM SAS from the context in extant AU-C section 220 of the engagement partner being satisfied regarding certain matters to more robust requirements for the engagement partner to "determine" and "review" a broader range of matters. In these cases, we do not believe the application material can be used to overcome the prescriptive nature of the revised requirements. Particularly as it relates to large and complex engagements, it may not be feasible for the engagement partner to "determine" or "review" in accordance with all of the requirements outlined in the proposed QM SAS, as further discussed in our response to Question 4. Imposing these requirements on the engagement partner, rather than permitting such conclusions to be drawn by other suitability qualified members of the engagement team, may otherwise serve to detract from audit quality.

Paragraph A10 of the proposed SAS acknowledges that ordinarily the engagement team may depend on the firm's policies and procedures to comply with the requirements of the proposed SAS. Paragraph 9 notes that the engagement partner may need to obtain information from the firm or other members of the engagement team to be able to fulfill particular responsibilities set forth in the proposed SAS. We believe these concepts should be made more prominent in the proposed SAS, and potentially implementation guidance, to assist auditors in understanding how the proposed SAS can be applied to various structures that have become more common. In particular, we are concerned with how the requirements of the



proposed SAS interact with AU-C section 600, and believe the ASB needs to consider this before finalizing the proposed SAS to ensure it can be practically applied.

### ***Overview - Proposed SQMS No. 1***

We support the ASB's focus on enhancing a firm's SoQM. We agree that consistent performance of quality audit and attestation engagements is of paramount importance, and that an effective SoQM is foundational to achieve consistent quality. We therefore support adopting a quality management approach, focused on quality objectives and quality risks and responses to encourage a more proactive focus on quality. At the same time, we believe that quality management standards should continue to be principles-based, such that the standards can continue to be relevant in light of the ongoing evolution and modernization of today's audit and attestation engagements. Accordingly, standard-setting objectives in the quality management space should balance specificity within the standards to drive consistency and broader governing principles that may allow firms to better tailor their SoQM to their structures, quality objectives, and risks. A standard that enables firms to tailor their SoQM to their facts and circumstances is critical to the effectiveness of the SoQM.

We acknowledge the ASB's strategic objective to converge its standards with those of the IAASB while avoiding unnecessary differences between the ASB's standards and those of the PCAOB. We were encouraged by the PCAOB's proposal<sup>1</sup> to leverage the IAASB's work in relation to ISQM 1 in revising its quality control standards, and concur with the PCAOB's view that "it would not be practicable to require firms to comply with fundamentally different QC standards." Accordingly, we support the ASB's approach to base SQMS No. 1 on ISQM 1 but note that, as the PCAOB continues its process, the ASB may need to give further consideration to whether it is necessary to make further amendments to SQMS No. 1 to avoid differences in requirements with the PCAOB standards. It would therefore be preferable to wait to finalize SQMS No. 1 until the PCAOB's direction is clear.

Implementing SQMS No. 1 will likely be a significant investment for many firms, as each firm will need to tailor its SoQM to the nature and circumstances of its business, including the nature and scale of engagements it undertakes. We believe that the risk-based focus and application material within proposed SQMS No. 1 helps illustrate scalability within the standard, though additional examples may be necessary as explained in our response to Question 2.

### ***Overview - Proposed SQMS No. 2***

We support a separate standard for engagement quality reviews (EQRs). We believe that it is useful to bring together the requirements for the firm and the reviewer into a single standard, and more clearly articulate the nature and extent of work expected of an engagement quality reviewer.

We agree with including how to determine engagements subject to an EQR within proposed SQMS No. 1. We also support the premise of paragraphs A144 and A145 in proposed SQMS No. 1 that, in some cases, a firm's response to addressing one or more quality risks may be achieved through an EQR. This guidance suggests the firm may wish to consider whether EQRs should be required for entities that may

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<sup>1</sup> <https://pcaobus.org/Rulemaking/Docket046/2019-003-Quality-Control-Concept-Release.pdf>



have public interest or public accountability characteristics. While we understand the intent of this guidance, we believe it remains necessary for firms to retain the ability to determine which engagements should be subject to EQRs beyond audits of listed entities.

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We provide further context to the above points in our responses to the detailed questions posed in Appendix 1 to this letter, and offer drafting suggestions in relation to the proposed QM SAS in Appendix 2. We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. If you have any questions regarding this letter, please contact Heidi Schuetze, at [heidi.i.schuetze@pwc.com](mailto:heidi.i.schuetze@pwc.com) or Kathleen Healy, at [kathleen.k.healy@pwc.com](mailto:kathleen.k.healy@pwc.com).

Sincerely,

PricewaterhouseCoopers LLP



## Appendix 1 - Responses to specific questions

### SQMS 1

**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.**

The exposure draft presents a useful framework for establishing a quality management approach and we support many aspects of the proposals. We believe proposed SQMS No. 1 provides a comprehensive, risk-based framework that can be tailored to respond to firm-specific circumstances, including applicable laws and regulations, types of clients served, and organizational structures. We also support the introduction of the eight component structure as it relates to the organization of a firm's system of quality management (SoQM), recognizing each firm may structure its SoQM differently, or may use different terminology or frameworks to describe its components. In general, we believe the proposed requirements in proposed SQMS No. 1 are clear and understandable, and the application material is helpful in supporting the application of those requirements.

#### *Risk-based, objective-driven framework*

We support the principle of a quality management approach. In our view, this model is more reflective of how firms should be proactively managing quality, and more aligned to risk management frameworks used by other organizations.

To achieve the transformational benefits of a more proactive approach to quality management, we believe it is important for a firm to take a top-down approach to assessing its specific risks to delivering audit quality. We support the framework set out in proposed SQMS No. 1 that would require the firm to establish quality objectives, which set the context for appropriately identifying and assessing the risks to achieving them.

#### *Importance of a principles-based standard and impact of the PCAOB's ongoing project related to quality control*

It is essential to acknowledge the continuously changing environment in which firms will conduct audits and attestation engagements and the possibility of changes in firm circumstances and quality risks over time. These considerations highlight the need for quality management standards that are appropriately principles-based and capable of being adaptable. A firm's SoQM will need to be designed to enable the firm to effectively manage and support quality based on its nature and circumstances. This is particularly important for firms that perform engagements under both AICPA and PCAOB standards and would therefore be subject to multiple quality control standards. We were encouraged by the PCAOB's proposal to leverage the IAASB's work in relation to ISQM 1 in revising its quality control standards, and concur with the PCAOB's view that "it would not be practicable to require firms to comply with fundamentally different QC standards." Accordingly, we support the ASB's approach to base SQMS No. 1 on ISQM 1



but note that, as the PCAOB continues its process, the ASB may need to give further consideration to avoiding differences in requirements with any proposed PCAOB standards before finalizing SQMS No. 1.

We support the guidance in paragraph A3 of the standard that a firm may use different terminology or frameworks to describe its SoQM, which allows firms to design their SoQM in the way they believe will be the most effective. We would have significant concerns if this flexibility were to be removed. We acknowledge that there may be specific considerations to be explored with the AICPA Peer Review Program in light of the principles-based nature of the standard - we believe the ASB should engage in a dialogue about how proposed SQMS No. 1 is expected to be applied before the standard is finalized and consider whether any additional guidance is needed to support its effective implementation. However, such incremental guidance should not be used to compensate for a lack of clarity in the standard or undermine the principles-based nature of the standard.

Finally, we note that proposed SQMS No. 1 applies to all engagements conducted in accordance with the ASB's standards, not just audits. However, much of the focus throughout the standard (in particular its application material) naturally gravitates toward audit engagements, in part due to the impetus for change from the IAASB's regulatory stakeholders who focus on audits of listed entities and public interest entities (PIEs). In considering how best to support implementation of the proposed standard, it will be important that the ASB give appropriate balance to audit and non-audit based examples, including engagements conducted by sole practitioners and smaller firms.

#### *Monitoring and remediation*

We agree with the objective of proposed SQMS No. 1 that "the firm is to design, implement, and operate a system of quality management ... that provides the firm with reasonable assurance..." In the context of proposed SQMS No. 1, it is intended that the operation of the SoQM as a *whole* provides the firm with such reasonable assurance. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a SoQM. Additionally, it is neither reasonable nor cost effective for a SoQM to be designed to achieve absolute assurance. Instead, a robust monitoring and remediation process can provide a continuous feedback loop to enable firms to address any items that have come to the firm's attention through monitoring.

We believe the approach taken in proposed SQMS No. 1 would encourage a more proactive approach to monitoring and likely enhance firms' ability to prevent audit deficiencies. Developing a robust monitoring and remediation process will likely require a significant investment for those firms that do not already have robust monitoring techniques in place – and could present particular challenges to smaller firms or those that perform only a small number of audits. It is important for firms to develop an appropriate mix of ongoing and periodic monitoring activities. These monitoring activities can include performing pre-issuance reviews, internal inspections of completed engagements, and examination of identified deficiencies to determine root causes. The proper mix can drive quality and enhance the continuous feedback loop to prevent future engagement deficiencies, but depends on the nature and circumstances of the firm. The ASB should acknowledge that no single approach makes sense for all firms, that innovation and experimentation should be encouraged, and that smaller firms may not find the benefits of certain approaches commensurate with the costs.



In this regard, we believe a firm should have policies and procedures addressing the evaluation of the relative severity and pervasiveness of any identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the firm's SoQM. Having a principles-based requirement such as that in proposed SQMS No. 1 enables the firm to consider deficiencies that have been identified in the context of the firm's overall design of its SoQM. Evaluating deficiencies in a firm's SoQM is subjective and involves considerable judgment, taking into account the firm's specific quality objectives, the related risks, and the connection between different components of the SoQM.

Evaluating when deficiencies, individually or in aggregate, preclude a firm from concluding that its SoQM achieved reasonable assurance also requires judgment. For example, matters identified at the individual engagement level (e.g., from external inspections or financial statement issues such as restatements) are not always indicative of a deficiency and cannot necessarily be used to draw conclusions about the overall effectiveness of the SoQM. As acknowledged in proposed SQMS No. 1, evaluating whether the firm's SoQM provides reasonable assurance also involves evaluating whether the remedial actions are (1) appropriately designed to address the identified deficiencies and their related root causes and (2) have been implemented.

Each firm's quality responses and monitoring and remediation process are expected to be tailored to its identified quality risks. We do not think it is necessary for the ASB to provide further direction on evaluating the severity of deficiencies or to attempt to establish specific thresholds that would preclude a firm from concluding that its SoQM was effective.

#### *The annual evaluation of the effectiveness of the firm's SoQM*

We support requiring the firm to evaluate at least annually whether its SoQM provides reasonable assurance that the objectives of the SoQM have been achieved, with flexibility in determining when to perform the annual evaluation. However, we believe there will likely be a need for further consideration of how a firm's evaluation may relate to the triennial peer review for firms enrolled in the AICPA Peer Review Program and the conclusions that are made public (e.g., the peer review ratings of pass, pass with deficiencies, and fail). This is an important area that should be fully considered by the ASB and the AICPA Peer Review Program before proposed SQMS No. 1 is finalized.

#### **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.**

Scalability is an important consideration and key challenge in all of the ASB standards currently under revision. We agree that the risk-based focus should help build in scalability of the standard, allowing firms to appropriately tailor their SoQM to the nature and circumstances of their business, including the nature and scale of engagements they undertake.

The risk-based focus described in paragraph 11 and application material within proposed SQMS No. 1 help illustrate scalability within the standard and we have not identified specific requirements that we believe would inhibit scalability. However, we anticipate that firms may also need additional guidance to



help with successful implementation of the standard. We encourage the ASB to consider what additional efforts are needed to illustrate the scalability of the standard in response to feedback to the exposure draft and other outreach activities. For example, additional examples that illustrate relevant considerations in complying with SQMS No. 1 may be necessary to demonstrate how the standard can be applied by sole practitioners and smaller firms, including those that may only perform SSARS engagements or attestation engagements. We understand the IAASB has developed implementation guidance that could potentially be leveraged for use in the US. However, we believe it will be important for the ASB and the AICPA Peer Review Program to play a role in developing any guidance to support SQMS No. 1 so that such incremental guidance is not used to compensate for a lack of clarity in the standard or undermine its principles-based nature. Additionally, as firms begin implementing the final SQMS No. 1, the ASB should take the opportunity to seek real-time feedback from them on implementation experiences (e.g., to understand how firms are developing and documenting their quality objectives, risks, and responses). Understanding such feedback will enable the ASB to consider whether additional guidance would be helpful to supplement the application material in the standard.

## **SQMS 2**

**3. 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. 2 are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.**

Engagement quality reviews (EQRs) are an important response by a firm in managing and achieving quality. We support a separate standard for EQRs and the proposal to converge with ISQM 2. We believe that it is useful to bring together the requirements for the firm and the reviewer into a single standard, and more clearly articulate the nature and extent of work expected of an engagement quality reviewer. We support the majority of the proposed revised requirements, and note these revisions appear consistent with the intent of PCAOB AS 1220. In general, we believe the proposed requirements in proposed SQMS No. 2 are clear and understandable, and the application material is helpful in supporting the application of those requirements; however, we have some concerns about perceptions of what an EQR can realistically achieve, as well as the interaction with other standard-setting projects. See also our response to Questions 8 and 9.

### *Determination of engagements subject to EQR requirements*

We agree with the decision to include the requirement to determine engagements to be subject to an EQR within proposed SQMS No. 1. We also support the premise of paragraphs A144 and A145 in proposed SQMS No. 1 that, in some cases, a firm's response to addressing one or more quality risks may be achieved through an EQR. This guidance suggests the firm may wish to consider whether EQRs should be required for entities that may have public interest or public accountability characteristics. While we understand the intent of this guidance, we believe that the lack of a global definition of a PIE may cause difficulties for global firms looking to adopt a common framework across their networks. It remains necessary for firms to retain the ability to determine which engagements should be subject to EQRs beyond audits of listed entities.



We believe the ongoing project by the International Ethics Standards Board for Accountants to broaden the definition of PIEs could also have unintended consequences in the US and encourage the ASB to liaise with the Professional Ethics Executive Committee to understand if additional clarification is needed in regard to the determination of engagements subject to EQRs.

*Scope of matters requiring EQR review*

Paragraphs 25(b) and 25(c) of proposed SQMS No. 2 explain that the engagement quality reviewer should discuss significant matters and significant judgments made in planning, performing, and reporting on the engagement. Paragraph A35 of proposed SQMS No. 2 simply refers to paragraph A92 of proposed AU-C 220, which provides examples of matters that may be significant judgments requiring engagement partner review. We believe that, without further context, this could potentially be interpreted as a requirement that the engagement quality reviewer evaluate all significant judgments and related documentation and conclusions reached by the engagement partner, effectively expanding the scope of EQR review requirements without allowing for judgment in the identification of review areas for the EQR. This limits flexibility in the application of the standard and would likely result in significantly more time spent on the EQR that may be practicable.

While we support clarifying the nature and extent of work expected of an engagement quality reviewer, it is important to recognize the respective roles of the engagement partner and engagement quality reviewer. The role of an engagement quality reviewer is not to repeat all of the same responsibilities as the engagement partner to act as a “check” on all of the judgments made. The engagement quality reviewer supports quality on the engagement by bringing an objective perspective to the significant judgments made by the engagement team. However, the engagement quality reviewer is not able to make an independent assessment as to whether the significant judgments identified by the engagement team represent a complete population, as this would effectively mean reviewing all areas of the engagement and related audit documentation. As acknowledged in paragraph A39, the firm’s policies and procedures will likely describe a baseline of significant judgments that need to be reviewed by the engagement partner and evaluated by the engagement quality reviewer. We believe the ASB should consider reorganizing and enhancing the application material to first explain that AU-C section 220 includes examples of significant judgments that may be reviewed by the engagement partner (paragraph A35) and provide additional context about the role of the engagement quality review with respect to those judgments (new application material), then clearly explain that the firm’s policies and procedures are expected to set out what the engagement quality reviewer is required to review (enhanced paragraph A39), and that the discussion contemplated by paragraph 25(b) may identify other areas that warrant review by the engagement quality reviewer in the context of the nature and circumstances of the engagement (new application material).

To the extent there are significant judgments that the ASB believes should always be evaluated by the engagement quality reviewer, we support including those as direct requirements; for example, those contemplated by paragraph 10 of PCAOB AS 1220.

Finally, as described in our response to Question 4, we are concerned with the new requirement in paragraph 31 of the proposed QM SAS, in particular what evidence would need to be documented to support the engagement partner’s determination in accordance with paragraph 40 that the engagement



partner's involvement has been sufficient and appropriate throughout the audit engagement and comply with the requirements of the SAS. While we understand the basis for this "stand back" in the proposed QM SAS, we do not believe it is appropriate to mirror this requirement in the context of an EQR (paragraph 25(f) of proposed SQMS No. 2). In our view, requiring the engagement quality reviewer to evaluate the basis for the engagement partner's determination that the engagement partner's involvement has been sufficient and appropriate goes beyond the objective of an EQR.

That being said, we acknowledge that it would be appropriate for the engagement quality reviewer to take action should concerns arise that the engagement partner was not sufficiently and appropriately involved during the audit and therefore did not have an appropriate basis for the conclusions reached. The requirement in paragraph 26 of proposed SQMS No. 2 requires the engagement quality reviewer to notify the engagement partner (and potentially appropriate individuals in the firm) if the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. We believe paragraph 25(f) could be deleted and its intent more clearly articulated in the context of paragraph 26. We note that paragraph A49 acknowledges that the firm's policies and procedures may specify the individuals in the firm to be notified if the engagement quality reviewer has unresolved concerns, which we believe could be expanded upon to specifically highlight concerns about the extent of the engagement partner's involvement.

## **QM SAS**

**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.**

### ***Overview***

As noted in our cover letter, we support the intent of the revisions to promote consideration of risks to quality at the engagement level and support many of the revised requirements in the proposed SAS. We agree that the engagement partner needs to be sufficiently and appropriately involved throughout the audit to be able to take overall responsibility for the quality of the engagement. However, as audits become more complex and audit delivery models to support quality audits evolve, it is often necessary to involve others to assist the engagement partner in directing, supervising, and reviewing the engagement. The concept of other partners assisting the engagement partner is contemplated in the definition of an "audit partner" in Rule 2-01 of Regulation S-X, which addresses not only requirements for the lead partner, but also other audit engagement team partners (including those who serve as the lead partner in connection with an audit of subsidiaries of an issuer) who have responsibility for decision-making on significant auditing, accounting, and reporting matters that affect the financial statements. PCAOB AS 1201, *Supervision of the Audit Engagement*, clearly articulates the concept of other engagement team members who assist the engagement partner with supervision of the work of other engagement team members. In practice, these "auxiliary partners" are an essential part of bringing quality to engagements of varying sizes and complexities, including in the case of group audits. In our experience, using auxiliary partners to assist the (lead) engagement partner is necessary in light of the volume of work to be reviewed - we believe that having other suitably qualified individuals involved in directing, supervising,



and reviewing elements of the overall engagement supports enhanced quality, and does not diminish the (lead) engagement partner's responsibility for the engagement as a whole. While we understand that the IAASB's project on ISA 220 is intended to be responsive to concerns from regulators outside the US that the engagement partner may not always be appropriately involved in the audit, we do not believe there are similar concerns in the US that would merit a significant overhaul of extant AU-C section 220.

We believe that, as drafted, the level of prescription regarding the lead engagement partner's responsibilities in some of the proposed new requirements is in conflict with the premise in paragraph 8 that the engagement partner may need to assign the design or performance of some procedures, tasks, or actions to other members of the engagement team, especially in an audit of an entity whose nature and circumstances are more complex. In our view, it is generally not possible or practicable for the lead engagement partner to satisfy all of the requirements of the QM SAS by themselves. Although the application material provides examples of how the requirements can be applied in certain situations, we are concerned with how the proposed QM SAS seems to shift from extant AU-C section 220's requirements for the engagement partner to be satisfied regarding certain matters to a more robust requirements for the engagement partner to "determine" and "review" a broader range of matters. We do not believe the application material overcomes the prescriptive nature of the revised requirements. Further, we believe that use of the terms "determine" and "review" is not clear in the context of the requirement outlined in paragraph 9 of the proposed QM SAS. We believe that the lack of specificity as to what it means to "determine" or "review" may result in varied interpretations in practice as to how such requirements are performed and documented within the audit file.

We therefore believe the proposed SAS should more clearly describe the concept of assignment of responsibility to others to assist the engagement partner in fulfilling their quality responsibilities, and take steps to further highlight how the requirements within the standard would be applied in various circumstances (e.g., through additional application material or implementation guidance). In principle, we believe that the engagement partner should be able to assign responsibility for aspects of quality to those most qualified to deliver on it. In addition, many audit delivery models have been put in place to specifically reinforce quality through quality control procedures embedded in their design, including firm policies and procedures. Accountability for different aspects of audit quality in an engagement can, in our view, be shared with others when all participants understand their role and how it is interrelated with those of others. Firm policies and procedures are best suited to address such roles and responsibilities.

In building a framework that best supports audit quality, it is important that the requirements in the proposed QM SAS are grounded in a risk-based approach, and are sufficiently principles-based so that they can be appropriately applied across a variety of engagement team structures in a scalable manner. We offer more specific concerns about circumstances in which the proposed QM SAS will be applied and recommendations to alleviate these concerns below.

### ***Recognizing the evolving nature of how audits are conducted***

Today's audits are being performed with increasingly diverse and distributed delivery models that leverage technology, other tools, and working practices to increase the efficiency and effectiveness of audit work. Further, the impact of the COVID-19 pandemic continues to highlight the need for different structures to bring quality to an engagement, including flexibility in how the principles of adequate



direction, supervision, and review can be achieved. So it is timely that the ASB considers how to acknowledge these changing structures in the proposed QM SAS, as we expect to continue to see an increase in engagements using Centers of Excellence, service delivery centers, staff augmentation models, and other audit delivery models across the profession. The primary objective of these audit delivery models is to drive higher quality through consistent performance. While paragraph A15 appropriately acknowledges that engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing, our view is that the proposed SAS downplays the importance of shared accountability for quality by establishing unduly prescriptive requirements for the engagement partner to individually perform and misses an opportunity to further modernize the standards in light of current developments.

In our experience, these newer audit team structures rely on robust policies and procedures established at the firm level and are designed to mitigate perceived risks of the engagement partner delegating responsibilities for direction, supervision, and review. For example, these policies and procedures ordinarily set out responsibilities for interactions between the engagement partner (or an auxiliary partner) and partners and others with supervisory responsibilities using various audit delivery models, as well as specify what audit documentation is to be reviewed by whom, including what should be reviewed by the engagement partner and how such review should be evidenced. These new and evolving models also leverage technology to facilitate direction, supervision, and review, which is also addressed by the firm's policies and procedures through its SoQM. Consistent with the proposed SAS, the engagement partner remains ultimately responsible for quality at the engagement level, but quality is brought to bear by the appropriate involvement of others.

***Challenges with how the concepts have been articulated in the proposed SAS and suggestions for further clarity***

We are concerned that the proposed SAS may not be capable of being effectively implemented in light of the various audit delivery models that may exist today and how such models (and the technology that supports their functioning) are likely to evolve in the future. It is important that the proposed SAS reflect the changing nature of audits and not introduce prescriptive requirements that may impede, rather than support, audit quality. Specifically, we believe that there are a number of potentially significant unintended consequences of aspects of the proposed changes, as described below. We have identified certain of these concerns in connection with our efforts to commence implementation of ISA 220, and are aware of the IAASB's plans to develop further implementation guidance in relation to practical considerations that were raised in the development of ISA 220. We believe the ASB should seek to address these concerns before finalizing the proposed QM SAS, with a view to avoiding unnecessary differences with the PCAOB's standards. Similarly, it is important the ASB fully considers the impact that the proposed QM SAS will have on group audits and its planned efforts to revise AU-C section 600 once the IAASB finalizes its project.

As noted above, paragraph 8 of the proposed SAS acknowledges that, when an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks, or actions to other members of the engagement team. This is placed under the heading of "Scalability" but this is an essential point that needs to be better articulated and carried throughout the standard. Quality is



often best achieved through the assignment and delegation of direction, supervision, and review responsibilities, which are broader than the concept of assigning procedures, tasks, or actions explained in paragraph 9 of the proposed SAS. We do not believe paragraph 9 is sufficiently clear in this regard, nor are the expectations relating to documentation.

In our view, paragraph 4 of PCAOB AS 1201 better articulates the concept of other engagement team members who assist the engagement partner with supervision of the work of other engagement team members. This terminology acknowledges that the engagement partner remains ultimately responsible for quality on the engagement, but that other qualified members of the engagement team often perform significant roles associated with achieving audit quality (in particular in relation to direction, supervision, and review). Accordingly, we believe the proposed SAS needs to be revised to better reflect the principle of shared accountability for aspects of quality, and what is practically achievable by the engagement partner. Within Appendix 2, we have provided drafting suggestions to underscore the importance of firm policies and procedures on the nature, timing, and extent of the engagement partner's direction, supervision, and review, better clarify the engagement partner's responsibilities in other alternative audit delivery models, and further highlight the interaction with group audits (see paragraphs 8, 9, and 9A).

Given the evolving audit environment, we believe that it is important that the standard recognizes that various ways exist to direct, supervise, and review audit engagements, and encourages the use of professional judgment in making this determination. We believe that the requirements in the proposed SAS are potentially overly prescriptive, considering the increasingly dynamic engagement team structures to which the proposed SAS will be applied.

Paragraph A10 of the proposed SAS acknowledges that ordinarily, the engagement team may depend on the firm's policies and procedures in complying with the requirements of the proposed SAS, and paragraph 9 notes the engagement partner may need to obtain information from or assign certain procedures or tasks to other suitably experienced members of the engagement team to be able to fulfill particular responsibilities set forth in the proposed SAS. We believe these concepts should be made more prominent in the proposed SAS, and potentially implementation guidance, to assist auditors in understanding how the proposed SAS can be applied to various structures. We provide drafting suggestions in Appendix 2 to this letter.

In particular, we believe there will likely be practical challenges arising from how the requirements in the following paragraphs have been drafted, or possible inconsistencies in how such requirements are applied in different audit structures (including group audits, as described in more detail below) given the inference that these tasks are to be solely performed by the engagement partner:

- Paragraph 25: requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the team in a timely manner
- Paragraph 26: requires the engagement partner to determine that members of the engagement team and others collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement



- Paragraph 30: requires the engagement partner to determine that the nature, timing, and extent of direction, supervision, and review is planned and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and are responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm
- Paragraph 31: requires the engagement partner to review audit documentation related to significant matters, significant judgments, and other matters
- Paragraph 35: requires the engagement partner to determine that consultations have been appropriately undertaken, and conclusions agreed and implemented
- Paragraph 38: requires the engagement partner to determine that conclusions related to differences of opinion are documented and implemented
- Paragraph 39: requires the engagement partner to determine the relevance and effect on the audit engagement of information from the firm's monitoring and remediation process, including, as applicable, information from the monitoring and remediation process of the network and across the network firms

The ASB should evaluate whether changes to the requirements or additional application material is necessary to clarify how the engagement partner would comply with the objective of these requirements when other suitability qualified members of the engagement team are significantly involved in direction, supervision, and review, as well as the important interaction with the firm's quality responses, including its policies and procedures with which its personnel are expected to comply.

#### ***Impact of the proposed QM SAS on group audits***

Paragraph A1 of the proposed QM SAS explains that AU-C section 600 provides guidance on how to adapt and apply the requirements of the proposed QM SAS in an audit of group financial statements involving component auditors. Similar to our concerns with how direction, supervision, and review may be applied when an audit delivery model is used, we are concerned that the prescriptive nature of certain of the requirements in the proposed SAS may make it difficult to apply in a group audit. We recommend that an assessment of all requirements in the proposed QM SAS be performed to determine whether they are capable of being applied in the context of a group audit. We understand that the ASB is closely monitoring the IAASB's ongoing project to revise ISA 600 and intends to consider changes to AU-C section 600 as a result. It will be necessary for the ASB to also be satisfied as to how the requirements in the proposed QM SAS interact with the additional requirements and application material related to the group engagement as set out in AU-C section 600. We do not believe the proposed QM SAS should be finalized before revisions to AU-C section 600 are considered; we believe these two standards should be finalized in tandem and become effective at the same time.

As an example, we believe it will be important to make clear in AU-C section 600 that the requirement in paragraph 31 of the proposed QM SAS for the engagement partner to review significant matters and significant judgments relates to matters *at the group engagement level*. It is neither necessary nor



practicable to require the engagement partner to review such matters *at the component level*. As acknowledged in paragraph A91 of the proposed SAS, the engagement partner exercises professional judgment in determining the extent of documentation to be reviewed, for example, when determining the nature and extent of the review of component auditor documentation in a group audit.

*Seeking assistance from the component partner and other component engagement team members*

In order to take responsibility at the group engagement level, the (group) engagement partner will need to rely on actions being taken by the engagement partner at the component as well as the component firm's policies and procedures. Our experience suggests that the group engagement team member needs assistance from the partner in charge of the component team to comply with a number of requirements, particularly in relation to relevant ethical requirements, engagement resources, and monitoring and remediation. We believe this is appropriate and in the best interests of quality, as the presumption would be that the partner would be an appropriately skilled or suitably experienced member, with visibility into the firm's policies and procedures that govern the component team's work.

In practice, we believe the group engagement partner is able to "take responsibility" or make "determinations" contemplated by the proposed QM SAS based on review of the component auditor's written acknowledgment of the group audit instructions and the component auditor's overall summary memorandum or report describing the work performed and the results thereof, supplemented with two-way communication throughout the audit as any issues may arise. The policies and procedures at both the group engagement team's firm and the component auditor's firm also play a significant role, in particular when both firms are members of the same network with a common methodology. On the other hand, when the component auditor is from a non-network firm, without additional guidance, it is difficult to envisage how certain of the requirements can be practically undertaken by the group engagement partner, for example understanding results of monitoring and remediation of a non-network firm (paragraph 39 of the proposed QM SAS). In such circumstances, we believe there may be conflicts with national laws or regulations governing confidentiality and potential limitations on what can reasonably be expected to be shared with the engagement leader, in particular about another firm's SoQM.

As another example, paragraph 35 of the proposed SAS requires the engagement partner to determine that members of the engagement team have undertaken appropriate consultation during the audit engagement and that conclusions have been agreed and implemented. It is not practicable to expect that the group engagement partner would be aware of how the component auditor's firm sets out consultation requirements nor whether individuals within the component audit team have followed those requirements and appropriately executed the consultation. In a complex group audit, this could extend to a number of matters. Rather, the principle of shared accountability would suggest that the component partner make an assertion to this effect (i.e., thereby providing information to the group engagement partner to be used in making this determination). We have similar concerns with paragraph 38 in relation to differences of opinion at the component level. We are concerned that without additional implementation guidance suggesting how such requirements can be practically implemented, auditors may become unduly focused on less important matters at the expense of audit quality.



### *Definition of engagement team*

We understand that, in the context of a group audit, the revised definition of engagement team is intended to scope in all individuals involved in performing work at components of the group (i.e., component auditor teams, which would include individuals from network and non-network component auditors). We believe this has significant implications for the expectations of a group engagement partner that we do not believe have been sufficiently evaluated.

### **Other matters**

#### *Discussion of significant judgments*

We agree that the engagement partner would ordinarily review the most critical areas of judgment related to a specific audit engagement, including those relating to difficult or contentious matters, understanding that firm policies and procedures may allow auxiliary partners to perform detailed reviews of significant judgments (including at components). We agree with the guidance in paragraph A92 of the proposed SAS that the firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments - this is often the case to drive consistency in execution. Paragraph A92 also appropriately recognizes that the engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. It is important that the proposed SAS notes that whether or not the examples in paragraph A92 are significant judgments will also depend on the facts and circumstances of the engagement. See drafting suggestions in Appendix 2. This flexibility will also be important from the perspective of engagement quality reviews as described in our response to Question 3.

#### *Documentation*

We believe there is a significant risk of confusion and inconsistent application of the requirements due to the use of the term "determine" within the requirements. In certain cases, the "determination" appears to be a "stand back requirement" or a "final consideration." From the use of this terminology, the extent of documentation required to support the engagement partner's determination, and how that should be evidenced within the audit workpapers, is unclear. We believe that additional application guidance in relation to specific requirements would be helpful as to how the engagement partner or the engagement team more broadly may be reasonably expected to evidence their determination within the audit file on these key matters. We are concerned that the use of terminology like "determine" or "evaluate" will result in an expectation that detailed documentation will be included, which may not improve quality. This concern is not specific to the proposed SAS, and suggests the ASB may need to more fundamentally revisit how documentation requirements are explained in the AU-Cs, as this has been highlighted as a concern from a scalability perspective.

To illustrate, paragraph 4 requires the engagement team to determine whether to design and implement responses at the engagement level beyond those in the firm's policies and procedures. As currently worded, such a determination may imply that the engagement partner documents a specific conclusion that no additional responses beyond the firm's policies and procedures are necessary. For example, in accordance with paragraph 36:



- Where an engagement quality review is required, is there an expectation that the determination that an engagement quality reviewer has been appointed include a specific requirement for the engagement partner to document the rationale for the appointment, rather than relying on the firm's policies and procedures alone?
- Correspondingly, if an engagement does not meet the firm's criteria for an engagement quality review, the requirements in paragraph 4 may suggest that the engagement partner would need to explicitly document the factors taken into account in considering whether to request an engagement quality reviewer be assigned.

We also suggest more guidance is needed to clarify what evidence would need to be documented to support the engagement partner's determination in accordance with paragraph 40 that the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement, and the nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of the proposed SAS. We believe the audit file itself will support this determination and the purpose of the requirement is for the engagement partner to reflect before issuing the audit report, rather than to perform a comprehensive assessment of the engagement or drive additional documentation. The ASB could consider specifically addressing this in paragraph A118 of the proposed QM SAS.

## Overall

### **5. Respondents are asked to provide their views on whether the effective dates are clear.**

The proposed effective dates are clear. We agree that the ASB needs a two-step process in relation to the effective date of proposed SQMS No. 1 - that the SoQM needs to be fully operational at a particular date, with the first annual evaluation of the SoQM within one year from that date.

### **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.**

#### *Additional considerations relevant to finalizing the proposed standards*

We believe there are interactions that need to be taken into account before the proposed standards can be finalized as described in our responses to Questions 1, 3, and 8. In particular, we believe the ASB's decisions in finalizing SQMS No. 1, including its effective date, should also take into account the PCAOB's progress on its quality management standards, given the ASB's strategic objective of avoiding unnecessary differences between the ASB's standards and those of the PCAOB. It would be unhelpful for the ASB to finalize proposed SQMS No. 1 and then potentially reopen it in response to developments in the PCAOB's standards. Similarly, the need for further actions by the PEEC, in relation to both the definitions of PIEs and discussion of the cooling-off period for engagement quality reviewers, may



suggest the proposed standard should not be finalized before the PEEC's deliberations on these matters. Finally, consideration of how a firm's annual evaluation of its SoQM may relate to the triennial peer review for firms enrolled in the AICPA Peer Review Program and the conclusions that are made public (e.g., the peer review ratings of pass, pass with deficiencies, and fail) by the ASB and the AICPA Peer Review Program is necessary before proposed SQMS No. 1 is finalized.

With regard to the proposed QM SAS, as noted in our response to Question 4, we believe there will be practical considerations for group audits in applying the proposed QM SAS that will need to be addressed. Accordingly, the ASB should defer finalization of the proposed QM SAS until its efforts to update AU-C section 600 are nearing completion.

*Need for a longer implementation period*

Regardless of when the proposed standards are finalized, given the effort needed by firms to achieve the objectives of a top-down, risk-based approach to the firm's SoQM, we believe an implementation period of at least two calendar years from the date of the issuance of the final SQMS No. 1 will be necessary. Building in this extra time would allow the ASB the opportunity to seek real-time feedback from firms on implementation experiences as well as to potentially understand how firms are developing and documenting their quality objectives, risks, and responses. Understanding such feedback will enable the ASB to consider whether additional guidance would be helpful to supplement the application material in the standard. Due to the interaction between proposed SQMS No. 1 and proposed SQMS No. 2, we believe their effective dates should continue to be aligned.

With regard to the proposed QM SAS, we believe the ASB should make the proposed QM SAS and the future revisions to AU-C section effective concurrently, similar to how the ASB approached the revisions to AU-C sections 540 and 315. Our initial view is that an 18-month period may not be sufficient given the potential impacts to methodology. We do not believe it is critical that the proposed QM SAS becomes effective at the same time as proposed SQMS No. 1.

**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. (Issue 1)**

We recognize a difference exists today between ISQC 1 and QC section 10 relating to the involvement of those performing the engagement or the EQR in inspecting the completed engagements (also referred to as *self-inspection*).

We support the approach taken in SQMS No. 1 to converge with ISQM 1 in relation to inspection of completed engagements. However, we understand the concerns of smaller firms that result from potentially removing the existing difference between ISQC 1 and QC section 10, and encourage the ASB to consider how best to respond to those concerns, including whether there are additional actions that could be taken to help firms consider alternatives to self-inspection.



**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. (Issue 2)**

We agree with the principle that ordinarily, in the case of an audit of financial statements, an engagement partner would not be able to act as the engagement quality reviewer until two subsequent audits have been conducted. However, we recognize the potential challenges to smaller firms if the ASB converges with the IAASB as described in the Explanatory Memorandum, and believe a careful consideration of feedback from respondents will be necessary. In deciding the best way forward, we consider it important to reflect on whether there are circumstances, in particular in the context of smaller practitioners, when there may be potential risks to quality from mandating a minimum specific period. For example, we are concerned that taking a very prescriptive approach in SQMS No. 1 could dissuade firms from requiring EQRs as a quality response when it would otherwise be appropriate to do so. While we anticipate this situation to be rare, it would not seem to be in the public interest that there may be circumstances when a compliant audit could not be performed because it is not possible to identify an engagement quality reviewer who could meet this criterion.

Additionally, the PEEC has historically been charged with addressing partner rotation requirements set out by the IESBA, rather than the ASB. We suggest that the PEEC be asked to consider whether there are additional safeguards that can be put in place in these rare circumstances. Additionally, we believe the ASB should carefully consider the exemption within the PCAOB's standards and the role the AICPA Peer Review Program plays in mitigating any self-review threats.

**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. (Issue 3)**

Engagement quality reviewers are involved at appropriate stages during the engagement so that significant matters may be promptly resolved to their satisfaction before the audit report is dated. We believe the EQR is more effective when phased throughout the audit cycle, with efforts commencing early in the audit process to allow for any questions to be dealt with appropriately. We are therefore supportive of the ASB's approach to converge with the IAASB's requirements, and effectively require the completion of the EQR before the audit report is dated.



## Appendix 2 - Detailed comments

### ***The Engagement Partner's Responsibilities for Quality at the Engagement Level***

8. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. Ordinarily, the engagement team depends on the firm's policies and procedures in complying with the requirements of this proposed SAS. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing, and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. [Elevated from paragraphs A4 and A82]

9. The engagement partner remains ultimately responsible and, therefore, accountable, for compliance with the requirements of this proposed SAS. Engagement teams may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing, or may be performing group audits in accordance with AU-C section 600. Accordingly, the engagement partner may often find it necessary to seek assistance from appropriately skilled or suitably experienced members of the engagement team to fulfill the responsibilities pursuant to this proposed SAS. The phrase "takes responsibility for..." is used for those requirements for which the engagement partner is permitted to assign responsibility for aspects of engagement quality (for example, to seek assistance with direction, supervision, and review of the audit engagement) assign the design or performance of procedures, tasks, or actions to appropriately skilled or suitably experienced members of the engagement team. For other requirements, this proposed SAS expressly intends that the requirement or responsibility be fulfilled by the engagement partner, ~~and~~ In such circumstances, the engagement partner may often need to obtain information from the firm or other members of the engagement team in order to fulfill that responsibility. For example, when other appropriately skilled or suitably experienced engagement team members perform supervisory and review responsibilities (including at a component in the context of a group audit), the engagement partner's determination takes into account the outcome of those activities. (Ref: Para. A21A–A24) [Note: Concept of seeking assistance from others leveraged from PCAOB AS 1201, additional language added to describe how others are likely to assist in practice, including group audits, material elevated from paragraph A15]

### **Scalability**

9A8. The requirements of this proposed SAS are intended to be applied in the context of the nature and circumstances of each audit. Examples follow:

- a. When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this proposed SAS are not relevant because they are conditional on the involvement of other members of the engagement team. (Ref: par. A13– A14)
- b. When an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex (including a group audit), the engagement partner may need to seek assistance from assign the design or performance of some procedures, tasks, or actions to other



members of the engagement team to fulfill the responsibilities set out in this proposed SAS. [Edits to align with the concepts in paragraph 9.]



### ***Engagement Resources***

25. The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, ~~and any~~ changes that may arise during the engagement and, as necessary, input from others who are assisting with responsibilities for direction, supervision, and review. (Ref: par. A59–A70, A73–A74, and A79) [Edits to align with the concepts in paragraph 9 to highlight the view that input from others will often be necessary, in particular in a group audit.]

26. The engagement partner should determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. This determination takes into account the firm's policies and procedures and, as necessary, input from others who are assisting with responsibilities for direction, supervision, and review. (Ref: par. A62 and A71–A74) [Edits to align with the concepts in paragraph 9 to highlight the view that input from others will often be necessary, in particular in a group audit.]

30. The engagement partner should determine that the nature, timing, and extent of direction, supervision, and review is (Ref: par. A81–A89 and A94–A97)

- a. planned and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and
- b. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

This determination takes into account, as necessary, input from others who are assisting with responsibilities for direction, supervision and review. [Edits to align with the concepts in paragraph 9 to highlight the view that input from others will often be necessary, in particular in a group audit.]

*Sufficient and Appropriate Resources to Perform the Engagement* (Ref: par. 25)

A70. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation, and maintenance programs when using firm-approved technology to perform audit procedures.

A70A. The engagement partner may often find it necessary to seek assistance from others who are assisting with responsibilities for direction, supervision, and review to make the determinations required by paragraphs 25-27 of the proposed SAS. For example, in the case of a service delivery center, the partner or other senior engagement team member may be best placed to determine whether personnel at the service delivery center have the appropriate competence and capabilities, including sufficient time, to



perform the audit engagement. If there is a concern with engagement resources at the service delivery center, such concerns would be communicated to the engagement partner and addressed as necessary in accordance with the firm's policies and procedures.

A70B. Similarly, in the case of a group audit, communication with the partner responsible for overseeing work at the component will likely be necessary to make this determination, for example in the form of an acknowledgment (see also paragraph A76).

#### The Engagement Partner's Review (Ref: Par. 30-34)

A90. As required by AU-C section 300, the engagement partner reviews the overall audit strategy and audit plan. As required by AU-C section 230, the engagement partner documents the date and extent of the review. As noted in paragraph A63, technological resources may be used to effectively manage the audit, for example, a tool that illustrates assigned workflow may evidence the preparation of an appropriate plan for the effective direction, supervision, and review of planned audit procedures.

A91. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation. In conjunction with the firm's policies and procedures, the engagement partner exercises professional judgment in determining the extent of documentation to be reviewed, for example, when determining the nature and extent of the review of component auditor documentation in a group audit.

A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures ~~often may~~ specify certain matters that are commonly expected to be significant judgments, what is expected to be documented in relation to them, and who is expected to review such judgments (including whether others with supervisory responsibilities can assist the engagement partner with their review). Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team. Depending on the facts and circumstances of the engagement, examples follow of matters that may be considered significant judgments include:

- Matters related to planning the engagement, such as matters related to determining materiality
- The composition of the engagement team, including personnel using expertise in a specialized area of accounting or auditing the use of personnel from service delivery centers.
- The decision to involve an auditor's specialist, including the decision to involve an external specialist
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information
- The engagement team's risk assessment process, including situations in which consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team
- The engagement team's consideration of related party relationships and transactions and disclosures



- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect concerning certain accounting estimates, accounting policies, or going concern considerations.
- The engagement team's evaluation of the work performed by specialists and conclusions drawn therefrom
- In group audit situations:
  - the proposed overall group audit strategy and group audit plan;
  - decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and
  - the evaluation of work performed by component auditors and the conclusions drawn therefrom
- How matters affecting the overall audit strategy and audit plan have been addressed
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or a "Material Uncertainty Related to Going Concern" paragraph

A93. The engagement partner exercises professional judgment in determining other matters to review, for example, based on:

- the nature and circumstances of the audit engagement.
- which engagement team member performed the work.
- matters relating to recent inspection findings.
- the requirements of the firm's policies or procedures.

#### *Nature, Timing, and Extent*

A94. The nature, timing, and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm's policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm's policies or procedures may include the following:

- Work planned to be performed at an interim date is to be directed, supervised, and reviewed at the same time as the performance of the procedures, rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.
- Certain matters are to be reviewed by the engagement partner, and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.
- When others are permitted to assist the engagement partner with their review of the matters in paragraph 31, how the reviews may be executed, including how technology may be utilized.

A94A. The granularity of reviews by an engagement partner is influenced by the experience of other reviewers and the extent of their review. An engagement partner may make judgments regarding the appropriate extent of assistance requested of other partners in areas of significant judgments in the audit. Such other partners may perform a more detailed review of the underlying audit documentation of the



work performed and discuss the outcome of this review with the engagement leader to enable the engagement partners to fulfill the requirement in paragraph 30 of this proposed SAS.

A94B. Similarly, service delivery centers may be used to execute certain components of the audit plan. Where audit work is performed using service delivery centers, firm policies and procedures may provide guidance to assist the engagement partner in satisfying the direction, supervision, and review requirements included in paragraph 31. Consideration of facts and circumstances and the application of firm policies and procedures may assist the engagement partner in determining the nature, timing, and extent of the engagement partner's review.

**[Consideration should also be given to adding an example specific to group audits, to explain how the group engagement partner needs to seek assistance from the component partner and describe the role the component audit firm's policies and procedures play. We are not proposing a suggestion here as such guidance will depend on how ISA 600 is drafted, including how the concepts such as the component auditor's written acknowledgment of the group audit instructions and the component auditor's overall summary memorandum or report describing the work performed and the results thereof are articulated.]**