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Ms. Sherry Hazel  
Auditing Standards Board  
American Institute of Certified Public Accountants  
27<sup>th</sup> Floor  
1345 Avenue of the Americas  
New York, NY 10105-0302

**Re: Proposed Statements on Quality Management Standards – Quality Management: *A Firm’s System of Quality Management and Engagement Quality Reviews*, and Proposed Statement on Auditing Standards, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***

RSM US LLP appreciates the opportunity to offer our comments in response to the following three proposed standards for quality management at the firm and engagement levels (hereinafter collectively referred to as “the proposed QM standards”):

- Proposed Statement on Quality Management Standards, *A Firm’s System of Quality Management* (hereinafter referred to as “proposed SQMS No. 1”);
- Proposed SQMS, *Engagement Quality Reviews* (hereinafter referred to as “proposed SQMS No. 2”); and
- Proposed Statement on Auditing Standards (SAS), *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (hereinafter referred to as “the proposed QM SAS”).

RSM US LLP is a leading provider of audit, tax and consulting services focused on the middle market. We have over 12,000 people located in 83 cities in the United States and four locations in Canada.

We support the Auditing Standards Board’s (ASB) comprehensive efforts to enhance assurance engagement quality management. We agree with the quality management approach emphasizing the responsibility of leadership, both at the firm and the engagement level, to proactively focus their attention on the relevant quality risks. We believe the proposed QM standards will significantly improve firms’ systems of quality management and will assist firms in adapting to new trends resulting from the ever-evolving environments in which they do business.

We agree that it is important to converge the ASB’s standards with the quality management standards of the International Auditing and Assurance Standards Board (IAASB). It would be impractical to expect firms to comply with fundamentally different quality management standards if the standards of the ASB were not converged with those of the IAASB, especially since the Public Company Accounting Oversight Board’s (PCAOB) initial concept release on enhancements to its existing quality control standards indicated the consideration of using the IAASB framework as a potential base for future PCAOB standard setting.

In this letter, we offer comments on matters related to the proposed QM standards that we believe should be addressed, including those for which feedback was specifically requested by the ASB. Our extensive review of the proposed QM standards included intentional outreach to seek input on the standards from

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RSM US Alliance member firms and AdvanceCPA firms. This letter includes the views of our firm, and, for certain matters, as described within, includes the views of smaller firms that were expressed during our outreach with the RSM US Alliance member firms and AdvanceCPA firms.

## **Proposed SQMS No. 1**

### ***Requests 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 believe the changes brought forth by proposed SQMS No. 1 will fundamentally assist firms in strengthening their systems of quality management. The approach taken in proposed SQMS No. 1 is logical in that it focuses a firm's attention on risks that may impact engagement quality, requiring each firm to customize the design, implementation and operations of its system of quality management based on the nature and circumstances of the firm and the engagements it performs. We believe this approach will allow the firm, its peer reviewer and regulatory agencies to better evaluate the firm's specific responses to risks in the system of quality management. We agree with the increased emphasis on more robust monitoring activities with a continual flow of remediation and improvement through the operation of the system as a whole.

The requirements in proposed SQMS No. 1 are clear and understandable. Also, the related application material provided is helpful in explaining the requirements.

We recommend consideration be given to expanding the implementation guidance and adding examples to further clarify the application of the requirements. We believe clarity will be of the utmost importance so that firms, their peer reviewers and regulatory agencies can have a mutual and consistent understanding of the requirements, especially for purposes of evaluating the extent of documentation and any resulting deficiencies.

Specifically, we suggest the implementation guidance include examples that will further the understanding of the requirements with respect to technological resources responses. It is obvious that some technological resources need to be addressed and documented (e.g., those related to workpaper documentation, client acceptance decisions, independence monitoring, making sample selections) because they enable the operation of the firm's system of quality management and the performance of engagements. However, other technological components also may need to be addressed, such as those related to human resources because they retain the documentation of the evaluation of professionals in relation to quality, which may impact assignment of resources, promotions and other firm quality-management decisions.

Because the use of technological resources in an audit firm may be vast and continually growing and changing, it would be helpful if the ASB would provide implementation guidance and (or) examples as to the extent of technological resources used in the conduct of an audit. We believe the scoping of technological resources could encompass (a) deciding which resources are subject to proposed SQMS No. 1, and then (b) determining the extent of testing and related documentation that would be prudent for the various components of each technological resource. For example, a firm's audit documentation technological resources may be fully within the scope of proposed SQMS No. 1, whereas only certain controls related to technological resources for continuing professional education may be within the scope of the proposed standard.

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 the approach used in the standard is inherently scalable for firms of different sizes and complexities.

Regardless of size, it will be important that firms, their peer reviewers and regulatory agencies have a mutual and consistent understanding of the standard's requirements. In particular, we believe the extent of documentation expected to demonstrate the design, implementation and operation of controls is intended to be scalable based on the nature and complexity of the firm. For example, a firm with only one audit partner and few staff may have fewer formal controls over and less documentation regarding the evaluation of staff performance and coaching than a firm with many partners. We believe the proposed standard is designed to permit the extent of such documentation and the formality of design of controls to be determined in accordance with the risks and responses of the firm. However, as discussed in our response to Question 1, we believe additional implementation guidance or examples of what such documentation could entail would be useful for firms, their peer reviewers and regulatory agencies to demonstrate that different approaches are appropriate.

#### ***Additional Comment Regarding Proposed SQMS No. 1***

We note that grammatical edits may be needed in paragraphs 10 and 17 of proposed SQMS No. 1 as follows (proposed deletions are struck-through, and proposed additions are in bold font):

10. This proposed SQMS requires that, at least annually, the individuals assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluate the system of quality management and ~~concludes~~ **conclude** whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 15a–b, are being achieved. (Ref: par. A5)
17. For purposes of the SQMSs, the following terms have the meanings attributed as follows:
- ...Deficiency in the firm's system of quality management (referred to as *deficiency* in this proposed SQMS). This exists when (Ref: par. A10 and A169–A170)
- a quality objective required to achieve the objective of the system of quality management is not established;
  - a quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: par. A11)
  - a response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the responses are not properly designed, implemented, or operating effectively; or
  - ~~an other~~ **another** aspect of the system of quality management is absent, or not properly designed, implemented, or operating effectively, such that a requirement of this proposed SQMS has not been addressed. (Ref: par. A12–A13)...

### **Proposed SQMS No. 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.*

We believe the revised requirements in proposed SQMS No. 2 will appropriately reinforce the importance and efficacy of the engagement quality review. Proposed SQMS No. 2 appropriately emphasizes the importance of the engagement quality review and that the engagement quality reviewer is acting on behalf of the firm. We believe that an engagement quality review can be a strong response to quality risks and concur that the requirement for the performance of the engagement quality review properly focus the engagement quality reviewer's attention on significant judgments and significant matters at appropriate points in time during the engagement.

With one exception as discussed in the following paragraph, we believe the requirements in proposed SQMS No. 2 are clear and understandable. We also believe the application material is helpful in supporting the application of those requirements.

Paragraph 25.a.ii. of proposed SQMS No. 2 requires the engagement quality reviewer to read, and obtain an understanding about, information communicated by the firm related to the firm's monitoring and remediation process, in particular, identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team. We believe it is prudent for firms to communicate such information, and it is necessary for engagement quality reviewers to understand the information so as to be able to effectively perform their duties. If a firm uses only its own personnel for the performance of engagement quality reviews, this requirement is clear. However, we believe it may be helpful if additional guidance was provided regarding the extent to which the firm should share the results of its monitoring and remediation when a firm utilizes an *external* engagement quality reviewer. Such results could be deemed by the firm to be confidential.

### ***Additional Comment Regarding Proposed SQMS No. 2***

We note that the reference to footnote 122 in paragraph A45 of proposed SQMS No. 2 should be revised to reference footnote 22.

### **Proposed 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.*

We believe the modified requirements in the proposed QM SAS will properly encourage proactive management of quality at the engagement level, and will appropriately emphasize that the engagement partner has overall responsibility for managing and achieving quality. The proposed QM SAS emphasizes the importance of exercising professional skepticism, enhances the documentation of the auditor's judgments and reinforces the need for robust communication during the audit. We believe the requirements in the proposed QM SAS are clear and understandable. We also believe the application material is helpful in supporting the application of those requirements.

## Proposed Amendments to Existing Standards

Paragraph .A51 of AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*, provides examples of matters for which communication with those charged with governance may be important prior to issuance of the auditor's report. We believe the last sentence in the last bullet point of paragraph .A51 should be deleted as illustrated below because that sentence discusses a review requirement for the engagement partner, which is not an example of a matter for which communication with those charged with governance may be important:

- When section 701 applies, the matters planned to be included in the auditor's report. ~~Proposed SAS Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards, requires the engagement partner, prior to dating the auditor's report, to review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.~~<sup>42</sup>

## Effective Date

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

We believe the effective dates for proposed SQMS No. 2 and the proposed QM SAS are clear.

We believe clarity should be provided regarding the proposed SQMS No. 1 requirement to perform the evaluation of the system of quality management within one year following December 15, 2023. It is unclear whether firms are (a) allowed to use judgment regarding the "as of" effective date, provided it is prior to December 15, 2024 (e.g., as of December 1, 2024), and then complete the evaluation at a later date (e.g., on March 1, 2025), or (b) required to complete the evaluation of the system of quality management prior to December 15, 2024, using an earlier "as of" effective date (e.g., September 1, 2024).

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.

Many firms will need extensive time to create, document, implement and revise responses to address their quality risks. We therefore believe an implementation period of at least 24 months would be more appropriate than an 18-month implementation period, especially if incremental implementation guidance is not issued at the same time the standards are issued.

## Issues for Consideration

### Issue 1 – Self-Inspection

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 may raise threats to both the objectivity and competence of the reviewer. We are not able to easily articulate safeguards that could be put in place to effectively mitigate the inspection biases of those

involved in the engagements. Also, self-inspection cannot identify one's own lack of knowledge, for example when an engagement partner who is unaware of recently effective standard does not apply them to the engagement. However, we also acknowledge that self-inspection currently is permitted in the United States and there are firms that are able to successfully operate their systems of quality management, while also performing self-inspections. We also recognize that proposed SQMS No. 1 is intended to be principles-based, providing a firm the ability to respond to the identified quality risks based on the circumstances of the firm.

As such, we do not believe the express prohibition of the inspection of completed engagements by those involved in the engagements should be retained. Rather, we believe guidance should be added clarifying that self-inspection can be utilized by a firm only when the firm has fully designed such review to include safeguards against the relevant threats to objectivity and competence.

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

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 believe a cooling-off period provides a “fresh look” and helps to ensure the exercise of objectivity and professional skepticism during the audit. We believe a two-year cooling-off period is often appropriate because it:

- a. Provides adequate time for the engagement's audit plan to be refreshed without the potential biases of the former engagement partner;
- b. Causes there to be no interaction between the former engagement partner and those charged with governance for a reasonable period of time;
- c. Allows the engagement partner to be removed until the financial statements for which he or she was responsible no longer are presented in two-year comparative financial statements; and
- d. Is consistent with the related requirements of PCAOB Auditing Standard 1220, *Engagement Quality Review*.

However, we believe that it would be incongruent for proposed SQMS No. 2 to include this prescriptive two-year cooling-off period “rule” because the standard is intended to be principles-based. Also, during our outreach with the RSM US Alliance member firms and AdvanceCPA firms, some firms with a very small number of engagement partners or with a very small number of engagement partners in certain specialized industry concentrations expressed that it may be difficult or, in some cases, impossible for them to comply with the cooling-off period requirement.

Therefore, we suggest that the cooling-off period requirement be removed, and instead the related application paragraph be revised to set forth the concept of a cooling-off period as a possible response to reduce threats to objectivity to an acceptable level. As such, we recommend paragraphs .19 and .A16 of proposed SQMS No. 2 be revised to incorporate a more principles-based response as follows (proposed deletions are struck-through, and proposed additions are in bold font):

19. The firm's policies or procedures established in accordance with paragraph 18**b** should also address threats to objectivity created by an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner. Such policies or procedures should **consider the establishment of a** ~~specify as~~ cooling-off period ~~of two~~

~~years, or a longer period if required by relevant ethical requirements,~~ before the engagement partner can assume the role of engagement quality reviewer. (Ref: par. A16-A17)

- A16. In recurring engagements, the matters on which significant judgments are made often do not vary. Therefore, significant judgments made in prior periods may continue to affect judgments of the engagement team in subsequent periods. Therefore, the ability of an engagement quality reviewer to perform an objective evaluation of significant judgments is affected when the individual was previously involved in those judgments as the engagement partner. In such circumstances, it is important that appropriate safeguards be put in place to reduce threats to objectivity, in particular, the self-review threat, to an acceptable level. Accordingly, this proposed SQMS requires the firm to **consider the establishment of** ~~establish~~ policies or procedures that specify a cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. **When threats to objectivity of the engagement quality reviewer are overcome with safeguards other than the establishment of a cooling-off period, such safeguards are included in the policies or procedures that set forth the criteria for determining eligibility of engagement quality reviewers.**

### ***Issue 3 – Completion of Engagement Quality Review and Dating of the Auditor’s Report***

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 a response, among others, that is designed and implemented by a firm to address quality risks. Because of its importance, we believe the engagement quality review should be required to be completed before the report is dated.

Also, we believe it is not practical to complete the review after the audit report is dated. The completion of the assembly of the final audit file after the date of the auditor’s report is an administrative process that should not involve the performance of new audit procedures or the drawing of new conclusions. The performance of the engagement quality review could result in the performance of additional audit procedures by the engagement team. If the engagement quality review took place after the report was dated and the review necessitated obtaining further evidence, the audit report date would need to be revised.

In addition, we believe it would be helpful if application guidance was provided to clarify what “completion of the engagement quality review” means in paragraph .24.b of proposed SQMS No. 2 and paragraph .36.d of the proposed QM SAS. In that regard, we suggest consideration be given by analogy to the guidance for partner reviews in paragraph .32 of the proposed QM SAS. For example, such guidance could describe the “completion of the engagement quality review” as the engagement quality reviewer having determined, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the significant judgments made by the engagement team and the conclusions reached thereon.

### **Closing**

We appreciate this opportunity to provide feedback on the proposed QM standards and would be pleased to respond to any questions the ASB or the AICPA staff may have about our comments. Please direct any questions regarding this letter to Sara Lord, Chief Auditor, at 612.376.9572 or Brooke Wangsness, Senior Director—National Professional Standards Group, at 612.376.9342.

AICPA Auditing Standards Board  
August 25, 2021  
Page 8

Sincerely,

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