



August 25, 2021

Via email: [Commentletters@aicpa-cima.com](mailto:Commentletters@aicpa-cima.com)

American Institute of Certified Public Accountants  
Attn: Shery Hazel  
1345 Avenue of the Americas  
New York, NY 10105

**Re: Exposure Draft -  
Proposed Statements on Quality Management Standards - Quality Management:  
A Firm's System of Quality Management  
Engagement Quality Reviews  
Proposed Statements on Auditing Standards  
Quality Management for an Engagement Conducted in Accordance with  
Generally Accepted Auditing Standards**

To the Auditing Standards Board Members and Quality Management Task Forces:

BDO USA, LLP welcomes this opportunity to comment on the AICPA's Exposure Draft on Proposed Statement on Quality Management Standards - Quality Management which includes A Firm's System of Quality Management and Engagement Quality Reviews, and Proposed Statements on Auditing Standards - Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards. We believe that a firm's system of quality management is quintessential to a firm's ability to provide quality audits; therefore, we support the AICPA's efforts to revise the AICPA's Quality Management Standards. With significant advances in technology and management practices, many firms' systems of quality management have evolved since the development of these existing standards.

Further, consistency in design and application of quality control standards across firms domestically and internationally is imperative for corporate and government entities, firms, and the investing community to rely on and compare quality across firms.

**Questions and Answers:**

We have included responses to the three (3) Issues for Consideration and the nine (9) related Requests for Comments in the exposure draft in the attached appendix.

**Conclusion:**

We believe a system of quality management is an integral part of an attest practice and will continue to drive increases in quality. We fully support the AICPA's efforts to improve quality through a revision of its quality management standards.

We appreciate your consideration of our comments and recommendations and would be pleased to discuss them with you at your convenience. Please direct any questions to Christopher Tower, National Managing Partner - Assurance Quality Management, Inspections, Independence and Assurance Risk Management at 714-668-7320 ([ctower@bdo.com](mailto:ctower@bdo.com)) or Blake Wilson, Chief Compliance and Ethics Officer and National Managing Partner - Assurance Quality Management at 214-259-1497 ([bwilson@bdo.com](mailto:bwilson@bdo.com)).

Very truly yours,

*BDO USA, LLP*



Appendix to AICPA's Exposure Draft  
Proposed Statements on Quality Management Standards - Quality Management  
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**Responses to Issues for Consideration and Requests for Comments:**

*Request for comment 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 agree with the new approach focused on quality management. The inclusion of eight integrated components is appropriate. We also agree with the objective of the proposed standard including a firm objective and objectives of the system of quality management, which when taken together result in an effective system of quality management. Specifically, reasonable assurance of effectiveness is obtained through the operation of the system as a whole.

The risk assessment process, as described, provides a scalable and organized approach to establish a firm's quality objectives, identify and assess risks to the achievement of the quality objectives, and design and implement responses to address the quality risks.

We agree with the inclusion of technological and intellectual resources within the Resources component as they are a vital part of a firm's system of quality management and impact all engagements.

We agree with the inclusion of the Governance and Leadership component and the impact a firm's leadership has on audit quality, including the system of quality management. A firm's leadership is responsible for the overall direction of the firm and the success of its people, its clients, and its responsibilities to the public and the profession. The Governance and Leadership component outlines these areas and provides for ways to monitor involvement and execution.

We agree with the addition of the Information and Communication component and the importance for a continuous flow of information throughout the firm. As the first firm to define audit quality and a firm that publishes an annual audit quality report, we believe communication to the public and the relevant stakeholders is an important part of a system of quality management.

The changes to Monitoring and Remediation which shift the focus from engagement level monitoring to monitoring of the system of quality management will bring about the desired focus on the overall system rather than only the completed engagements. This will help to review the integrated nature of the eight components of the system of quality management.

The inclusion of Network considerations is an important aspect of SQMS 1. This will add an additional element to the system of quality management which may have not been considered under previous standards.

Overall, we support the changes to SQMS 1 as included within comment 1.



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**Request for comment 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.*

Although public accounting firms provide a range of services to a multitude of companies, they all have a responsibility to provide high quality services. Consequently, we expect the base quality management at public accounting firms to be comparable regardless of the relative size of a firm, the services it offers, and the complexity of its clients.

Quality management activities and processes will need to be responsive to each individual firm. The proposed nonauthoritative guidance should include examples of how firms can appropriately scale their activities while achieving the desired results. We would expect smaller firms to have challenges in designing and implementing an improved system of quality management due to limited resources, which includes human and technological resources. We also expect larger firms to have a different set of challenges due to decentralization of activities and operating structures resulting from multiple offices, regional and national operations.

**Request for comment 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 recognize the significant role an engagement quality review has within the system of quality management. We concur that a firm should set forth its requirements for when an engagement quality review is required and that criteria should be established regarding who can appoint reviewers and who can be appointed as reviewers. The requirements for engagement quality reviewers to comply with ethical requirements, including addressing threats to objectivity like not allowing previous engagement partners to become engagement quality reviewers without a cooling off period, are all reasonable.

We concur with engagement quality reviewers focusing on significant judgments and significant matters, with the engagement partner continuing to be responsible for the matters described in proposed QM SAS (see response to Request for comment 4). As with all engagement procedures, including engagement quality reviews, the timeliness of the procedures and the documentation assembled lead to improved quality.

**Request for comment 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 agree with the proposed QM SAS which clarifies the engagement partner's overall responsibility for managing and achieving audit quality which includes creating an environment that emphasizes the firm's culture and expected behavior of engagement team members. This extends to the engagement partner's involvement throughout the engagement which is inclusive of the



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engagement partner's leadership responsibility, stand back responsibility, and the direction, supervision and review of the engagement team.

In addition, the Group Audit Engagement guidance is considered reasonable as it provides flexibility for different actions based on the specifics of the engagement and the firms.

We agree with the requirement in proposed QM SAS that an engagement partner is responsible for compliance with relevant ethical requirements.

We agree with the requirements in proposed QM SAS that an engagement partner is responsible for resources used on an engagement, including technological, intellectual, and human resources. We would like the Board to provide guidance on the use of new technology within audits, specifically the engagement partner's understanding of new technology as approved by the firm and other technical bodies. As with any technology, the engagement team or others within the firm may be more knowledgeable regarding certain systems or methods, for example data analysis processes and procedures, firm-wide industry data and other emerging audit techniques. In certain cases, the specific expertise may not rest with the engagement partner. In these cases, we recommend guidance for understanding the technology used in the audit and a method for the engagement partner to document the understanding and its use within the engagement.

We agree with the specific items which require engagement partner review. We also recognize that significant matters and judgments will be different for each engagement. The formal written communications to management and those charged with governance are considered reasonable.

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

The effective dates are clear, and 18 months should provide sufficient time to complete the design and implementation of a new or enhanced system of quality management.

**Request for comment 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 recommend the Board strongly encourage firms in the importance of starting the implementation process for designing and implementing a new or enhanced system of quality management. There are many new requirements which have not yet been required to be documented or tested. These new activities may take a significant amount of time and resources to complete. Any changes or remediation will also take time to complete.

## Issue 1 - Self-Inspection

**Request for comment 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.*



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We agree that inspection of completed engagements should not be conducted by individuals involved in the performance of those engagements. A system of quality management cannot be effective if completed engagements are inspected by those who performed the engagements as self-inspection of work is prone to bias, self-preservation, and knowledge limitations which significantly impede quality improvement.

**Issue 2 - Cooling-Off Period for Engagement Quality Reviewers**

**Request for comment 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 agree with a 2-year cooling-off period before an engagement partner can serve as an engagement quality reviewer for the same engagement. This provision will align SQMS 1 with ISQM 2, SEC and PCAOB requirements. We recommend the ASB include additional guidance for smaller firms regarding EQR assignments when resources are limited, as well as provide explanations as to why exceptions, similar to those allowed by the PCAOB, are not allowed under SQMS 2.

**Issue 3 - Completion of Engagement Quality Review and Dating of the Auditor's Report**

**Request for comment 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.*

An engagement quality review is typically a firm's final control and opportunity to identify whether any deficiencies exist within the performance of the audit. Any matters identified by the engagement quality review would indicate that an audit is not complete thus precluding the dating of the audit report. Therefore, we believe an engagement quality review, when required, should be completed before the report is dated.