



August 31, 2021

Sherry Hazel  
American Institute of Certified Public Accountants  
[CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

Re: Exposure Draft of the ASB's Proposed Quality Management Standards,

Dear Ms. Hazel,

CohnReznick appreciates the opportunity to comment on the abovementioned quality management standards. CohnReznick is the 16th largest accounting firm in the U.S., with its origins dating back to 1919.

We support the ASB in its overall mission to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our response to the exposure draft will give you perspective into the unique impact these changes might have on small and medium size entities and their ability to attract capital.

Our responses to specific questions on which the ASB is seeking comment are included in the attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, National Director of Audit, at 646-601-7740 or [steven.morrison@cohnreznick.com](mailto:steven.morrison@cohnreznick.com).

Yours truly,

A handwritten signature in black ink that reads 'CohnReznick LLP'. The signature is written in a cursive, flowing style.

## OVERALL RESPONSE

Our top priority is to deliver high-quality services to our clients in an era of rapid changes: changing accounting standards, business environments, technology and innovations, and regulatory requirements. We are committed to our important role in the capital markets and delivering high-quality services. We aim to provide our clients with confidence in their accurate, objective, and compliant financial reporting while helping them maintain transparency, manage risks, and provide valuable information to users of their financial statements.

We support the development of the proposed quality management standards and believe the proposed standards may serve the public interest. We realize the ASB is not able to control the activities of other standard setters. We do wish to indicate it is hoped the AICPA, IAASB, and PCAOB develop quality management standards off of the same base as opposed to three separate systems. Having three separate quality management standards that have the same or similar objectives but are written completely different increases inefficiencies and may drive resources away from audit quality efforts.

### 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 strongly support the proposed SQMS No. 1.
- I somewhat 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.**

We support the development of the proposed quality management standards and believe the proposed standards may serve the public interest. We do have considerations on risk assessment and scalability as indicated in 1b and have additional concerns in 1e as well.

**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.**

Our views, at this time, on the fundamental aspects of the proposed SQMS No. 1 are as follows:

#### *Risk Assessment Process*

We believe a “risk based” approach is appropriate; however, we caution that without implementation guidance, the overall risk assessment process may be limited and not consistent with the overall risks that many firms face in today’s environment. Please see our response in Part 6, Question 9A, Development of Core Package for further discussion of ways we propose to aid in the implementation of the QM standards.

### *Governance and Leadership*

We agree overall with the proposed standard's governance and leadership aspects. For the many firms that will be merging in the next 5 - 10 years and thus moving from a smaller environment to a larger one, the importance of appropriate governance and leadership and overall "tone at the top" will become more important for the Profession.

### *Resources*

We agree overall with the proposed standard's resources aspect. As technology has improved and firms having expanded capabilities to serve non-attest functions, more is occurring at CPA firms. We believe the proposed standards will appropriately reinvigorate the focus of quality management on many aspects of firms.

### *Information and Communication*

We agree overall with the proposed standard's information and communication aspect, but note making this fully operational may be difficult for a number of firms. For firms that issue robust internal communications and/or external transparency reports, there is a structure and mechanism for a number of communications. However, few firms issue such reports and those that do likely expend a large amount of resources to prepare and review such reports. We feel this aspect, while written in a principles-based manner, is not operational without further application guidance.

### *Monitoring and Remediation*

We agree overall with the proposed standard's monitoring and remediation aspect. Particularly given the "fresh look," that the proposed QM standards may bring, we encourage appropriate implementation guidance to assist firms and their peer reviewers to have a mutual and consistent understanding of the evaluation of deficiencies.

### *Networks*

We agree overall with the proposed standard's networks aspect and believe it appropriate to refocus firms on the importance of understanding networks. Also, some networks may find it appropriate to provide a package to member firms listing out how it complies with quality management standards in various areas to facilitate this understanding.

### *Scalability*

We agree overall with the proposed standard's scalability aspect. We believe the importance of scalability continues to be considered as the proposed QM standards are finalized. Please see our response in Part 6, Question 9A, Development of Core Package, for further discussion of ways we propose to aid in the implementation of the QM standards.

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

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

Yes, we believe the overall requirements in SQMS No. 1 are overall clear and understandable.

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

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

Yes, we believe the overall application material in SQMS No. 1 is overall clear and understandable.

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

- We encourage the ASB to make explicit statements on various concepts to (1) remove ambiguity and (2) to provide firm personnel charged with implementing SQMS clear support when approaching personnel from departments that may not have been as directly involved in quality previously. For example, information technology and human resources departments.
- Given the articulation of responsibilities related to networks, we encourage the requirement in .49 be retained to help reinforce the importance of the SQMS:  
The firm remains responsible for its system of quality management, including professional judgments made in the design, implementation, and operation of the system of quality management. The firm should not allow compliance with the network requirements or use of network services to contravene the requirements of this proposed SQMS.
- Given the varying expectations that will likely exist among peer reviewers and other parties, we recommend .A223 be retained and considered to be elevated to a requirement.  
The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction for each quality objective or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm's responses address the quality risks, the firm may document the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of one or more quality objectives) to support the consistent implementation and operation of the responses.
- On .A57, while we do agree that "The firm's culture is an important factor in influencing the behavior of personnel," we do recommend that on the list of "Professional values and attitudes" listed, that "Social responsibility" be removed, in part, for the following reasons:
  - The concept of social responsibility has different definitions to different people and such definitions may be in conflict with one another. However strongly one feels for or against whatever definition of social responsibility is used, we feel such consideration is not relevant with quality management in the context of this proposed SQMS.
  - By including social responsibility in .A57, even though it is application guidance, it may imply that social responsibility should be a part of quality management and that peer reviewers should include consideration of such in the peer reviewers' inspections, which given the different definitions of social responsibility, could create issues that detract from audit quality.

## **PART 2: Scalability of SQMS No. 1**

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

Yes. We believe overall that the new quality management approach in SQMS 1 is scalable.

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

Yes. We believe additional application material regarding scalability would be helpful. Most firms do not have formal national offices or sufficient resources to meet the requirements of the proposed SQMS 1 and 2 and the related SAS. Many of these firms, small, medium, and likely a number of firms in the top 20 list of firms, may rely on third-party providers. As with the case with risk assessment, these third-parties may become de facto standard setters in determining approaches. We recommend the ASB use the time now to capture its intent and expand application material across all areas of the proposed SQMS 1 and 2 and the related SAS, with an emphasis on non-global firms.

We feel the charts on SQMS 1 .A48 and .A194 can be expanded to (1) be included throughout the various areas discussed in the proposed standard, and (2) also include the response to the sample quality risks. While we recognize that a concern may exist that this sample risk assessment may become presumptively required in practice. We believe simply indicating to firms and peer reviewers that the illustrations are not presumptively required should help mitigate the risk.

**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.**

We believe application guidance would be helpful to a number of firms implementing the SQMS No. 1. However, we believe scalability may be difficult for a number of firms due to the general absence of a cohesive beginning-to-end example of a firm's risk assessment. Please see our response in Part 6, Question 9A, Development of Core Package, for further discussion of ways we propose to aid in the implementation of the QM standards.

## **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 strongly support the proposed SQMS No. 2.
- I somewhat 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.**

We support the development of the proposed quality management standards and believe the proposed standards may serve the public interest. We do have concerns noted in 3b below.

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

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

Yes, we believe the requirements in SQMS No. 2 are clear and understandable. However, we have concerns on the expectations regarding proposed SQMS No. 2, paragraph 30b, and the requirement to identify the engagement documentation the EQR reviewed. We feel such a requirement may be interpreted in an overly prescriptive manner and may impede audit quality by encouraging certain EQRs to take an “all or nothing” approach to reviewing documentation and not even look at certain documentation, even in a high-level manner, for concern of being associated as a reviewer of the specific documentation. We recommend additional application guidance be provided or that paragraph 30b be removed.

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

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

Yes, we believe the application material in SQMS No. 2 is clear and understandable.

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

We have no further comments at this time.

## **PART 4: QM SAS**

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

- I strongly support the proposed QM SAS
- I somewhat 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.**

We support the development of the proposed quality management standards, including the QM SAS, and believe the proposed standards may serve the public interest.

**4b. Are the requirements in QM SAS clear and understandable? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.**

Yes, we believe the requirements in the QM SAS are overall clear and understandable.

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

Yes, we believe the overall application material in the QM SAS are overall clear and understandable.

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

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

We have no further comments at this time.

## **PART 5. Effective dates and implementation period**

**5. Are the effective dates clear? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, describe what is not clear.**

Yes. We believe the effective dates are clear.

**6. Is an 18-month implementation period appropriate? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, explain what implementation period would be more appropriate.**

No. We do not believe the 18-month implementation period is appropriate. While we believe that many firms already apply some of the various risk-based elements of the proposed quality management standards, we believe there are multiple factors that make an extended implementation period appropriate:

- Much of the current procedures in place were not documented or structured with the proposed SQMS contemplated. As such, a large amount of time may be spent documenting compliance with the SQMS standards,
- The current worldwide situation with COVID 19 and related changes to workplaces is still in flux. A project such as implementing the proposed SQMS is likely to be time intensive and may unintentionally divert resources from audit quality initiatives, which may erode audit quality, and not be in the public interest,
- Considering the large amount of time global firms have reportedly incurred on implementation of the corresponding international quality management standards; many non-global firms may not have the resources to effectively implement in an 18-month time frame,
- The need for more time for the AICPA to develop appropriate materials, to the extent not already in proposed application guidance, similar to the IAASB first time implementation guides, to assist firms,

- The need for more time for third-party vendors to develop appropriate materials to assist firms, and
- To allow for the PCAOB to come out with its version of the quality management standards, thus allowing firms and third-party vendors to develop materials that address the various sets of quality management standards.

We recommend the following alternatives be considered:

- That the effective date be on a rolling basis based on the respective firm's peer review year with all firms' implementation starting the year after their next peer review. We heard this alternative mentioned publicly. While we recognize this adds to communication efforts and the development of application material, we believe this staggered approach will allow (1) firms to learn from one another, and (2) the ASB to obtain useful information to issue interpretive guidance ahead of most firms' implementation.
- A staggered implementation with the top-10 firms implementing as indicated in the proposed standard and the remaining firms implementing on the timeline in the bullet below.
- Extend the effective date two additional years beyond what the proposed SQMS indicates for all firms:
  - a. audits or reviews of financial statements for periods beginning on or after December 15, 2025, and
  - b. other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025
  - c. Systems of quality management in compliance with proposed SQMS No. 1 would be required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by proposed SQMS No. 1 would be required to be performed within one year following December 15, 2025.

## **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 believe inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. As a part of maintaining public trust and continued self-regulation, we believe self-inspection should be precluded for the following reasons:

- Self-review may make certain practitioners less objective in reviewing their own work
- Self-review may make certain practitioners less diligent when performing their own work
- Self-review prevents the benefit of a “fresh set of eyes” and feedback that would improve a firm’s audit quality

In the interest of scalability, regarding the preclusion of inspection of completed engagements by those involved, we do recommend the ASB consider that very small firms be exempt from this preclusion.

**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.**

No. See 8c below.

**8b. If you answered YES to 8a, what is the appropriate length of the required cooling-off period? Two years, one year, or a different length?**

N/A

**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.**

The primary bases for our response to 8a are as follows:

- We believe such a cooling-off requirement may erode audit quality in many firms, particularly those outside the top 10 firms. Such a cooling-off requirement will unintentionally focus on incremental objectivity at a disproportionate expense of technical competence and thus, on a net basis, erode audit quality. Many firms have limited subject matter specialists in each industry capable of appropriately performing the EQR in particular industries. Thus, for many firms, the cooling-off period would create unnecessary cost in excess of the potential benefit
- As noted in the Explanatory Memorandum, the cooling-off requirement combined with the requirement prohibiting self-inspection, would mean that some firms would need one person performing the inspection and another person performing the EQR. Many firms do not have a sufficient number of personnel that are subject matter experts in the same industry.
- To avoid the potential erosion audit quality in the bullets above and the recordkeeping and monitoring costs, a number of firms may just choose to have no EQR at all or to have an “EQR-light,” that is where a firm picks and chooses the components of the EQR requirements that are appropriate for the

firm, but does not have a formal EQR. While such may be appropriate in certain circumstances, we believe the cooling-off requirement, as proposed, may unintentionally erode audit quality.

Overall, we recommend no such mandatory cooling-off period.

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

Yes, we believe the engagement quality review should be required to be completed before the report is dated, rather than before the report is released. Such will emphasize the importance of the engagement quality review as a part of the auditor's quality management.

**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 have two items we wish to bring to the ASB's attention:

#### Development of Core Package

To help facilitate standard setting in this area, we recommend the ASB develop a standard quality management system and matrix that may be adapted as appropriate by firms. We feel if the ASB and the related task force are forced to put "pen to paper" many of the issues that may be experienced in practice can be proactively addressed before disrupting firms. Much of the disruption will likely occur at the small and medium firm level with limited resources to address. Also, such firms are not typically the ones responding to exposure drafts and do not have dedicated national offices to think through proactively all of the ramifications of the proposed standards.

We believe to effectively implement a risk assessment process, many firms may benefit from a "core package" produced by the AICPA. That is, a package for small and medium sized firms that serves as the basis for risk assessment. Firms may be able to use such a core package as a solid basis for their own risk assessment and have an understanding of what is expected of them. Such may also encourage consistency in quality amongst firms and peer reviewers

If the view is taken that it is difficult for the AICPA and task forces to draft a "living and breathing" risk assessment for a prototype firm due to the various perspectives of the different firms, it should be noted that:

- Such diversity of views is likely repeated in individual firms,
- Many firms do not have the national office structure to help implement the proposed SQMS,
- By deferring to subsequent interpretive guidance that may be issued by the AICPA, the AICPA is missing the opportunity to make refinements to the proposed SQMS before issuance while the various task force members are still available, and

- By deferring to third-party providers to develop quality management materials, a risk is run that the third-party providers become quasi-standard setters through the mass application of the third-party providers' interpretations and approaches. Many firms may take third-party materials carte blanche. If the materials are high-quality and the firms implement the proposed SQMS in a high-quality manner, it may be argued the objectives of the SQMS have been achieved and the public interest has been served. However, the possibility of an alternate scenario should be considered.

#### Convergence considerations

Although convergence has multiple benefits, we encourage the ASB to place the needs of US capital markets first, even if it means being incremental to or lesser-in-extent than international standards (i.e., "ISA-plus" or "ISA-minus"). The United States has the deepest capital markets in the world as well as an active litigation environment, both of which contribute to the US environment being different than the international environment. Also, many US firms operate solely in the US under AICPA standards, which diminishes the importance of convergence to these firms and the respective users. We encourage the ASB to take the lead and "go first" on a number of initiatives that will benefit the US environment (noting also, that the IAASB will be able to draw off the ASB's work and adapt as necessary and appropriate for the rest of the world).

## **PART 7. Demographic data**

Name: Steven Morrison, Partner, National Director of Audit

Organization Name: CohnReznick LLP

Firm size, if applicable: 16<sup>th</sup> Largest Firm in the United States