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August 31, 2021

American Institute of Certified Public Accountants
Auditing Standards Board

Via email: CommentLetters@aicpa-cima.com

Re: Comments on Exposure Drafts, *A Firm's System of Quality Management, Engagement Quality Reviews, and Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, February 4, 2021

Dear Board Members:

CliftonLarsonAllen LLP (CLA) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) proposed Statements on Quality Management Standards (SQMS), *A Firm's System of Quality Management and Engagement Quality Reviews* and proposed Statement on Auditing Standards (SAS), *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, dated February 4, 2021. We understand these proposals are intended to update the existing standards for advances in technology and changes in the business environment, replace the current "one-size-fits-all" model with a more scalable approach to quality for firms of all sizes, and to help firms identify and address risks specific to their practice. Our responses to the requested matters and other observations are provided below.

PART 1: SQMS No. 1

1a. Which of the following best describes your view of the proposed SQMS No. 1?

We strongly support the proposed SQMS No. 1.

Please provide additional details regarding your response.

We believe the public interest is best served by the consistent performance of quality engagements and we support the ASB's efforts to establish standards for the design of a firm's systems of quality management. We acknowledge the ASB's strategy to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB) to provide consistency and recognize that implementing that strategy requires change. While we believe our current system of quality control allows us to meet the primary objective of the proposed standards, we support the revisions outlined in the proposed standards.



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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.

We believe a proactive approach emphasized by firm leadership results in the most effective system of quality management, and we support the integrated risk-based approach proposed in SQMS No. 1. We support the addition of the information and communication component and believe the revisions to the resources component helps modernize the standards and makes them more applicable in the current business environment. We also appreciate the expanded guidance to the monitoring and remediation process.

1c. Are the requirements in SQMS No. 1 clear and understandable?

Yes.

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

In general, we believe the requirements in SQMS No. 1 are clear. However, we do question the level of effort necessary to comply with certain requirements and are concerned that it may be difficult to determine whether a requirement has been met. For example, the information and communication component requires that the firm recognize and reinforce the responsibility of personnel to exchange information with the firm and with one another. We believe it may be difficult for firms to demonstrate how they met this subjective requirement.

1d. Is the application material in SQMS No. 1 helpful in supporting the application of the requirements?

Yes.

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

In general, we believe the application material is helpful. Additional clarifications, illustrations, or practice aids in the following areas would also be helpful:

- The Firm's Risk Assessment Process
 - Illustrations of a risk assessment for a more complex firm.
 - Guidance on the expected extent of documentation.
 - Guidance regarding conditions, events, circumstances, actions, or inactions, if any, that should presumptively be assessed at high for quality risks.

- Governance and Leadership
 - Examples of organizational structures that demonstrate a commitment to quality.
- Resources
 - Guidance on documenting that “appropriate intellectual resources” are available and used to enable the operation of the firm’s system of quality management and the consistent performance of quality engagements.
 - Clarification of the degree to which firms need to document their evaluation of the appropriateness of technological resources that are used by engagement teams in performing engagements.
- Information and Communication
 - Additional examples of laws and regulations that would require a firm to communicate information to external parties.
 - Clarification of when communication to regulators may be required.
 - Illustrations of how relevant and reliable information can be communicated externally to support external parties’ (such as investors) understanding of the system of quality management (e.g., what might be included in a transparency report, an audit quality report, or on a web page).
- Evaluating the System of Quality Management
 - Clarification of the requirements in paragraph .57 and related application guidance regarding the periodic performance evaluations of those assigned the operational responsibility for the system of quality management. As written, the requirements infer that failures detected in monitoring would be due to negative performance when other root causes could exist.

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

We believe it is essential for the ASB to coordinate with the Peer Review Board to timely publish materials that will be used in peer review so that firms can plan and monitor their adoption of the proposed standard.

Also, given the extent of the expected level of effort necessary to apply these new requirements, the AICPA should provide an implementation guide to assist firms with adoption. We recommend the implementation guide include information about the experiences of firms who have adopted International Standard on Quality Management 1 (ISQM 1). We suggest that the effective date should be at least 18 months after the implementation guide is issued.

We also recommend the AICPA provide guidance on the gap period between the effective date of ISQM 1 and the effective date of these proposed standards. We expect U.S. firms acting as component auditors in group audits conducted under international auditing standards will need guidance on whether compliance with current Statements on Quality Control Standards is substantially equivalent to ISQM 1 during the gap period.

PART 2: Scalability of SQMS No. 1

2a. Is the new quality management approach in SQMS 1 scalable?

Yes.

2b. Would additional application material regarding scalability be helpful?

Yes.

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.

Using the information and communication example in 1c, if the level or frequency of explicit quality communication might differ based upon firm size, application material might be helpful to understand what level of communication is sufficient for large firms.

PART 3: SQMS No. 2

3a. Which of the following best describes your view of the proposed SQMS No. 2?

We strongly support the proposed SQMS No. 2.

Please provide additional details regarding your response.

We believe the appropriate use of engagement quality reviews can be an effective response to quality risks and that the objectivity of an engagement quality reviewer increases as the cooling-off period increases. The length of an appropriate cooling-off period can vary based on the complexity of the engagement.

3b. Are the requirements in SQMS No. 2 clear and understandable?

Yes.

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

None.

3c. Is the application material in SQMS No. 2 helpful in supporting the application of the requirements?

Yes.

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

None.

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

The ASB should consider whether restrictions should be placed on an engagement quality reviewer transitioning into the role of engagement partner on a client without a similar cooling-off period.

PART 4: QM SAS

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

We strongly support the proposed QM SAS.

Please provide additional details regarding your response.

None.

4b. Are the requirements in QM SAS clear and understandable?

Yes.

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

None.

4c. Is the application material in QM SAS helpful in supporting the application of the requirements?

Yes.

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

None.

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

No.

PART 5. Effective dates and implementation period

5. Are the effective dates clear?

No.

Please provide additional details regarding your response, and, if applicable, describe what is not clear.

We request the ASB to provide additional guidance on how the effective dates regarding the evaluation of the system of quality management required by SQMS No. 1 paragraph 14 should be applied to firms who have established monitoring periods other than calendar years.

6. Is an 18-month implementation period appropriate?

No, we believe the implementation period should be at least 24 months given the other auditing standards firms will need to implement during this time frame.

Please provide additional details regarding your response, and, if applicable, explain what implementation period would be more appropriate.

We believe the design, implementation, and evaluation of a system of quality management that complies with these proposed standards will be a significant undertaking for all firms. As most firms have yet to assess their current states, we believe that it is difficult to determine currently whether this implementation period is appropriate. Our suggestion is that, if the proposed guidance becomes effective, the ASB follow up with a sample of firms at a point during the implementation period to determine whether the implementation period should be re-evaluated.

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.

We strongly agree.

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.

None.

8a. Should a cooling-off period be required before a former engagement partner can serve as an engagement quality reviewer on that engagement?

Yes.

8b. If you answered YES to 8a, what is the appropriate length of the required cooling-off period?

One year.

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.

Not applicable.

9a. Should the engagement quality review be required to be completed before the report is dated, rather than before the report is released?

Yes.

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.]

CLA currently requires the engagement quality review to be completed before the report is released.

PART 7. Demographic data

Firm size, if applicable:

Large firm.

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CLA appreciates the opportunity to review and offer our comments on the proposed standard. We would be pleased to discuss any questions that you or your staff may have regarding our comments.

Respectfully submitted,



CliftonLarsonAllen LLP