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31 August 2021

Via email: CommentLetters@aicpa-cima.com

## **Proposed Statements on Quality Management Standards and Proposed Statement on Auditing Standards**

Dear Ms. Hazel,

Ernst & Young LLP (EY US) is pleased to submit this comment letter to the Auditing Standards Board (ASB) in response to the ASB's request for comment on the following proposed Statements on Quality Management Standards (SQMS) and proposed Statement on Auditing Standards (SAS):

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

As part of a global network of firms that uses one global audit methodology that is based on the International Standards on Auditing, we support the ASB's efforts to converge its standards with those of the International Auditing and Assurance Standards Board. Overall, we support the objectives of the proposals, such as introducing a new approach to quality management, providing a separate quality management standard for engagement quality reviews and clarifying the role and responsibilities of the engagement partner. We believe that the proposals would help improve quality at the firm and engagement levels and the performance of engagement quality reviews.

Our responses to the ASB's requests for comments in the effective dates and implementation period section in the exposure draft are attached to this letter. In addition, our comment letters with responses to the questions in each proposal are attached as three appendices:

- ▶ Appendix 1: EY US Response to Proposed SQMS No. 1
- ▶ Appendix 2: EY US Response to Proposed SQMS No. 2
- ▶ Appendix 3: EY US Response to Proposed QM SAS

Sincerely yours,

**Responses to the ASB's requests for comments – Effective dates and implementation period:**

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

We believe that the proposed effective dates are clear.

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.

We believe that the proposed 18-month implementation period is appropriate.



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Dear Ms. Hazel,

Ernst & Young LLP (EY US) is pleased to submit this comment letter to the Auditing Standards Board (ASB) in response to the ASB's request for comment on its Proposed Statement on Quality Management Standards (SQMS), *A Firm's System of Quality Management* (proposed SQMS No. 1).

Overall, we support the proposal's objective, including the introduction of a new approach to quality management. We believe that the proposal, in combination with Proposed SQMS *Engagement Quality Reviews* and Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, can help improve quality at the engagement and firm levels.

We particularly support the emphasis on the responsibility of firm leadership for proactively managing quality, while being scalable to deal with differences in the nature and circumstances of firms and the services they provide.

Attachment A contains our responses to the ASB's requests for comments and additional recommendations for your consideration. Attachment B includes other editorial comments. We would be pleased to discuss our comments with members of the ASB or its staff.

Sincerely yours,

**Attachment A – Responses to ASB's requests for comments**

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.

We support the proposed requirements related to a firm's responsibilities to design, implement and operate a system of quality management for its accounting and auditing practice. We believe that the proposed requirements would be clear and understandable and the application material would help support the application of those requirements.

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.

We believe that the proposed requirements and application material would be scalable. We do not believe that any specific requirements would inhibit scalability, nor do we believe additional application material regarding scalability would be necessary. While we do not believe additional application materials regarding scalability are necessary, examples of how scalability would apply in different environments would be helpful to include within implementation guidance.

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

We agree that inspection of completed engagements by those involved in the engagements should be precluded to enhance audit quality, because we do not believe there are safeguards that could otherwise lower the self-review threat to an acceptable level.

**Attachment B – Recommendations for other edits and improvements**

| Proposed SQMS, A Firm’s System of Quality Management (SQMS No. 1) |   |
|---|---|
| Paragraph   | Observation   |
| 17<br>A69<br>A76<br>A100<br>A109<br>A189                          | <p>We recommend updating the “Staff” definition as follows to be consistent with US terminology used in extant AU-C 220.09 and AU-C 620 and references to this term throughout the application guidance:</p> <p><b>Staff.</b> Professionals, other than partners, including any <del>experts</del> <u>specialists</u> the firm employs.</p>   |
| 32  | <p>We believe there is a typographical error in 32(b) and recommend the following edits: The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements, <del>and the</del> resources assigned or made available to the engagement teams, <del>and the</del> work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members. (Ref: par. A80-A81)</p>  |
| 33  | <p>We recommend revising 33(e) to make it consistent with the wording of the other requirements in paragraph 33 and to clarify the guidance as follows:</p> <p>Individuals <b>are assigned to perform activities within the system of quality management</b> who have appropriate competence and capabilities, including sufficient time, to perform such activities <del>are assigned to perform activities within the system of quality management.</del></p>   |
| A163  | <p>We recommend removing the duplicative “to select” in the first bullet of A163 as follows:</p> <p>The firm may undertake multiple monitoring activities, other than inspection of completed engagements, that focus on determining whether engagements have complied with policies or procedures. These monitoring activities may be undertaken on certain engagements or engagement partners. The nature and extent of these monitoring activities, and the results, may be used by the firm in determining the following:</p> <ul style="list-style-type: none"> <li>• How often to select completed engagements <del>to select</del> for inspection, and which completed engagements to select, based on the factors described in paragraph A159</li> <li>• Which engagement partners to select for inspection, and how frequently to select an engagement partner for inspection, based on factors such as how long it has been since the engagement partner was subject to inspection, the results of previous inspections of the engagement partner, or the engagement partner’s experience with performing engagements at different levels of service, in new industries, or with complex financial reporting matter</li> <li>• Which aspects of the engagement to consider when performing the inspection of completed engagements</li> </ul> |



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## **Proposed Statements on Quality Management Standards and Proposed Statement on Auditing Standards**

Dear Ms. Hazel,

Ernst & Young LLP (EY US) is pleased to submit this comment letter to the Auditing Standards Board (ASB) in response to the ASB's request for comment on its Proposed Statement on Quality Management Standards (SQMS), *Engagement Quality Reviews* (proposed SQMS No. 2).

Overall, we agree with the proposed SQMS, *A Firm's System of Quality Management*, addressing the circumstances in which an engagement quality review should be performed and support issuing a separate proposed standard (proposed SQMS No. 2) to emphasize the importance of an engagement quality reviewer because it would be helpful to have all requirements related to the firm's performance of that review in one location.

We also support the enhanced requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures because they would help improve the robustness of the engagement quality review and the consistency in the depth of the review. The attachment contains responses to the ASB's requests for comments. We would be pleased to discuss our comments with members of the ASB or its staff.

Sincerely yours,

**Attachment – Responses to the ASB’s requests for comments**

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.

We support the enhanced requirements related to the appointment and procedures of the engagement quality reviewer. We also believe that the requirements would be clear and understandable, and that the application material would help support the application of those requirements.

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

We support having a cooling-off period before a former engagement partner can serve as an engagement quality reviewer on that engagement. We believe the proposed two-year cooling-off period would be appropriate to lower the objectivity threat to an acceptable level.



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**Proposed Statements on Quality Management Standards and Proposed Statement on Auditing Standards**

Dear Ms. Hazel,

Ernst & Young LLP (EY US) is pleased to submit this comment letter to the Auditing Standards Board (ASB) in response to the ASB's request for comment on its Proposed Statement on Auditing Standards (SAS), *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (proposed QM SAS).

We believe the proposed QM SAS would help improve audit quality by clarifying the responsibilities of the auditor regarding quality management at the engagement level and the related responsibilities of the engagement partner. Attachment A contains responses to the ASB's requests for comment and additional recommendations for your consideration. Attachment B includes other editorial comments. We would be pleased to discuss our comments with members of the ASB or its staff.

Sincerely yours,

*Ernst & Young LLP*

**Attachment A – Responses to ASB’s requests for comments**

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.

We support the proposed requirements related to quality management at the engagement level and the related responsibilities of the engagement partner. We believe that the proposed requirements would be clear and understandable, and that the application material would help support the application of those requirements.

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

We believe the engagement quality review should be completed before the report is dated, rather than before the report is released.

**Attachment B – Recommendations for other edits and improvements**

| Proposed Statement on Auditing Standards <i>Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i> |   |
|---|---|
| Paragraph   | Observation   |
| 12  | <p>We recommend adding a reference to footnote 4 on the definition of “partner” and “firm,” since footnote 4 refers to the definitions of “engagement partner,” “partner” and “firm.”</p> <p><b>Firm.</b><sup>4</sup> A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and is engaged in public practice. (Ref: par. A26)</p> <p><b>Partner.</b><sup>4</sup> Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner may include an employee with this authority who has not assumed the risks and benefits of ownership. Firms might use different titles to refer to individuals with this authority.</p> <p><sup>4</sup> Engagement partner, partner, and firm refer to their governmental equivalents when relevant.</p>   |
| A4, A12, A34, A36 and A74   | <p>Given the difference between terminology in AU-C 620 and that in ISA 620, we recommend using the term “specialist” instead of “expert” throughout the proposed standard to align with the terminology in AU-C 620 . Specifically, we recommend updating the following sections of the proposed standard:</p> <p>Paragraph A4</p> <p>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. In accordance with proposed SQMS <i>A Firm’s System of Quality Management</i>, the firm is responsible for communicating information that enables the engagement team to understand and carry out their responsibilities relating to performing engagements. For example, such communications may cover policies or procedures to undertake consultations with designated individuals in certain situations involving complex technical or ethical matters or to involve firm-designated <del>experts</del> <b>specialists</b> in specific engagements to perform audit procedures related to particular matters (for example, the firm may specify that firm-designated credit-risk modeling <del>experts</del> <b>specialists</b> are to be involved in auditing expected credit loss allowances in audits of financial institutions).</p> <p>Paragraph A12, first bullet point</p> <ul style="list-style-type: none"> <li>The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of <del>experts</del> <b>specialists</b> to deal with complex matters.</li> </ul> <p>Paragraph A34, first bullet</p> <ul style="list-style-type: none"> <li>Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including <del>experts</del> <b>specialists</b>, necessary for audits of entities in which technical expertise or specialized skills are needed for effective understanding, assessment of, and responses to risks and informed questioning of management.</li> </ul> |

|     |  |
|-----|--|
|     | <p>Paragraph A36, fourth bullet</p> <ul style="list-style-type: none"> <li>Involving members of the engagement team with specialized skills and knowledge or an auditor's <del>expert</del> <b>specialist</b> to assist the engagement team with complex or subjective areas of the audit</li> </ul> <p>Paragraph A74, second bullet</p> <ul style="list-style-type: none"> <li>facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's <del>experts</del> <b>specialists</b>.</li> </ul>  |
| A5  | <p>We recommend updating the first sentence of paragraph A5 as follows to align with the requirement in paragraph 4 in the context of firm responses to quality risks that are applicable to the audit engagement:</p> <p>Firm-level responses <b>to quality risks</b> may include policies or procedures established by a network or by other firms, structures, or organizations within the same network (network requirements or network services are described further in proposed SQMS A <i>Firm's System of Quality Management</i> within the "Network Requirements or Network Services" section). The requirements of this proposed SAS are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network requirements or network services on the audit engagement (for example, a requirement to use an audit methodology developed for use by a network firm). Under proposed SQMS A <i>Firm's System of Quality Management</i>, the firm is responsible for determining how network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management.</p> |
| A7  | <p>We recommend updating footnote 15 to paragraph A7 as follows to include the reference to the requirement in AU-C section 200 related to professional judgment:</p> <p><b>Paragraph .18 of</b> AU-C section 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.</p>  |
| A15 | <p>We recommend revising footnote 16 to paragraph A15 to include a reference to paragraph A43 as follows:</p> <p>Paragraphs <b>.A43 and</b> .A44 of AU-C section 500, Audit Evidence.</p>  |
| A62 | <p>Paragraph A5 appears to be focused on firm level response, rather than engagement team responses. We recommend the following edit to this paragraph:</p> <p>Human resources include members of the engagement team (see also paragraphs <b>A5 and</b> A15-A21) and, when applicable, an auditor's external specialist and individuals from within the entity's internal audit function who provide direct assistance on the audit.</p>  |
| A79 | <p>We recommend the following edit to the header of this section to align with the references in the requirements above:</p> <p>Considerations Specific to Audits of Governmental Entities (Ref: par. 25=<del>28</del>)</p>  |

**Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended**  
**Section 230, *Audit Documentation***

**Paragraph Observation**

|    |   |
|----|---|
| 03 | We recommend updating footnote 3 to refer to all requirements under the <i>Direction, Supervision, and Review</i> section of the proposed standard as follows:<br>Paragraphs 29– <del>33</del> 4 of section 220, proposed Statement on Auditing Standards (SAS), <i>Quality Control Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</i> . |
|----|---|

**Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended**  
**Section 300, *Planning an Audit***

**Paragraph Observation**

|       |   |
|-------|---|
| 06(a) | We recommend adding a footnote to this statement to reference paragraphs 22-24 of the proposed SAS <i>Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</i> .   |
| 06(b) | We recommend adding a footnote to this statement to reference paragraphs 16-21 of the proposed SAS <i>Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</i> .   |
| A1    | We recommend adding a footnote to the below sentence to reference paragraph 25 of the proposed SAS <i>Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</i> .<br><br>For example, in accordance with proposed SAS <i>Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</i> , the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, taking into account the nature and circumstances of the audit engagement. |

**Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as Amended**  
**Section 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)***

**Paragraph Observation**

|    |  |
|----|--|
| 05 | We recommend updating footnote 1 as follows:<br>Paragraphs <del>25</del> =26 of section 220, proposed Statement on Auditing Standards <i>Quality Control Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards</i> . |
|----|--|

**Amendment to SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as Amended**  
**AU-C section 720, *Other Information Included in Annual Reports***

| Paragraph | Observation   |
|-----------|---|
| A27       | We recommend updating footnote 8 as follows:<br>Paragraphs 29–30a of section 220, proposed SAS <i>Quality Control Management for an Engagement Performed in Accordance with Generally Accepted Auditing Standards</i> . |