



The ASB met on October 12-14, 2021.

The ASB discussed comment letters and other feedback on its exposure draft, *Proposed Quality Management Standards*, which includes three interrelated proposed standards:

- Proposed Statement on Quality Management Standards (SQMS) *A Firm's System of Quality Management*
- Proposed SQMS *Engagement Quality Reviews*
- Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*

The development of these proposed standards had been influenced by concerns about audit quality, as indicated by the results of peer reviews and studies by regulators. 171 comment letters were received on the exposure draft of the proposed standards.<sup>1</sup> While the comments received on the exposure draft addressed all aspects of the standards, significant concerns focused on the proposals related to the proposed prohibition on self-inspection and the proposed two-year cooling-off period for engagement quality reviewers (EQRs).

The ASB considered the objective of the proposed standards, which is to enhance audit quality for the benefit of the public interest, the feedback about the associated benefits and costs of specific requirements, and related safeguards in place. From that perspective, the ASB directed the following changes to the proposed standards:

- Permit self-inspection. The ASB believes that a prescriptive preclusion is inconsistent with a risk-based approach to quality management and the cost of unintentional negative consequences of the prohibition seems to exceed the benefits. The ASB also considered the effect of other monitoring procedures in place, including peer review.
- Do not require a cooling-off period for EQRs. The ASB believes it would be inconsistent for AICPA professional standards to require EQR rotation but not engagement partner rotation. The ASB also acknowledged other safeguards exist to support the objectivity of the EQR and the engagement partner.
- Retain the extant requirement that the EQR has to be completed before the report is released, and not before the report is dated. The ASB believes that the flexibility of using the report release date provides greater benefit than the logistical cost of restricting the time available for completing the EQR.

The ASB also directed the inclusion of principles-based guidance about the quality risks associated with self-inspection and service as EQR immediately after serving as engagement partner, and how the auditor might develop responses to them.

The ASB discussed a draft of proposed SAS *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*. The ASB will be asked to vote to issue the proposed SAS at a meeting after the Professional Ethics Executive Committee (PEEC) votes to approve proposed

---

<sup>1</sup> The comment letters on the proposed Quality Management standards are available at <https://www.aicpa.org/research/exposedrafts/accountingandauditing/comment-letters-on-proposed-quality-management-standards.html>

revisions to the Code of Professional Conduct regarding responding to noncompliance with laws and regulations (NOCLAR). The PEEC currently anticipates finalizing the proposed Code revisions at its meeting in February 2022. A final SAS, if approved, would be issued in conjunction with final revisions to the Code of Professional Conduct.

The ASB also discussed a draft of a proposed SAS AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*. In audits of group financial statements, the group auditor may choose to make reference to the report of another auditor. The ASB directed that the definition of component auditor exclude auditors to whom reference is made, and that a separate AU-C section be created to address making reference to the report of other auditors. The ASB plans on issuing an exposure draft of the proposed SAS in the first quarter of 2022.