



Auditing Standards Board
December 2, 2021
Meeting Agenda
Teleconference

Item #	Topic	Expected Action (Chair/Staff)	Time
ASB & IASTF (Open Meeting)			
	Chair's Remarks	(Harding/Stevens)	10:30-10:40
1	Group Audits*	IAASB Draft Document/ ASB Discuss Issues (Burzenski/Sherinsky)	10:40-12:30
	<i>Break</i>		12:30-1:30
2	Fraud*	IAASB Draft Document Sergott/Delahanty)	1:30-2:30
ASB (Open Meeting)			
4**	Operating Policies	Vote to Finalize (Harding/Goldman)	3:30-3:45
5	Quality Management	Discuss Issues (Lord/Heath/Goldman)	3:45-5:00

*Please see relevant IAASB meeting materials on the [IAASB website](#)

**Agenda number 3 deliberately not used

Observer link:

https://players.brightcove.net/1485859309/0hQgLxOkAT_default/index.html?videoid=6250724530001

ASB Operating Policies

I. Objective of Agenda Item

To vote to approve revisions to the ASB Operating Policies.

II. Agenda Items Presented:

Agenda item A ASB Operating Policies (Revised December 2021) – Clean

Agenda item B ASB Operating Policies (Revised December 2021)- marked against ASB
Operating Policies (Revised October 2017)

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
AUDITING STANDARDS BOARD
AUDITING, ATTESTATION AND QUALITY CONTROL STANDARDS
SETTING ACTIVITIES

OPERATING POLICIES

**AUDITING, ATTESTATION AND QUALITY CONTROL STANDARDS
SETTING ACTIVITIES**

OPERATING POLICIES

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DRAFT

AUDITING, ATTESTATION AND QUALITY CONTROL STANDARDS
SETTING ACTIVITIES
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INTRODUCTION

This document summarizes the responsibilities, authority, and structure of the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) and of the principal AICPA staff assigned to support the auditing, attestation, and quality control standards setting activities of the AICPA. These operating policies are designed to facilitate the timely, thorough and open study and deliberation of the continuing development of auditing, attestation, and quality control standards. Additional detailed procedures may be developed by the ASB and AICPA staff to implement the broad policies outlined herein. All references to committees and staff are to AICPA committees and staff unless otherwise noted.

DESCRIPTION OF THE AUDITING STANDARDS BOARD

The ASB was formed in October 1978¹ and is responsible for the promulgation of auditing and attestation standards and procedures to be observed by members of the AICPA in accordance with the Institute's Bylaws and *Code of Professional Conduct*.

The ASB is the senior committee of the AICPA designated by Council to issue auditing, attestation, and quality control standards and practice guidance for performing and reporting on audit and attestation engagements for nonissuers (that is, entities not included within the jurisdiction of the Public Company Accounting Oversight Board (PCAOB)). The "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001), of the AICPA Code of Professional Conduct requires AICPA members who perform professional services to comply with standards promulgated by bodies designated by Council. The ASB is authorized to make public statements on matters relating to auditing, attestation, and quality control standards for nonissuers without clearance from Council or the Board of Directors. Council resolved that any committee or board authorized by the Council to issue enforceable standards under the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.300.001), and the "Compliance With Standards Rule" must observe an exposure process seeking comment from other affected committees and boards, as well as the general membership.

¹ See Appendix A for a historical background of the Auditing Standards Board including how its authority was modified as a result of the Sarbanes Oxley Act of 2002.

THE MISSION OF THE AUDITING STANDARDS BOARD

The mission of the ASB is to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner.

The ASB accomplishes this mission by (1) developing auditing, attestation, and quality control standards that inspire public trust, (2) contributing to the development of high quality international auditing and assurance standards, and (3) responding timely to the need for guidance and communicating it clearly to the profession and to users.

STRATEGIC INITIATIVES OF THE AUDITING STANDARDS BOARD

The ASB also recognizes the importance of standards harmonization, both within the US and between countries. The pervasiveness of international business activity supports the closer harmonization of audit and attest services to provide efficient, quality audit services that meet the needs of a wide community of users. The integrity of reporting on financial information is strengthened when auditing standards are harmonized to a high level of quality. Thus, the ASB has a strategic objective of contributing to the development of high-quality auditing, attestation and quality control standards of the International Auditing and Assurance Standards Board (IAASB). The ASB also has a strategic objective to converge its standards with those of the IAASB. In developing and updating its standards, the ASB considers the standards of other standard-setters, such as the PCAOB and the General Accounting Office (GAO), in its continuing efforts to promulgate high-quality, objective audit and attestation standards that inspire public trust. See Appendix B, *Convergence Guidelines*, for ASB guidance for converging with IAASB standards.

OPERATING POLICIES OF THE AUDITING STANDARDS BOARD

The operating policies of the ASB are designed to permit timely, thorough, and open study of auditing, attestation, and quality control issues and to encourage broad public participation in the process of establishing and improving auditing, attestation, and quality control standards.

The objective of the ASB's policy of openness and broad public participation in the standards-setting process is to stimulate consideration and debate within the ASB's constituencies on matters of significance to the profession, users of audited financial statements and the general public. ASB members, the Audit and Attest Standards Staff, and ASB task force and subcommittee members are free at all times to express their individual views on matters under consideration in order to stimulate constructive public dialogue. The public is encouraged to do likewise, and individuals and organizations are invited to make their views and concerns known to the ASB through thoughtful, reasoned, and timely communication, generally in the form of letters commenting on

proposed documents during their comment periods, and by participation in public hearings. The ASB and the Audit Issues Task Force (AITF) also hold periodic meetings with various constituent organizations to discuss the views of those organizations and their members.

Nomination of ASB Members and the ASB Chair

The ASB is a committee of nineteen members, consisting of public practitioners, members with state board of accountancy experience, users, and public members. Up to twenty five percent of the ASB may be non-AICPA members. Members are appointed within the following guidelines: local, regional and other non-big four national firms (5); NASBA nominated representatives (5); big four firms (4); users and public members (5). Customarily, one seat is reserved for a government official or an auditor of government entities, and one seat is reserved for an academician. The Chief Auditor² of the AICPA Audit and Attest Standards Team, in consultation with the ASB Chair, nominates the members of the ASB. The AICPA Board of Directors approves nominations for members of the ASB.

The ASB Chair presides at the ASB's meetings, and is responsible, in consultation with the Chief Auditor, for establishing operating procedures for the ASB, its staff, task forces, subcommittees, and other groups. The Chief Auditor nominates the ASB Chair. The AICPA Board of Directors approves the nomination of the ASB Chair.

Each member normally serves for three one-year terms, with reappointment for each term dependent on satisfactory performance. Depending on the status of projects with which a particular member may be involved, and if continuity would contribute to the timely completion of those projects, it may be appropriate to reappoint that member for one or more additional one-year terms. Upon appointment, the ASB Chair normally serves for three one-year terms, with reappointment for each term dependent on satisfactory performance, irrespective of the number of terms that he or she has previously served as a member of the ASB.

If the ASB Chair is unable to fulfill his or her responsibilities, the Chief Auditor appoints an ASB member to serve as interim ASB Chair until such time as the AICPA Board of Directors approves the nomination of a new ASB Chair.

Evaluation of ASB Members and the ASB Chair

The ASB Chair and members are asked annually to evaluate their own performance and that of the ASB as a whole, the Chair and the staff. Evaluations will be anonymized. The evaluation will be in October so that the results can be considered by the ASB in fulfilling its functions for the remainder of the Board year. See Appendix C, *Evaluation of ASB Members and the ASB Chair*, for evaluation criteria

² The Chief Auditor may delegate these activities to members of the Audit & Attest team. .

AICPA Office of the General Counsel

The AICPA Office of the General Counsel provides legal counsel to the ASB. The AICPA requires full compliance with antitrust and competition laws wherever and whenever the AICPA conducts its activities. It is the policy of the AICPA to require all members, employees and volunteers to avoid conduct that presents even the appearance of impropriety under the antitrust and competition laws. The AICPA's activities include standard-setting and providing educational and other opportunities to discuss and advocate relating to certain matters of importance to the profession. As a result, AICPA members, employees and volunteers encounter representatives of their competitors. Because of these frequent interactions, it is exceedingly important that those participating in AICPA activities conduct themselves in accordance with applicable antitrust and competition laws. Violations of the AICPA's policies and guidelines may be a basis for termination of involvement with this organization. To raise any questions about compliance or learn of a potential violation of the antitrust laws or any of the AICPA's policies, contact the AICPA's General Counsel, Mike Buddenbeck, at Michael.Buddendeck@aicpa-cima.com.

Audit and Attest Standards Team

The Audit and Attest Standards staff ("Staff") consists of suitably qualified staff to support the activities of the ASB and its subcommittees and task forces. Staff helps subcommittees and task forces draft and deliberate authoritative professional standards and interpretations. Staff also develops non-authoritative professional guidance such as Technical Questions and Answers published in *Technical Practice Aids* and other forms of guidance on emerging issues. Additionally, Staff may be involved in other projects in cooperation with other teams at the AICPA, for example, the Accounting and Review Services Committee or other outside organizations, for example, the IAASB of the International Federation of Accountants.

Operating and Project Plans

Audit Issues Task Force

The ASB Chair and the Chief Auditor are responsible for preparing short- and longer-range operating and project plans for the ASB, including an agenda of projects and their priorities. The ASB Chair and the Chief Auditor also are responsible for planning and monitoring the ASB's work. To assist them in preparing such operating plans and other administrative and technical responsibilities, the ASB Chair, in consultation with the Chief Auditor, appoints six ASB members, in addition to the Chair, to serve on the AITF. Members are appointed in accordance with the same guidelines as the ASB is appointed, to reflect a diverse cross-section of the experience and expertise of the ASB, and membership is evaluated annually; generally a one-year term and individuals may be appointed for a second year.

The tasks assigned to the AITF may include:

- Evaluating topics or issues raised by various parties or constituents for potential consideration by the ASB;
- Planning and prioritizing the agenda of the ASB, including establishing project priorities;
- Providing technical advice to the ASB Chair, AICPA staff, ASB subcommittees and task forces, and other committees;
- Addressing emerging audit and attestation practice issues and providing guidance for communication as necessary
- Reviewing and commenting on interpretive publications;
- Serving as liaison between the ASB and other organizations;
- Reviewing meeting agendas;
- Monitoring the ASB's progress against its strategic plan, through a semiannual report from staff;
- Providing advice on the objectives and composition of ASB task force and monitoring their progress; and
- Providing such other administrative and technical advice as the ASB Chair and the Chief Auditor may request.

Observers to the AITF comprise the other ASB members, technical advisors to ASB members, and the staff liaison to the AICPA Technical Issues Committee (TIC). Other ASB members are granted the right of the floor but cannot vote. The ASB Chair may choose to hold AITF meetings without observers.

AITF meetings are generally scheduled for three times a year, one of which is a liaison meeting with FASB and with GASB, and additional meetings are scheduled as needed.

International Auditing Standards Task Force (IASTF)

The objective of the IASTF is to support (1) the ASB's leadership role in the development of international auditing standards and (2) the effort to achieve greater convergence between U.S. and international auditing standards. Task Force members facilitate input by the ASB to U.S. members of the International Auditing and Assurance Standards Board (IAASB) regarding its projects and other activities.

Members are IAASB members and technical advisors based in the United States, the ASB chair and other ASB members with in-depth experience with the IAASB. Observers are all ASB members and other interested parties. IASTF meetings are not public. They generally are held the week before the IAASB quarterly meeting. IASTF meetings may be conducted jointly with ASB meetings to enhance ASB input into IAASB standard-setting and other activities.

When the IAASB is considering a project, the ASB assigns responsibility for following that project, usually to a task force, but based on the size of the project it may be assigned solely to staff. The task force monitors the activities of the IAASB on that project, provides input to the IASTF on concerns and issues, considers other activities necessary to evaluate proposed IAASB changes, and develops ASB comment letters related to IAASB exposure drafts.

The ASB Agenda

The ASB Chair and the Chief Auditor are responsible for setting the ASB's agenda of projects and their priorities. The ASB Chair or the Chief Auditor consults with the AITF and the ASB for input into the ASB's agenda, as well as considering input from other AICPA committees and task forces, or any of the ASB's constituents. The Chair and the Chief Auditor may use any means that they deem appropriate to seek input on the ASB's agenda. For example, the Chair or the Chief Auditor may meet with representatives of the ASB's various constituent groups formally or informally, individually or in groups. The Chair and the Chief Auditor may organize planning retreats, at which various ASB constituents are invited to provide input into the ASB's agenda. The Chair and the Chief Auditor also may appoint separate task forces of the ASB to provide input into the ASB's agenda.

Ordinarily, if a member of the ASB would like a topic to be added to the ASB's agenda, that topic would first be discussed at an AITF meeting. However, after discussion with the ASB Chair or the Chief Auditor, any member of the ASB may propose a topic to be added to the ASB's agenda, and the ASB may vote to add that topic to the agenda. A simple majority is sufficient to add a topic to the ASB's agenda.

Subcommittees and Task Forces

Subcommittees and task forces are appointed to assist the ASB in carrying out its mission.

A subcommittee is a standing group that may be entirely or partially composed of ASB members or may be composed entirely of other persons. Nominations for members of subcommittees are made by the Chief Auditor, in consultation with the ASB Chair, and approved by the AICPA Board. Subcommittees of the ASB are established in recognition of a need for the continual dedication of specialized resources to achieve specified objectives. Subcommittees customarily are granted a high level of autonomy, but their work is subject to review by the ASB.

A task force is a group appointed to undertake a special project. A task force terminates upon the completion of its assignment. It may be entirely or partially composed of ASB members or may be composed entirely of other persons. A task force is appointed by the Chief Auditor in consultation with the ASB Chair, and reports to the ASB Chair.

The ASB Chair has observer status at all meetings of subcommittees and task forces.

When a task force is involved in developing an exposure draft for which public comments are received, the ASB relies on the task forces and AICPA staff to analyze and read the comment letters and summarize for the full board the issues that arose from them. Details of the comment letter analysis is provided to the board members for their reference, and all comment letters are posted on the ASB webpage.

Project Proposals

When a standard-setting project is being considered, the following activities take place:

- A task force is formed, and a chair of the task force is appointed (this may be before or after a project proposal is prepared and approved by the AITF).

- A project proposal is developed (if task force is formed, they will develop the proposal, if not, the staff with input from the ASB chair will develop the proposal).
 - The project proposal identifies why the project is being undertaken, the objective of the project, its scope and its boundaries, any research to be performed to refine project scope or issues, and planned outreach throughout the project. It also addresses the planned post-issuance implementation review phase at an overview level.
- The project proposal is provided to the AITF for approval.
- The project is added to the ASB workplan.
- The task force implements the project plan (e.g., takes appropriate steps to develop a proposed standard for board consideration).

Liaison with Constituents

The ASB Chair and the Chief Auditor are responsible for establishing appropriate liaison relationships with representatives of the ASB's constituents. The objective of these liaison activities is to communicate intended ASB actions and plans and to seek timely input on ASB projects and priorities and suggestions for possible ASB projects. Examples of important liaison groups that the ASB may have liaison relationships with include the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, the General Accountability Office, the Institute of Internal Auditors, NASBA, Department of Labor, PCAOB, SEC, and committees of the American Bar Association, American Bankers Association and the Financial Executives International. Representatives of the ASB and Staff may meet with representatives of constituent groups periodically, or constituents may be contacted depending on the circumstances and as specific needs arise. The Chief Auditor is responsible for maintaining liaison with other AICPA staff on auditing, attestation and quality control standards setting matters.

Although the ASB maintains liaison relationships with certain constituents, the ASB also is interested in timely input on projects, priorities, and suggestions for possible ASB projects from any of its constituents. Any member of the public may express their views on the ASB's projects and priorities, or make suggestions for possible ASB projects by contacting the Audit and Attest Standards Team.

Research Projects

The Chief Auditor, in consultation with the ASB Chair or his or her designee, may authorize and approve research projects as the ASB Chair may deem necessary or desirable in the circumstances, and provides for research to be conducted by Staff, by consultants, or task force members.

Research is generally directed to specific issues associated with the projects on the ASB's technical agenda or with possible future agenda projects and, as such, may be expected to have a problem-solving orientation and to provide information about specific questions and the impact of alternative solutions. Theoretical and conceptual research is also conducted when the circumstances warrant.

Unless restricted by copyright, agreement with the researchers, or other restriction, written research data or summaries of research data constitute a part of the ASB's public file.

Pronouncements and Other Communications

Statements on Auditing Standards, Statements on Standards for Attestation Engagements and Statements on Quality Control Standards

These publications are standards issued by the ASB. "The Compliance With Standards Rule" of the AICPA Code of Professional Conduct requires a member who performs audit and attestation services for nonissuers to comply with standards promulgated by the ASB. The ASB develops and issues standards in the form of Statements on Auditing Standards, Statements on Standards for Attestation Engagements, and Statements on Quality Control Standards (together, "ASB Statements") through a process that includes deliberation in meetings open to the public, public exposure of proposed ASB Statements, and a formal vote.

In determining an appropriate public exposure period of a proposed ASB Statement, including the comment due date, the ASB will take into consideration that the period from approximately January 1 through April 15 of any calendar year represents the traditional "busy season" for many practitioners. Although the ASB will attempt to limit having a comment period for a proposed ASB Statement end during the traditional "busy season," the decision regarding the comment due date will take into account the complexity of the subject matter in the proposed ASB Statement as well as the circumstances surrounding the need for a new standard.

Interpretative Publications

Interpretations: Interpretations are issued to provide guidance on the application of ASB Statements. Staff develops interpretations, sometimes with the assistance of ASB members or other volunteers. Interpretations are reviewed and cleared by the AITF, and issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed interpretation is consistent with the ASB Statements. ASB members are provided at least two weeks to consider and comment on proposed interpretations. Comments are addressed by Staff with the ASB Chair and the Chief Auditor and substantive changes are sent back to the ASB for their consideration. Final approval of an interpretation rests with the ASB Chair and the Chief Auditor.

AICPA Guides: AICPA Guides provide guidance on particular circumstances that require special attention (such as the use of audit sampling) or within specialized industries (such as depository and lending institutions). Other AICPA committees and staff develop specialized industry guides, and are responsible for updating the guides for changes in the auditing and accounting standards (referred to as *conforming changes*). AICPA Guides that contain guidance on ASB Statements are issued under the authority of the ASB. Any guides that are new or guides with updates beyond conforming changes are issued after all ASB members have been provided an opportunity to consider and comment on whether the proposed guide is consistent with the ASB Statements. ASB members are provided at least two weeks to consider and comment on proposed guides. AITF members are asked to provide positive clearance (that is, a statement about whether the proposed guide is consistent with the ASB Statements). Other ASB members are asked for negative

clearance; that is, a response is optional, and lack of comment is taken to mean no objection exists to issuance of the guide. Modifications to existing guides for conforming changes are approved by the ASB Chair (or his or her designee) and the Chief Auditor. The ASB Chair and the Chief Auditor approve the issuance of AICPA Guides that contain guidance on ASB Statements. Issuance of any AICPA Guide that contains accounting or financial reporting guidance as well as guidance on ASB Statements is also subject to the policies of the Financial Reporting Executive Committee.

Statements of Position: Statements of Position are issued to achieve one or more of the following objectives: to describe and provide implementation guidance for specific types of audit and attestation engagements; or to provide guidance on specialized areas in audit and attestation engagements. Auditing and Attestation Statements of Position may be prepared by an ASB subcommittee or task force, a task force administered by the Audit and Attest Standards staff, or by other committees and staff. Auditing and Attestation Statements of Position are reviewed and cleared by the AITF and issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed Statement of Position is consistent with the ASB Statements. ASB members are provided at least two weeks to consider and comment on proposed Statements of Position. The ASB Chair and the Chief Auditor approve the issuance of any auditing or attestation Statement of Position. Issuance of any Statement of Position that contains accounting or financial reporting guidance also is subject to the policies of the Financial Reporting Executive Committee.

Other Communications

Public Statements: Entities outside the AICPA, such as the PCAOB, the Securities and Exchange Commission (SEC), Federal or state agencies and other groups or entities may make proposals that relate to ASB Statements, auditing and attestation procedures, practices and methods, and the form and content of reports on audit and attestation engagements. Also, the IAASB proposes International Standards on Auditing and International Auditing Practice Statements. Staff, task forces, or subcommittees may draft written comments to such outside entities on their proposals. The ASB Chair and the Chief Auditor, or their designees, approve the issuance of such comments. (The Chair of the International Auditing Standards Task Force normally is designated the authority to approve comment letters to the IAASB.) The ASB Chair and the Chief Auditor also may approve for publication interpretive auditing and attestation guidance of a transitional nature in publications such as *CPA Letter Daily* and the *Journal of Accountancy*.

Other Publications: Staff publishes other forms of guidance that do not carry the authority of the ASB; however, other auditing and attestation publications published by the AICPA that have been reviewed by Staff are presumed to be appropriate in understanding and applying the Statements on Auditing Standards. Staff also may publish guidance on understanding and applying other ASB Statements. These publications are not approved, disapproved, or otherwise acted on by the ASB, the membership, or the governing body of the AICPA, and are not official pronouncements of the AICPA. Staff also contributes to a quarterly newsletter, *Financial Reporting Center Newsletter*, to communicate the status of ASB and Staff projects.

Meetings of the Auditing Standards Board

Rules of Order

Meetings are conducted on an informal basis, rather than on the basis of formal rules of order, subject to the power of the ASB Chair to conduct meetings effectively. This is done to promote a deliberative process and a free exchange of ideas.

When discussing a draft standard, whether presented in full or as issues in a discussion paper, the discussion focuses primarily on requirement paragraphs. The following are guidelines for considering requirement paragraphs:

- Are the requirements appropriate for non-issuers in the United States?
- Are the requirements clear, understandable, scalable and capable of being applied?
- Are requirements missing?
- Is there language in the requirements that is unclear or otherwise flawed?
- Are there requirements that should not be requirements and should be moved to application material?
- If the wording of a requirement is based on an ISA and if changes are being suggested, are they of sufficient significance to warrant a difference? (i.e., will it be considered a “wording difference” or a “departure”? See Convergence Guidelines)

The following are guidelines for discussing application material:

- Is there application material that belongs in the requirements?
- Is any application material unclear or otherwise flawed?
- Should any application material be added?
- Is there application material that should be deleted? If so, should it be considered for authoritative or nonauthoritative guidance outside the standard?
- Is there application material for which the task force had significant debate about and could not reach agreement?

Discussion of the application material should be at a “higher level” to avoid word-smithing during ASB meetings and optimize the time at the meetings for discussion of more substantive issues. The objective is to rely on the task forces to develop appropriate wording for application material based on high-level direction provided by the Board. Editorial comments (i.e., those that should not require ASB discussion at an open meeting) are welcome “off-line”, and will be considered by the Task Force chair.

Submitting comments on agenda materials to the Task Force chair and staff at least 3 business days before the Board meeting at which the material is being discussed is encouraged because it enables the Task Force chair and staff to consider the comments before the meeting.

For meetings at which a standard is being voted for issuance as final:

- The entire standard will be open for discussion when the agenda item is first discussed at the meeting.
- Subsequent discussions of turn-around documents should be limited to revisions proposed when the standard is first discussed at the meeting, and fatal flaws elsewhere in the document.
- ASB members are encouraged to raise editorial comments, particularly those with potential to change the meaning of the standard
- The ASB will be provided with turn-around documents with adequate time to read and consider the documents before the vote, including, if necessary, reading time during the meeting before the discussion and vote.

Meetings Open to the Public

Those portions of ASB meetings relating to (a) the establishment of standards through ASB Statements and (b) other auditing, attestation and reporting matters directly affecting the public interest are open to the public. Portions of meetings dealing with matters of an administrative or necessarily confidential nature, such as meeting arrangements, establishment of task forces, and consideration of advice of AICPA counsel, need not be open to the public.

Meetings of the subcommittees and task forces of the ASB, including meetings of the AITF, are not open to the public; however, at the discretion of the ASB Chair, or at the discretion of the chair of the subcommittee or task force (after discussing the request with the ASB Chair), interested parties may be invited to attend any or all meetings of any ASB subcommittee or task force.

ASB meetings are broadcast to observers using an online video platform.

Quorum Requirements

A majority of the members of the ASB constitutes a quorum. Occasionally, circumstances may arise that prohibit a member from attending an ASB meeting. In those circumstances, a member may send a representative to an ASB meeting. However, that representative cannot submit a proxy vote on behalf of the member.

Privilege of the Floor

The following persons have the privilege of the floor during meetings of the ASB:

- The members of the ASB
- Designated representative of absent members
- The AICPA nominated representative to the IAASB
- the Chair of the AICPA Board of Directors
- the President of the AICPA
- AICPA General Counsel or their representative
- the Executive Vice President-Public Practice
- the Chief Auditor
- Staff members whose presence is required.

The ASB Chair may extend the privilege of the floor to members of other committees, subcommittees and task forces, or other individuals, such as representatives of the GAO and SEC, when matters relating to them are being discussed. Observers do not have the privilege of the floor although the ASB Chair may extend such a privilege for good cause.

Voting Procedures

The matters on which votes may be taken can be categorized as follows: (1) votes for issuance an exposure draft of a proposed ASB Statement or a final ASB Statement or (2) votes on all other matters.

Issuance of an exposure draft of a proposed ASB Statement or a final ASB Statement requires the written affirmative approval of two-thirds of all ASB members. In voting on issuance of an exposure draft of a proposed ASB Statement or a final ASB Statement, Board members may approve, dissent or abstain to the issuance of a proposed or final ASB Statement. Members who dissent or abstain will be asked to explain the reasons for their dissention or abstention. Members not in attendance cannot vote by proxy because they have not heard the discussion prior to the vote.

Results of a vote will not be shown in either a proposed or final statement. Members who dissent to issuance of an exposure draft of a proposed ASB Statement may request that the dissent be included in the published proposed ASB Statement and the reasons therefor stated with a specific request for consideration by respondents. The Approved Highlights of ASB meetings at which a vote was taken to ballot for issuance a final, or an exposure draft of a proposed, ASB Statement will clearly indicate the results of the vote, including reasons for any dissents or abstentions. In addition, a file summarizing the results, extracted from the Approved Highlights, of all votes including dissents and the reasons therefor will be maintained on the “[ASB Meeting Materials and Highlights](http://www.aicpa.org)” page on the AICPA’s Web site, <http://www.aicpa.org>.

Votes on all other matters are by members and are effected by show of hands, by written ballot, electronic ballot, or by a poll conducted by the ASB Chair or Staff, as determined by the ASB Chair in each instance. A simple majority is sufficient to carry a motion. The ASB year, which normally expires annually at the time of the AICPA annual meeting, may be extended by the Board of Directors for purposes of voting on a specific document(s).

Notification

Public announcement of the date, time, and location of each open meeting is made on the “[ASB Meeting Materials and Highlights](http://www.aicpa.org)” page on <http://www.aicpa.org> and via e-mail to those who have registered to be placed on the ASB distribution list. Agendas and agenda materials are also posted on the “[ASB Meeting Materials and Highlights](http://www.aicpa.org)” page. Topics may be added to an ASB meeting agenda up to ten calendar days before an open meeting. Special meetings are set not less than ten days in advance of the meeting date. Final decisions on the issuance of exposure drafts of proposed ASB Statements or final ASB Statements are deferred to a subsequent meeting in those situations when no indication had been made available to the public that the subject would be covered in an open meeting.

Meeting Location

The locations of the meetings are determined by Staff, taking into account the accessibility of the location to ASB members and constituents, cost, and geographic variety. The ASB may also hold open meetings via teleconference or videoconference following the same notification procedures as described above.

Public Hearings

The ASB, from time to time, may seek information about auditing, attestation, and quality control issues and related matters by holding a public hearing in which nonmembers can participate. The ASB Chair, in consultation with the Director, determines whether public hearings on a particular topic should be held, and if so, the number of public hearings to be held and the time, date, location, and general format of each. Each public hearing is conducted by one or more members of the ASB or its technical staff pursuant to rules of order established by the ASB Chair. Such public hearings are not considered to be meetings of the ASB.

Public announcement of the date, time, and location of each public hearing would be posted in the “[Audit and Attest](#)” section of the “Financial Reporting Center” interest area of <http://www.aicpa.org>. Agendas and agenda materials are also posted in the “[Audit and Attest](#)” section of the “Financial Reporting Center” interest area. Public hearings are set not less than thirty days in advance of the hearing date. Each notice of public hearing sets forth:

- The time, date, location, and general format of the hearing
- A brief statement of the subject or purpose of the hearing
- The date or dates prior to the hearing by which those wishing to be heard at the hearing are to notify the ASB and by which written comments, position papers, and outlines of oral presentations are to be received by the ASB
- Other information as the ASB may determine.

Any individual or organization may request to be heard at a public hearing, and to the extent practicable, the ASB will attempt to schedule all those making timely requests. Submission of written comments, a position paper, or an outline of a proposed oral presentation is a condition to being heard at a public hearing, but this requirement may be waived by the Chair upon a showing of special circumstances or if it is in the public interest. Materials submitted to the ASB constitute a part of its public file.

Public hearings may be adjourned in whole or in part to reconvene at another time, date, or location or may be extended to additional date or dates at the same or different locations, with the same or a different format, without any announcement other than announcement at the hearing.

Public Announcements and Public File

Meeting Documents

Copies of documents relating to issues discussed in open meetings are ordinarily supplied electronically to ASB members, at least seven days in advance of the meeting. These documents and the highlights of public meetings also are available on the “[ASB Meeting Materials and Highlights](http://www.aicpa.org)” page on <http://www.aicpa.org>. Any ASB member may propose a motion, and the ASB may vote to defer any proposed action on any documents that are not available to the members of the ASB at least seven days in advance of a meeting.

Meeting Highlights

After each ASB meeting, Staff prepares brief summaries of principal actions taken and decisions reached at ASB meetings. Such meeting highlights also include the attendees (Board members, staff and in person observers) and summaries of reports made by the ASB Chair, task force and subcommittee chairs, and the Director. The extent to which the results of specific, informal preference (or “straw”) votes are reflected in meeting highlights is at the discretion of the ASB Chair. Staff posts draft highlights, clearly marked as such, to the “ASB Meeting Materials and Highlights” page on www.aicpa.org shortly after the ASB meeting. The ASB is asked to approve the highlights at a subsequent meeting, and the approved highlights then replace the draft version on the AICPA website.

Public File

A public file on the open sessions of meetings for the current year and the upcoming year is available on the “[ASB Meeting Materials and Highlights](http://www.aicpa.org)” page on <http://www.aicpa.org>, for public reference. This file contains copies of meeting agendas, agenda materials, drafts of proposed pronouncements, highlights of open sessions of public meetings, comment letters received during public exposure periods on proposed pronouncements, written research data and summaries of research data, and materials submitted to the ASB in connection with public hearings. Comment letters on exposure drafts of proposed ASB Statements that are addressed in conformity with the instructions on the exposure drafts are included in the public file along with the exposure drafts.

Material Not Available to the Public

Correspondence and other documents related to auditing, attestation, and quality control standards activities and of committees administered by Staff that do not fall within the description of documents included under Public File are not available to the public. In particular, the following correspondence is not available to the public:

- Correspondence between and among the ASB, ASB subcommittees and task forces, and AICPA staff;
- Correspondence to and from AICPA counsel;
- Letters from the public, other than letters of comment on exposure drafts;
- Memoranda prepared by the staff; highlights of portions of meetings of the Board that are not open to the public; and
- Highlights of meetings of ASB subcommittees and task forces.

Also, individual written ballots, including ballots on exposure drafts and final pronouncements, are private; however, the results of such ballots on matters included on the ASB agenda are announced in open sessions of ASB meetings.

Record Retention Policies

The AICPA Staff uses the AICPA website, available document storage platforms, and a network share drive to retain documents for up to ten years. Documents received in hardcopy, which rarely occurs, are scanned. Documents are archived at the University of Mississippi Accounting Library

Document Retention Policy

The following documents are retained:

- Highlights of public meetings
- Exposure drafts
- Final standards
- Agendas

AVAILABILITY OF PUBLICATIONS

To promote broad public participation in the process of establishing and improving auditing, attestation, and quality control standards, the ASB will make available via the internet at <http://www.aicpa.org/Research>, each Invitation to Comment, and each Exposure Draft of proposed ASB Statements. Invitations to Comment and Exposure Drafts of proposed ASB Statements are available free of charge.

The ASB also will make available free of charge final ASB Statements and the Interpretations on the “[Standards](#)” page of <http://www.aicpa.org>. The annual paperback editions of the *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements)* and the *Codification of Statements on Standards for Attestation Engagements* are available in print. These codifications are also available as part of *AICPA Professional Standards*, which also includes the Statements on Quality Control Standards, in print and electronic format, on <http://www.aicpastore.com> for a charge.

Other documents issued by the ASB will be made available either in print, on <http://www.aicpa.org>, or both.

The publication date of a document issued by the ASB is considered to be the first date that the document is made widely available to the public. In most cases, this will be the date that a document is made available on <http://www.aicpa.org>.

AMENDMENTS

The ASB originally approved these operating policies on June 5, 2002. Conforming changes were approved by the AITF as of September 30, 2002. The operating policies may be amended at any time upon approval of two-thirds of all the ASB members at an open meeting of the ASB. This document was last amended by the ASB at their meeting in December 2021.

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REQUESTS FOR INFORMATION

Requests for information about availability of various ASB publications, ASB meetings, and the ASB's public file may be directed to:

Auditing Standards Board
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10105

The "Audit and Attest" section of the "Financial Reporting Center" interest area of <http://www.aicpa.org> includes various current information about ASB activities and projects.

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APPENDIX A: HISTORICAL BACKGROUND

In 1917, the American Institute of Certified Public Accountants, then known as the American Institute of Accountants, at the request of the Federal Trade Commission, prepared "a memorandum on balance-sheet audits," which the Commission approved and transmitted to the Federal Reserve Board.

The Federal Reserve Board, after giving the memorandum its provisional endorsement, published it in the Federal Reserve Bulletin of April 1917; reprints were widely disseminated for the consideration of "banks, bankers, banking associations; merchants, manufacturers, and associations of manufacturers; auditors, accountants, and associations of accountants" in pamphlet form with the title of "Uniform Accounting: a Tentative Proposal Submitted by the Federal Reserve Board."

In 1918, it was reissued under the same sponsorship, with a new title—"Approved Methods for the Preparation of Balance-Sheet Statements." There was practically no change from 1917 except that, as indicated by the respective titles and corresponding change in the preface, instead of the objective of "a uniform system of accounting to be adopted by manufacturing and merchandising concerns," the new objective was "the preparation of balance-sheet statements" for the same businesses.

In 1929, a special committee of the American Institute undertook revision of the earlier pamphlet in the light of the experience of the past decade; again under the auspices of the Federal Reserve Board, the revised pamphlet was issued in 1929 as "Verification of Financial Statements."

The preface of the 1929 pamphlet spoke of its predecessors as having been criticized, on the one hand, by some accountants for being "more comprehensive than their conception of the so-called balance-sheet audit," and, on the other hand, by other accountants because "the procedure would not bring out all the desired information." This recognition of opposing views evidenced the growing realization of the impracticability of uniform procedures to fit the variety of situations encountered in practice. Of significance is the appearance in the opening paragraph of "General Instructions" in the 1929 publication of the statement:

The extent of the verification will be determined by the conditions in each concern. In some cases, the auditor may find it necessary to verify a substantial portion or all of the transactions recorded upon the books. In others, where the system of internal check is good, tests only may suffice. The responsibility for the extent of the work required must be assumed by the auditor.

Between 1932 and 1934, there was correspondence, dealing with both accounting and auditing matters, between the Institute's special committee on cooperation with stock exchanges and the committee on stock list of the New York Stock Exchange. The views expressed were an important development in the recognition of the position of accountancy in finance and business. The series of letters was published in 1934 under the title Audits of Corporate Accounts.

In 1936, a committee of the Institute prepared and published a further revision of the earlier pamphlets under the title of "Examination of Financial Statements by Independent Public Accountants." The Institute availed itself of the views of persons outside the ranks of the profession whose opinions would be helpful, but the authority behind and responsibility for the publication

of the pamphlet rested wholly with the Institute as the authoritative representative of a profession that had by that time become well established in the business community.

In the 1936 revision, aside from the very briefly noted "Modifications of Program for Larger or Smaller Companies," the detailed procedures were restrictively stated to be an "outline of examination of financial statements of a small or moderate size company." Moreover, the nature and extent of such examinations were based on the purpose of the examination, the required detail to be reported on, the type of business, and, most important of all, the system of internal control; variations in the extent of the examination were specifically related to "the size of the organization and the personnel employed" and were said to be "essentially a matter of judgment which must be exercised by the accountant."

It is possible from the foregoing narrative to trace the development of the profession's view of an audit based on the experience of three decades. The succession of titles is illustrative. The earliest ambition for "uniform accounting" was quickly realized to be unattainable, and the same listed procedures were related instead to "balance-sheet statements." Then, with the gradually greater emphasis on periodic earnings, the earlier restrictive consideration of the balance sheet was superseded in the 1929 title, "Verification of Financial Statements," by according the income statement at least equal status. When in turn the 1936 revision was undertaken, there was a growing realization that, with the complexity of modern business and the need of the independent auditor to rely on testing, such a word as "verification" was not an accurate portrayal of the independent auditor's function. Accordingly, the bulletin of that year was stated to cover an "examination" of financial statements.

Statements on Auditing Procedure

The Committee on Auditing Procedure had its beginning on January 30, 1939, when the executive committee of the Institute authorized the appointment of a small committee "to examine into auditing procedure and other related questions in the light of recent public discussion."

On May 9 of that year, the report "Extensions of Auditing Procedure" of this special committee was adopted by the Council of the Institute and authority given for its publication and distribution, and in the same year the bylaws were amended to create a standing Committee on Auditing Procedure.

In 1941, the executive committee authorized the issuance to Institute members, in pamphlet form, of the "Statements on Auditing Procedure," prepared by the Committee on Auditing Procedure, previously published only in The Journal of Accountancy.

The "Statements on Auditing Procedure" were designed to guide the independent auditor in the exercise of his judgment in the application of auditing procedures. In no sense were they intended to take the place of auditing textbooks; by their very nature textbooks must deal in a general way with the description of procedures and refinement of detail rather than the variety of circumstances encountered in practice that require the independent auditor to exercise his judgment.

Largely to meet this need, the Institute began the series of Statements on Auditing Procedure. The first of these presented the report of the original special committee, as modified and approved, at the Institute's annual meeting on September 19, 1939, and issued under the title of "Extensions of Auditing Procedure."

Statement No. 1 presented conclusions drawn from the experience and tradition of the profession which largely furnished the foundation for the Committee's present structural outline of auditing standards; the other Statements on Auditing Procedure appropriately fit into that structural outline.

The "Codification of Statements on Auditing Procedure" was issued by the Committee on Auditing Procedure in 1951 to consolidate the features of the first 24 pronouncements which were of continuing usefulness.

When the Securities and Exchange Commission adopted the requirement that a representation on compliance with generally accepted auditing standards be included in the independent auditor's report on financial statements filed with the Commission, it became apparent that a pronouncement was needed to define these standards. Accordingly, the Committee undertook a special study of auditing standards (as distinguished from auditing procedures) and submitted a report that was published in October 1947 under the title "Tentative Statement of Auditing Standards—Their Generally Accepted Significance and Scope." The recommendations of this brochure ceased to be tentative when, at the September 1948 meeting, the membership of the Institute approved the summarized statement of auditing standards.

In 1954 the "tentative" brochure was replaced by the booklet Generally Accepted Auditing Standards—Their Significance and Scope, which was issued as a special report of the Committee on Auditing Procedure. This pronouncement also gave recognition to the approval of Statement on Auditing Procedure No. 23 (Revised), "Clarification of Accountant's Report When Opinion Is Omitted" (1949) and the issuance of the "Codification" (1951).

Statement on Auditing Procedure No. 33 was issued in 1963 as a consolidation of, and a replacement for, the following pronouncements of the Committee on Auditing Procedure: Internal Control (1949), Generally Accepted Auditing Standards (1954), Codification of Statements on Auditing Procedure (1951), and Statements on Auditing Procedure Nos. 25-32, which were issued between 1951 and 1963. Statement No. 33 was a codification of earlier Committee pronouncements which the Committee believed to be of continuing interest to the independent auditor.

Statements on Auditing Standards

After issuance of Statement on Auditing Procedure No. 33, 21 additional Statements on Auditing Procedure, Nos. 34 to 54, were issued by the Committee on Auditing Procedure. In November 1972, these pronouncements were codified in Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures. Also, in 1972, the name of the Committee was changed to the Auditing Standards Executive Committee to recognize its role as the AICPA's senior technical committee charged with interpreting generally accepted auditing standards.

The Auditing Standards Executive Committee issued 22 additional statements through No. 23.

Creation of the Auditing Standards Board

As a result of the recommendations of the Commission on Auditors' Responsibilities, an independent study group appointed by the AICPA, a special committee was formed to study the structure of the AICPA's auditing standard-setting activity. In May 1978, the AICPA Council adopted the recommendations of that committee to restructure the Committee. Accordingly, in

October 1978 the Auditing Standards Board was formed as the successor to prior senior technical committees on auditing matters. The Board was given the following charge:

The AICPA Auditing Standards Board shall be responsible for the promulgation of auditing standards and procedures to be observed by members of the AICPA in accordance with the Institute's rules of conduct.

The board shall be alert to new opportunities for auditors to serve the public, both by the assumption of new responsibilities and by improved ways of meeting old ones, and shall as expeditiously as possible develop standards and procedures that will enable the auditor to assume those responsibilities.

Auditing standards and procedures promulgated by the board shall—

- a. Define the nature and extent of the auditor's responsibilities.
- b. Provide guidance to the auditor in carrying out his duties, enabling him to express an opinion on the reliability of the representations on which he is reporting.
- c. Make special provision, where appropriate, to meet the needs of small enterprises.
- d. Have regard to the costs which they impose on society in relation to the benefits reasonably expected to be derived from the audit function.

The auditing standards board shall provide auditors with guidance with respect to the implementation of its pronouncements, by means of interpretations of its statements, by the issuance of guidelines, and by any other means available to it.

Changes created by Sarbanes Oxley Act of 2002

AICPA members who perform auditing and other related professional services have been required to comply with Statements on Auditing Standards promulgated by the AICPA Auditing Standards Board. These standards constitute what is known as “generally accepted auditing standards” (“GAAS”). Prior to Sarbanes Oxley, the ASB’s auditing standards have applied to audits of all entities. However, as a result of the passage of the Sarbanes-Oxley Act of 2002 (“Act”), the Public Company Accounting Oversight Board was formed and given jurisdiction to establish auditing rules and related professional practice standards to be used in the performance of and reporting on audits of the financial statements of public companies and other entities specified in the Act, as amended. Accordingly, public accounting firms auditing those entities subject to the oversight authority of the PCAOB (that is, those audit reports within the PCAOB’s jurisdiction as defined by the Sarbanes-Oxley Act of 2002, as amended), are now required to be registered with the PCAOB and to adhere to all PCAOB rules and standards in those audits. In 2003, the PCAOB adopted the then-existing Audit and Attest Standards as its interim auditing standards.

The preparation and issuance of audit reports for those entities not subject to the Act, as amended, (hereinafter referred to as “nonissuers”) continue to be governed by generally accepted auditing standards promulgated by the ASB.

The Reconstituted ASB

In February 2004, the AICPA's Board of Directors unanimously recommended that the AICPA's Governing Council take the following action at its meeting in May 2004:

- Designate the PCAOB as a body with the authority to promulgate auditing and related attestation standards, quality control, ethics, independence and other standards relating to the preparation and issuance of audit reports for entities within its jurisdiction as defined by the Act.
- Amend the ASB's current designation to recognize the ASB as a body with the authority to promulgate auditing, attestation and quality control standards relating to the preparation and issuance of audit reports for non-issuers only.

As a result of this action, the ASB was reconstituted and its jurisdiction amended by AICPA Council to recognize the ASB as a body with the authority to promulgate auditing, attestation and quality control standards relating to the preparation and issuance of audit and attestation reports for nonissuers.

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APPENDIX B: CONVERGENCE GUIDELINES

The ASB has a commitment to convergence with the ISAs and to its obligations and responsibilities as an “ISA Base” standard-setter. The following are guidelines for developing standards that converge with IAASB standards and enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner.

GENERAL

- 1) Use the ISA as the base document (“starting point”). Modify the base standard only when necessary to better serve the needs of U.S. users of audited financial statements of nonissuers or when modifications are appropriate for U.S. legal and regulatory reasons (for example, requirements specific to listed entities, references to the IESBA Code of Conduct, or considerations for governmental entities.).
- 2) Compare the ISA to the related extant AU-C section and any interpretations. Consider differences between the existing standards described in Appendix B and other material in the extant AU-C section not included in the extant ISA to determine whether such differences should continue to exist in the redrafted AU-C section.
- 3) When an equivalent auditing standard issued by the PCAOB exists, consider the PCAOB standard during the drafting of the proposed SAS to determine whether any material in PCAOB standards (as requirements or application material in the AU-C section) is appropriate for inclusion in ASB standards. [Example of change made: the ASB retained the term *material weakness* and uses the PCAOB definitions of *material weakness*, *deficiency in internal control*, and *significant deficiency* in internal control, as those terms are well understood in the ASB’s jurisdiction]. Note that the IAASB has begun including PCAOB observers on its Task Forces and considering the PCAOB standards when revising its standards.
- 4) Follow the format of the ISAs in redrafting the SAS; however, GAAS uses “should” instead of “shall”. While keeping wording changes to a minimum is an objective, changes in language to enhance clarity are not prohibited as long as such wording differences do not unintentionally change the meaning and intent of the standard.
- 5) During ASB meetings, focus primarily on discussing the requirement paragraphs, leveraging the work of the task forces to determine the appropriate application material.

DEMONSTRATING CHANGES MADE

- 6) The goal of convergence is to promote consistency between the ISAs and the SASs. Therefore, explain any proposed differences from the ISA wording.
- 7) Prepare a matrix showing differences between the proposed SAS and the ISA. Explain changes, other than wording changes for the US environment, in a comments column.

- 8) When the final SAS is issued, update the narrative explaining substantive differences in requirements between the final SAS and the ISA included in *Professional Standards*, AU-C Appendix B, *Substantive Differences Between ISAs and GAAS*. Such differences are described in terms of
- differences in wording,
 - requirements in the ISAs not in GAAS,
 - requirements in GAAS not in the ISAs,
 - differences between requirements, and
 - the placement of certain requirements within GAAS

REQUIREMENTS

- 9) In most circumstances, the wording of objectives, definitions and requirements should not be changed (other than for established clarity conventions, e.g. changing “shall” to “should”.) This is because of the potential for confusion as to whether the intent of the requirement was changed.
- 10) Raise all proposed changes to or deletion of requirements for discussion with the ASB along with justification for the change, including feedback from relevant stakeholders if appropriate. In the Explanatory Memo accompanying the exposure draft, explain changes to requirements with a specific question for respondents about the changes.

APPENDIX C: EVALUATION OF ASB CHAIR AND MEMBERS

1. ASB MEMBER

MEMBER NAME: CRITERIA	4 Excellent	3 Very Good	2 Sufficient	1 Unacceptable
a) Attend all board meetings for the full agenda.				
b) Read all appropriate advance materials before board and committee meetings.				

c) Identify areas of concern in advance of the meeting when feasible, and raise issues during board discussions.				
d) Participate in board discussions, including expressing support for or opposition to positions raised by others, and related reasons therefor.				
e) Respond to requests from the chair and staff when able.				
f) Participate fully in all Task Forces of which the individual is a member.				
g) Bring knowledge, wisdom or other perspective that adds value to ASB activities.				

Comments:

2. AUDITING STANDARDS BOARD

CRITERIA	4 Excellent	3 Very Good	2 Sufficient	1 Unacceptable
a) Board has full and shared understanding of its roles and responsibilities.				
b) Board members understand the ASB’s mission and strategic direction.				
c) Board has clear goals and actions resulting from relevant and realistic strategic planning.				
d) All necessary skills, stakeholders and diversity are represented on the board.				
e) Board meetings facilitate discussion and progress on agenda items.				
f) Board effectively monitors progress on the initiatives in its strategic plan, and takes steps to adjust its focus and resources as necessary.				

List any issues you believe the ASB should focus its attention upon in the coming year.

Other comments:

4. ASB CHAIR

CRITERIA	4 Excellent	3 Very Good	2 Sufficient	1 Unacceptable
a) Chair is open to all thoughts and suggestions and allows open dialogue.				
b) Chair runs the meetings effectively and keeps the committee meetings on track.				
c) Chair provides clear leadership.				
d) Chair ensures compliance with ASB policies and ASB strategic plan.				
e) Chair communicates with ASB effectively at meetings and in between meetings.				

Comments:

3. AUDITING STANDARDS STAFF

Note feedback is sought for the Chief Auditor, Director and those staffing the ASB and its Task Forces.

CRITERIA	4 Excellent	3 Very Good	2 Sufficient	1 Unacceptable
a) Staff is responsive to the needs of the Board and its task forces				
b) Staff communicates effectively.				

c) Staff delivers quality work product.				
d) Staff provides helpful technical support.				
e) Agenda materials for Board meetings are appropriate and facilitate Board discussion.				
f) Agenda materials are sent timely.				

Comments:

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AUDITING STANDARDS BOARD

**AUDITING, ATTESTATION AND QUALITY CONTROL STANDARDS
SETTING ACTIVITIES**

OPERATING POLICIES

**AUDITING, ATTESTATION AND QUALITY CONTROL STANDARDS
SETTING ACTIVITIES**

OPERATING POLICIES

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AUDITING, ATTESTATION AND QUALITY CONTROL STANDARDS SETTING ACTIVITIES OPERATING POLICIES

INTRODUCTION

This document summarizes the responsibilities, authority, and structure of the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) and of the principal AICPA staff assigned to support the auditing, attestation, and quality control standards setting activities of the AICPA. These operating policies are designed to facilitate the timely, thorough and open study and deliberation of the continuing development of auditing, attestation, and quality control standards. Additional detailed procedures may be developed by the ASB and AICPA staff to implement the broad policies outlined herein. All references to committees and staff are to AICPA committees and staff unless otherwise noted.

DESCRIPTION OF THE AUDITING STANDARDS BOARD

The ASB was formed in October 1978¹ and is responsible for the promulgation of auditing and attestation standards and procedures to be observed by members of the AICPA in accordance with the Institute's Bylaws and *Code of Professional Conduct*.

The ASB is the senior committee of the AICPA designated by Council to issue auditing, attestation, and quality control standards and practice guidance for performing and reporting on audit and attestation engagements for nonissuers (that is, entities not included within the jurisdiction of the Public Company Accounting Oversight Board (PCAOB)). The "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001), of the AICPA Code of Professional Conduct requires AICPA members who perform professional services to comply with standards promulgated by bodies designated by Council. The ASB is authorized to make public statements on matters relating to auditing, attestation, and quality control standards for nonissuers without clearance from Council or the Board of Directors. Council resolved that any committee or board authorized by the Council to issue enforceable standards under the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.300.001), and the "Compliance With Standards Rule" must observe an exposure process seeking comment from other affected committees and boards, as well as the general membership.

¹ See Appendix A for a historical background of the Auditing Standards Board including how its authority was modified as a result of the Sarbanes Oxley Act of 2002.

THE MISSION OF THE AUDITING STANDARDS BOARD

The mission of the ASB is to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner.

The ASB accomplishes this mission by (1) developing auditing, attestation, and quality control standards that inspire public trust, (2) contributing to the development of high quality international auditing and assurance standards, and (3) responding timely to the need for guidance and communicating it clearly to the profession and to users.

STRATEGIC INITIATIVES OF THE AUDITING STANDARDS BOARD

The ASB also recognizes the importance of standards harmonization, both within the US and between countries. The pervasiveness of international business activity supports the closer harmonization of audit and attest services to provide efficient, quality audit services that meet the needs of a wide community of users. The integrity of reporting on financial information is strengthened when auditing standards are harmonized to a high level of quality. Thus, the ASB has a strategic objective of contributing to the development of high-quality auditing, attestation and quality control standards of the International Auditing and Assurance Standards Board (“IAASB”). The ASB also has a strategic objective to converge its standards with those of the IAASB. In developing and updating its standards, the ASB considers the standards of other standard-setters, such as the PCAOB and the General Accounting Office (GAO), in its continuing efforts to promulgate high-quality, objective audit and attestation standards that inspire public trust. [See Appendix B, *Convergence Guidelines*, for ASB guidance for converging with IAASB standards.](#)

OPERATING POLICIES OF THE AUDITING STANDARDS BOARD

The operating policies of the ASB are designed to permit timely, thorough, and open study of auditing, attestation, and quality control issues and to encourage broad public participation in the process of establishing and improving auditing, attestation, and quality control standards.

The objective of the ASB’s policy of openness and broad public participation in the standards-setting process is to stimulate consideration and debate within the ASB’s constituencies on matters of significance to the profession, users of audited financial statements and the general public. ASB members, the Audit and Attest Standards Staff, and ASB task force and subcommittee members are free at all times to express their individual views on matters under consideration in order to stimulate constructive public dialogue. The public is encouraged to do likewise, and individuals and organizations are invited to make their views and concerns known to the ASB through thoughtful, reasoned, and timely communication, generally in the form of letters commenting on

proposed documents during their comment periods, and by participation in public hearings. The ASB and the Audit Issues Task Force (AITF) also hold periodic meetings with various constituent organizations to discuss the views of those organizations and their members.

Nomination of ASB Members and the ASB Chair

The ASB is a committee of nineteen members, consisting of public practitioners, members with state board of accountancy experience, users, and public members. Up to twenty five percent of the ASB may be non-AICPA members. Members are appointed within the following guidelines: local, regional and other non-big four national firms (5); NASBA nominated representatives (5); big four firms (4); users and public members (5). Customarily, one seat is reserved for a government official or an auditor of government entities, and one seat is reserved for an academician. The ~~Director~~Chief Auditor² of the AICPA Audit and Attest Standards Team, in consultation with the ASB Chair, nominates the members of the ASB. The AICPA Board of Directors approves nominations for members of the ASB.

The ASB Chair presides at the ASB's meetings, and is responsible, in consultation with the ~~Director~~Chief Auditor, for establishing operating procedures for the ASB, its staff, task forces, subcommittees, and other groups. The ~~Director~~Chief Auditor nominates the ASB Chair. The AICPA Board of Directors approves the nomination of the ASB Chair.

Each member normally serves for three one-year terms, with reappointment for each term dependent on satisfactory performance. Depending on the status of projects with which a particular member may be involved, and if continuity would contribute to the timely completion of those projects, it may be appropriate to reappoint that member for one or more additional one-year terms. Upon appointment, the ASB Chair normally serves for three one-year terms, with reappointment for each term dependent on satisfactory performance, irrespective of the number of terms that he or she has previously served as a member of the ASB.

If the ASB Chair is unable to fulfill his or her responsibilities, the ~~Director~~Chief Auditor appoints an ASB member to serve as interim ASB Chair until such time as the AICPA Board of Directors approves the nomination of a new ASB Chair.

Evaluation of ASB Members and the ASB Chair

The ASB Chair and members are asked annually to evaluate their own performance and that of the ASB as a whole, the Chair and the staff. Evaluations will be anonymized. The evaluation will be in October so that the results can be considered by the ASB in fulfilling its functions for the remainder of the Board year. See Appendix C, *Evaluation of ASB Members and the ASB Chair*, for evaluation criteria

² The Chief Auditor may delegate these activities to members of the Audit & Attest team. .

AICPA Office of the General Counsel

The AICPA Office of the General Counsel provides legal counsel to the ASB. The AICPA requires full compliance with antitrust and competition laws wherever and whenever the AICPA conducts its activities. It is the policy of the AICPA to require all members, employees and volunteers to avoid conduct that presents even the appearance of impropriety under the antitrust and competition laws. The AICPA's activities include standard-setting and providing educational and other opportunities to discuss and advocate relating to certain matters of importance to the profession. As a result, AICPA members, employees and volunteers encounter representatives of their competitors. Because of these frequent interactions, it is exceedingly important that those participating in AICPA activities conduct themselves in accordance with applicable antitrust and competition laws. Violations of the AICPA's policies and guidelines may be a basis for termination of involvement with this organization. To raise any questions about compliance or learn of a potential violation of the antitrust laws or any of the AICPA's policies, contact the AICPA's General Counsel, Mike Buddenbeck, at Michael.Buddendeck@aicpa-cima.com.

Audit and Attest Standards ~~Staff~~Team

The Audit and Attest Standards staff ("Staff") consists of ~~a Director and an appropriate number of~~ suitably qualified ~~managers~~staff to support the activities of the ASB and its subcommittees and task forces. Staff helps subcommittees and task forces draft and deliberate authoritative professional standards and interpretations. Staff also develops non-authoritative professional guidance such as Technical Questions and Answers published in *Technical Practice Aids* and other forms of guidance on emerging issues. Additionally, Staff may be involved in other projects in cooperation with other teams at the AICPA, for example, the Accounting and Review Services Committee or other outside organizations, for example, the IAASB of the International Federation of Accountants.

~~The AICPA Office of the General Counsel provides legal counsel to the ASB.~~

~~Staff members are CPAs who ordinarily have at least seven years of experience in public accounting or standard setting.~~

Operating and Project Plans

Audit Issues Task Force

The ASB Chair and the ~~Director~~Chief Auditor are responsible for preparing short- and longer-range operating and project plans for the ASB, including an agenda of projects and their priorities. The ASB Chair and the ~~Director~~Chief Auditor also are responsible for planning and monitoring the ASB's work. To assist them in preparing such operating plans and other administrative and technical responsibilities, the ASB Chair, in consultation with the ~~Director~~Chief Auditor, appoints six ASB members, in addition to the Chair, to serve on the AITF. Members are appointed in accordance with the same guidelines as the ASB is appointed, to ~~be~~reflect a ~~representative~~diverse

cross-section of the experience and expertise of the ASB, and membership is evaluated annually; generally a one-year term and individuals may be appointed for a second year.

The tasks assigned to the AITF may include:

- Evaluating topics or issues raised by various parties or constituents for potential consideration by the ASB;
- Planning and prioritizing the agenda of the ASB, including establishing project priorities; providing
- Providing technical advice to the ASB Chair, AICPA staff, ASB subcommittees and task forces, and other committees; ~~reviewing and commenting on interpretive publications; serving as liaison between the ASB and other organizations; reviewing meeting agendas; and such other administrative and technical advice as the ASB Chair and the Director may request.~~
- Addressing emerging audit and attestation practice issues and providing guidance for communication as necessary
- Reviewing and commenting on interpretive publications;
- Serving as liaison between the ASB and other organizations;
- Reviewing meeting agendas;
- Monitoring the ASB's progress against its strategic plan, through a semiannual report from staff;
- Providing advice on the objectives and composition of ASB task force and monitoring their progress; and
- Providing such other administrative and technical advice as the ASB Chair and the Chief Auditor may request.

Observers to the AITF comprise the other ASB members, technical advisors to ASB members, and the staff liaison to the AICPA Technical Issues Committee (TIC). Other ASB members are granted the right of the floor but cannot vote. The ASB Chair may choose to hold AITF meetings without observers.

AITF meetings are generally scheduled for three times a year, one of which is a liaison meeting with FASB and with GASB, and additional meetings are scheduled as needed.

International Auditing Standards Task Force (IASTF)

The objective of the IASTF is to support (1) the ASB's leadership role in the development of international auditing standards and (2) the effort to achieve greater convergence between U.S. and international auditing standards. Task Force members facilitate input by the ASB to U.S. members of the International Auditing and Assurance Standards Board (IAASB) regarding its projects and other activities.

Members are IAASB members and technical advisors based in the United States, the ASB chair and other ASB members with in-depth experience with the IAASB. Observers are all ASB members and other interested parties. IASTF meetings are not public. They generally are held the

week before the IAASB quarterly meeting. IASTF meetings may be conducted jointly with ASB meetings to enhance ASB input into IAASB standard-setting and other activities.

When the IAASB is considering a project, the ASB assigns responsibility for following that project, usually to a task force, but based on the size of the project it may be assigned solely to staff. The task force monitors the activities of the IAASB on that project, provides input to the IASTF on concerns and issues, considers other activities necessary to evaluate proposed IAASB changes, and develops ASB comment letters related to IAASB exposure drafts.

Liaison with Constituents

~~The ASB Chair and the Director are responsible for establishing appropriate liaison relationships with representatives of the ASB's constituents. The objective of these liaison activities is to communicate intended ASB actions and plans and to seek timely input on ASB projects and priorities and suggestions for possible ASB projects. Examples of important liaison groups that the ASB may have liaison relationships with include the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, the General Accountability Office, the Institute of Internal Auditors, NASBA, Department of Labor, PCAOB, SEC, and committees of the American Bar Association, American Bankers Association and the Financial Executives International. Representatives of the ASB and Staff may meet with representatives of constituent groups periodically, or constituents may be contacted depending on the circumstances and as specific needs arise. The Director is responsible for maintaining liaison with other AICPA staff on auditing, attestation and quality control standards setting matters.~~

~~Although the ASB maintains liaison relationships with certain constituents, the ASB also is interested in timely input on projects, priorities, and suggestions for possible ASB projects from any of its constituents. Any member of the public may express their views on the ASB's projects and priorities, or make suggestions for possible ASB projects by contacting the Audit and Attest Standards Team. See the table below for contact information for the various members of the Audit and Attest Standards Team.~~

Audit and Attest Standards Team Contact Information

	Telephone	E-Mail
<i>Charles E. Landes, Vice President, Professional Standards and Services</i>	202-434-9211	elandes@aicpa.org Chuck.Landes@aicpa-eima.com
<i>Linda Delahanty, Senior Manager</i>	212-596-6063	ldelahanty@aicpa.org Linda.Delahanty@aicpa-eima.com

Michael Glynn, <i>Senior Manager</i>	212-596-6250	mglynn@aicpa.org Mike.Glynn@aicpa-eima.com
Ahava Goldman, <i>Associate Director</i>	212-596-6056	agoldman@aicpa.org Ahava.Goldman@aicpa-eima.com
Hiram Hasty, <i>Associate Director</i>	212-596-6011	hhasty@aicpa.org Hiram.Hasty@aicpa-eima.com
Andy Mrakoveic, <i>Technical Manager</i>	212-596-6094	amrakoveic@aicpa.org Andy.Mrakoveic@aicpa-eima.com
Judith Sherinsky, <i>Senior Manager</i>	212-596-6031	jsherinsky@aicpa.org Judith.Sherinsky@aicpa-eima.com
Sherry Hazel, <i>Administrative Secretary</i>	212-596-6032	shazel@aicpa.org Sherry.Hazel@aicpa-eima.com
Sharon Macey, <i>Administrative Secretary</i>	212-596-6167	smacey@aicpa.org Sharon.Macey@aicpa-eima.com

The ASB Agenda

The ASB Chair and the ~~Director~~Chief Auditor are responsible for setting the ASB's agenda of projects and their priorities. The ASB Chair or the ~~Director~~Chief Auditor consults with the AITF and the ASB for input into the ASB's agenda, as well as considering input from other AICPA committees and task forces, or any of the ASB's constituents. The Chair and the ~~Director~~Chief Auditor may use any means that they deem appropriate to seek input on the ASB's agenda. For example, the Chair or the ~~Director~~Chief Auditor may meet with representatives of the ASB's

various constituent groups formally or informally, individually or in groups. The Chair and the ~~Director~~Chief Auditor may organize planning retreats, at which various ASB constituents are invited to provide input into the ASB's agenda. The Chair and the ~~Director~~Chief Auditor also may appoint separate task forces of the ASB to provide input into the ASB's agenda.

Ordinarily, if a member of the ASB would like a topic to be added to the ASB's agenda, that ~~member~~topic would ~~suggest the topic to first be discussed at an AITF meeting. However, after discussion with~~ the ASB Chair or the ~~Director for consideration; however~~Chief Auditor, any member of the ASB may propose a topic to be added to the ASB's agenda, and the ASB may vote to add that topic to the agenda. A simple majority is sufficient to add a topic to the ASB's agenda.

Subcommittees and Task Forces

Subcommittees and task forces are appointed to assist the ASB in carrying out its mission.

A subcommittee is a standing group that may be entirely or partially composed of ASB members or may be composed entirely of other persons. Nominations for members of subcommittees are made by the ~~Director~~Chief Auditor, in consultation with the ASB Chair, and approved by the AICPA Board. Subcommittees of the ASB are established in recognition of a need for the continual dedication of specialized resources to achieve specified objectives. Subcommittees customarily are granted a high level of autonomy, but their work is subject to review by the ASB.

A task force is a group appointed to undertake a special project. A task force terminates upon the completion of its assignment. It may be entirely or partially composed of ASB members or may be composed entirely of other persons. A task force is appointed by the ~~ASB Chair~~Chief Auditor in consultation with the ~~Director~~ASB Chair, and reports to the ASB Chair.

The ASB Chair has observer status at all meetings of subcommittees and task forces.

When a task force is involved in developing an exposure draft for which public comments are received, the ASB relies on the task forces and AICPA staff to analyze and read the comment letters and summarize for the full board the issues that arose from them. Details of the comment letter analysis is provided to the board members for their reference, and all comment letters are posted on the ASB webpage.

Project Proposals

When a standard-setting project is being considered, the following activities take place:

- A task force is formed, and a chair of the task force is appointed (this may be before or after a project proposal is prepared and approved by the AITF).
- A project proposal is developed (if task force is formed, they will develop the proposal, if not, the staff with input from the ASB chair will develop the proposal).
 - The project proposal identifies why the project is being undertaken, the objective of the project, its scope and its boundaries, any research to be performed to refine project scope or issues, and planned outreach throughout the project. It also addresses the planned post-issuance implementation review phase at an overview level.
- The project proposal is provided to the AITF for approval.

- The project is added to the ASB workplan.
- The task force implements the project plan (e.g., takes appropriate steps to develop a proposed standard for board consideration).

Liaison with Constituents

The ASB Chair and the Chief Auditor are responsible for establishing appropriate liaison relationships with representatives of the ASB's constituents. The objective of these liaison activities is to communicate intended ASB actions and plans and to seek timely input on ASB projects and priorities and suggestions for possible ASB projects. Examples of important liaison groups that the ASB may have liaison relationships with include the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, the General Accountability Office, the Institute of Internal Auditors, NASBA, Department of Labor, PCAOB, SEC, and committees of the American Bar Association, American Bankers Association and the Financial Executives International. Representatives of the ASB and Staff may meet with representatives of constituent groups periodically, or constituents may be contacted depending on the circumstances and as specific needs arise. The Chief Auditor is responsible for maintaining liaison with other AICPA staff on auditing, attestation and quality control standards setting matters.

Although the ASB maintains liaison relationships with certain constituents, the ASB also is interested in timely input on projects, priorities, and suggestions for possible ASB projects from any of its constituents. Any member of the public may express their views on the ASB's projects and priorities, or make suggestions for possible ASB projects by contacting the Audit and Attest Standards Team.

~~A list of ASB subcommittees and task forces, and their members, can be located at <https://volunteers.aiepa.org>.~~

Research Projects

The ~~Director~~Chief Auditor, in consultation with the ASB Chair or his or her designee, may authorize and approve ~~such~~ research projects as the ASB Chair may deem necessary or desirable in the circumstances, and provides for research to be conducted by Staff, by consultants, or task force members.

Research is generally directed to specific issues associated with the projects on the ASB's technical agenda or with possible future agenda projects and, as such, may be expected to have a problem-solving orientation and to provide information about specific questions and the impact of alternative solutions. Theoretical and conceptual research is also conducted when the circumstances warrant.

Unless restricted by copyright, agreement with the researchers, or other restriction, written research data or summaries of research data constitute a part of the ASB's public file.

Pronouncements and Other Communications

Statements on Auditing Standards, Statements on Standards for Attestation Engagements and Statements on Quality Control Standards

These publications are standards issued by the ASB. “The Compliance With Standards Rule” of the AICPA Code of Professional Conduct requires a member who performs audit and attestation services for nonissuers to comply with standards promulgated by the ASB. The ASB develops and issues standards in the form of Statements on Auditing Standards, Statements on Standards for Attestation Engagements, and Statements on Quality Control Standards (together, “ASB Statements”) through a process that includes deliberation in meetings open to the public, public exposure of proposed ASB Statements, and a formal vote.

In determining an appropriate public exposure period of a proposed ASB Statement, including the comment due date, the ASB will take into consideration that the period from approximately January 1 through April 15 of any calendar year represents the traditional “busy season” for many practitioners. Although the ASB will attempt to limit having a comment period for a proposed ASB Statement end during the traditional “busy season,” the decision regarding the comment due date will take into account the complexity of the subject matter in the proposed ASB Statement as well as the circumstances surrounding the need for a new standard.

Interpretative Publications

Interpretations: Interpretations are issued to provide guidance on the application of ASB Statements. Staff develops interpretations, sometimes with the assistance of ASB members or other volunteers. Interpretations are reviewed and cleared by the AITF, and issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed interpretation is consistent with the ASB Statements. ASB members are provided at least two weeks to consider and comment on proposed interpretations. Comments are addressed by Staff with the ASB Chair and the ~~Director~~Chief Auditor and substantive changes are sent back to the ASB for their consideration. Final approval of an interpretation rests with the ASB Chair and the ~~Director~~Chief Auditor.

AICPA Guides: AICPA Guides provide ~~a~~ guidance on particular circumstances that require special attention (such as the use of audit sampling) or within specialized industries (such as depository and lending institutions). Other AICPA committees and staff develop specialized industry guides, and are responsible for updating the guides for changes in the auditing and accounting standards (referred to as *conforming changes*). AICPA Guides that contain guidance on ASB Statements are issued under the authority of the ASB. Any guides that are new or guides with updates beyond conforming changes are issued after all ASB members have been provided an opportunity to consider and comment on whether the proposed guide is consistent with the ASB Statements. ~~AITF members are asked to provide positive clearance.~~ ASB members are provided at least two weeks to consider and comment on proposed guides. AITF members are asked to provide positive clearance (that is, a statement about whether the proposed guide is consistent with the ASB Statements). Other ASB members are asked for negative clearance; that is, a response is optional, and lack of comment is taken to mean no objection exists to issuance of the guide. Modifications to existing guides for conforming changes are approved by the ASB Chair (or his or her designee)

and the ~~Director~~Chief Auditor. The ASB Chair and the ~~Director~~Chief Auditor approve the issuance of AICPA Guides that contain guidance on ASB Statements. Issuance of any AICPA Guide that contains accounting or financial reporting guidance as well as guidance on ASB Statements is also subject to the policies of the Financial Reporting Executive Committee.

Statements of Position: Statements of Position are issued to achieve one or more of ~~several~~the following objectives: to describe and provide implementation guidance for specific types of audit and attestation engagements; or to provide guidance on specialized areas in audit and attestation engagements. Auditing and Attestation Statements of Position may be prepared by an ASB subcommittee or task force, a task force administered by the Audit and Attest Standards staff, or by other committees and staff. Auditing and Attestation Statements of Position are reviewed and cleared by the AITF, and issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether the proposed Statement of Position is consistent with the ASB Statements. ASB members are provided at least two weeks to consider and comment on proposed Statements of Position. The ASB Chair and the ~~Director~~Chief Auditor approve the issuance of any auditing or attestation Statement of Position. Issuance of any Statement of Position that contains accounting or financial reporting guidance also is subject to the policies of the Financial Reporting Executive Committee.

Other Communications

Public Statements: Entities outside the AICPA, such as the PCAOB, the Securities and Exchange Commission (SEC), Federal or state agencies and other groups or entities may make proposals that relate to ASB Statements, auditing and attestation procedures, practices and methods, and the form and content of reports on audit and attestation engagements. Also, the IAASB proposes International Standards on Auditing and International Auditing Practice Statements. Staff, task forces, or subcommittees may draft written comments to such outside entities on their proposals. The ASB Chair and the ~~Director~~Chief Auditor, or their designees, approve the issuance of such comments. (The Chair of the International Auditing Standards Task Force normally is designated the authority to approve comment letters to the IAASB.) The ASB Chair and the ~~Director~~Chief Auditor also may approve for publication interpretive auditing and attestation guidance of a transitional nature in publications such as *CPA Letter Daily* and the *Journal of Accountancy*.

Other Publications: Staff publishes other forms of guidance that do not carry the authority of the ASB; however, other auditing and attestation publications published by the AICPA that have been reviewed by Staff are presumed to be appropriate in understanding and applying the Statements on Auditing Standards. Staff also may publish guidance on understanding and applying other ASB Statements. These publications are not approved, disapproved, or otherwise acted on by the ASB, the membership, or the governing body of the AICPA, and are not official pronouncements of the AICPA. Staff also contributes to a quarterly newsletter, *Financial Reporting Center Newsletter*, to communicate the status of ASB and Staff projects.

Meetings of the Auditing Standards Board

Rules of Order

Meetings are conducted on an informal basis, rather than on the basis of formal rules of order, subject to the power of the ASB Chair to conduct meetings effectively. This is done to promote a deliberative process and a free exchange of ideas.

When discussing a draft standard, whether presented in full or as issues in a discussion paper, the discussion focuses primarily on requirement paragraphs. The following are guidelines for considering requirement paragraphs:

- Are the requirements appropriate for non-issuers in the United States?
- Are the requirements clear, understandable, scalable and capable of being applied?
- Are requirements missing?
- Is there language in the requirements that is unclear or otherwise flawed?
- Are there requirements that should not be requirements and should be moved to application material?
- If the wording of a requirement is based on an ISA and if changes are being suggested, are they of sufficient significance to warrant a difference? (i.e., will it be considered a “wording difference” or a “departure”? See Convergence Guidelines)

The following are guidelines for discussing application material:

- Is there application material that belongs in the requirements?
- Is any application material unclear or otherwise flawed?
- Should any application material be added?
- Is there application material that should be deleted? If so, should it be considered for authoritative or nonauthoritative guidance outside the standard?
- Is there application material for which the task force had significant debate about and could not reach agreement?

Discussion of the application material should be at a “higher level” to avoid word-smithing during ASB meetings and optimize the time at the meetings for discussion of more substantive issues. The objective is to rely on the task forces to develop appropriate wording for application material based on high-level direction provided by the Board. Editorial comments (i.e., those that should not require ASB discussion at an open meeting) are welcome “off-line”, and will be considered by the Task Force chair.

Submitting comments on agenda materials to the Task Force chair and staff at least 3 business days before the Board meeting at which the material is being discussed is encouraged because it enables the Task Force chair and staff to consider the comments before the meeting.

For meetings at which a standard is being voted for issuance as final:

- The entire standard will be open for discussion when the agenda item is first discussed at the meeting.
- Subsequent discussions of turn-around documents should be limited to revisions proposed when the standard is first discussed at the meeting, and fatal flaws elsewhere in the document.
- ASB members are encouraged to raise editorial comments, particularly those with potential to change the meaning of the standard
- The ASB will be provided with turn-around documents with adequate time to read and consider the documents before the vote, including, if necessary, reading time during the meeting before the discussion and vote.

Meetings Open to the Public

Those portions of ASB meetings relating to (a) the establishment of standards through ASB Statements and (b) other auditing, attestation and reporting matters directly affecting the public interest are open to the public. Portions of meetings dealing with matters of an administrative or necessarily confidential nature, such as meeting arrangements, establishment of task forces, and consideration of advice of AICPA counsel, need not be open to the public.

Meetings of the subcommittees and task forces of the ASB, including meetings of the AITF, are not open to the public; however, at the discretion of the ASB Chair, or at the discretion of the chair of the subcommittee or task force (after discussing the request with the ASB Chair), interested parties may be invited to attend any or all meetings of any ASB subcommittee or task force.

ASB meetings are broadcast to observers using an online video platform.

Quorum Requirements

A majority of the members of the ASB constitutes a quorum. Occasionally, circumstances may arise that prohibit a member from attending an ASB meeting. In those circumstances, a member may send a representative to an ASB meeting. However, that representative cannot submit a proxy vote on behalf of the member.

Privilege of the Floor

The following persons have the privilege of the floor during meetings of the ASB:

- The members of the ASB
- Designated representative of absent members;
- The AICPA nominated representative to the IAASB;
- the Chair of the AICPA Board of Directors;
- the President of the AICPA;
- AICPA General Counsel or their representative;
- the Executive Vice President-Public Practice;
- the ~~Vice President Professional Standards and Services, Chief Auditor~~
- ~~the Director;~~
- Staff members whose presence is required.

The ASB Chair may extend the privilege of the floor to members of other committees, subcommittees and task forces, or other individuals, such as representatives of the GAO and SEC, when matters relating to them are being discussed. Observers do not have the privilege of the floor although the ASB Chair may extend such a privilege for good cause.

Voting Procedures

The matters on which votes may be taken can be categorized as follows: (1) votes ~~to ballot~~ for issuance an exposure draft of a proposed ASB Statement or a final ASB Statement or (2) votes on all other matters.

Issuance of an exposure draft of a proposed ASB Statement or a final ASB Statement requires the written affirmative approval of two-thirds of all ASB members. In voting on issuance of an exposure draft of a proposed ASB Statement or a final ASB Statement, Board members may approve, dissent or abstain to the issuance of a proposed or final ASB Statement. Members who dissent or abstain will be asked to explain the reasons for their dissent or abstention. Members not in attendance cannot vote by proxy because they have not heard the discussion prior to the vote.

Results of a vote will not be shown in either a proposed or final statement. Members who dissent to issuance of an exposure draft of a proposed ASB Statement may request that the dissent be included in the published proposed ASB Statement and the reasons therefor stated with a specific request for consideration by respondents. The Approved Highlights of ASB meetings at which a vote was taken to ballot for issuance a final, or an exposure draft of a proposed, ASB Statement will clearly indicate the results of the vote, including reasons for any dissents or abstentions. In addition, a file summarizing the results, extracted from the Approved Highlights, of all votes including dissents and the reasons therefor will be maintained on the “[ASB Meeting Materials and Highlights](#)” page on the AICPA’s Web site, <http://www.aicpa.org>.

Votes on all other matters are by members and are effected by show of hands, by written ballot, electronic ballot, or by ~~telephone~~ poll conducted by the ASB Chair or Staff, as determined by the ASB Chair in each instance. A simple majority is sufficient to carry a motion. The ASB year, which normally expires annually at the time of the AICPA annual meeting, may be extended by the Board of Directors for purposes of voting on a specific document(s).

Notification

Public announcement of the date, time, and location of each open meeting is made on the “[ASB Meeting Materials and Highlights](#)” page on <http://www.aicpa.org> and via e-mail to those who have registered to be placed on the ASB distribution list. Agendas and agenda materials are also posted on the “[ASB Meeting Materials and Highlights](#)” page. Topics may be added to an ASB meeting agenda up to ten calendar days before an open meeting. Special meetings are set not less than ten days in advance of the meeting date. Final decisions on the issuance of exposure drafts of proposed ASB Statements or final ASB Statements are deferred to a subsequent meeting in those situations when no indication had been made available to the public that the subject would be covered in an open meeting.

Meeting Location

The locations of the meetings are determined by Staff, taking into account the accessibility of the location to ASB members and constituents, cost, and geographic variety. The ASB may also hold open meetings via teleconference ~~ea~~llor videoconference following the same notification procedures as described above.

Public Hearings

The ASB, from time to time, may seek information about auditing, attestation, and quality control issues and related matters by holding a public hearing ~~or open forum discussion~~ in which nonmembers can participate. The ASB Chair, in consultation with the Director, determines whether public hearings on a particular topic should be held, and if so, the number of public hearings to be held and the time, date, location, and general format of each. Each public hearing is conducted by one or more members of the ASB or its technical staff pursuant to rules of order established by the ASB Chair. Such public hearings are not considered to be meetings of the ASB.

Public announcement of the date, time, and location of each public hearing would be posted in the "[Audit and Attest](#)" section of the "Financial Reporting Center" interest area of <http://www.aicpa.org>. Agendas and agenda materials are also posted in the "[Audit and Attest](#)" section of the "Financial Reporting Center" interest area. Public hearings are set not less than thirty days in advance of the hearing date. Each notice of public hearing sets forth:

- The time, date, location, and general format of the hearing
- A brief statement of the subject or purpose of the hearing
- The date or dates prior to the hearing by which those wishing to be heard at the hearing are to notify the ASB and by which written comments, position papers, and outlines of oral presentations are to be received by the ASB
- Other information as the ASB may determine.

Any individual or organization may request to be heard at a public hearing, and to the extent practicable, the ASB will attempt to schedule all those making timely requests. Submission of written comments, a position paper, or an outline of a proposed oral presentation is a condition to being heard at a public hearing, but this requirement may be waived by the Chair upon a showing of special circumstances or if it is in the public interest. Materials submitted to the ASB constitute a part of its public file.

Public hearings may be adjourned in whole or in part to reconvene at another time, date, or location or may be extended to additional date or dates at the same or different locations, with the same or a different format, without any announcement other than announcement at the hearing.

Public Announcements and Public File

Meeting Documents

Copies of documents relating to issues discussed in open meetings are ordinarily supplied electronically, ~~at least seven days in advance of the meeting, to those included on the ASB distribution list. An appropriate number of sets of the following documents are made available for public inspection at the location of an open meeting: meeting agenda and agenda materials for topics open to the public, including point outlines and drafts of proposed pronouncements, to ASB members, at least seven days in advance of the meeting.~~ These documents and the highlights of public meetings also are available on the “[ASB Meeting Materials and Highlights](http://www.aicpa.org)” page on <http://www.aicpa.org>. Any ASB member may propose a motion, and the ASB may vote to defer any proposed action on any documents that are not available to the members of the ASB at least seven days in advance of a meeting.

Meeting Highlights

After each ASB meeting, Staff prepares brief summaries of principal actions taken and decisions reached at ASB meetings. Such meeting highlights also include the attendees (Board members, staff and in person observers) and summaries of reports made by the ASB Chair, task force and subcommittee chairs, and the Director. The extent to which the results of specific, informal preference (or “straw”) votes are reflected in meeting highlights is at the discretion of the ASB Chair. Staff posts draft highlights, clearly marked as such, to the “ASB Meeting Materials and Highlights” page on www.aicpa.org shortly after the ASB meeting. The ASB is asked to approve the highlights at a subsequent meeting, and the approved highlights then replace the draft version on the AICPA website.

Public File

A public file on the open sessions of meetings for the current year and the upcoming year is available on the “[ASB Meeting Materials and Highlights](http://www.aicpa.org)” page on <http://www.aicpa.org>, for public reference. This file contains copies of meeting agendas, agenda materials, drafts of proposed pronouncements, highlights of open sessions of public meetings, comment letters received during public exposure periods on proposed pronouncements, written research data and summaries of research data, and materials submitted to the ASB in connection with public hearings. Comment letters on exposure drafts of proposed ASB Statements that are addressed in conformity with the instructions on the exposure drafts are included in the public file along with the exposure drafts.

Material Not Available to the Public

Correspondence and other documents related to auditing, attestation, and quality control standards activities and of committees administered by Staff that do not fall within the description of documents included under Public File are not available to the public. In particular, the following correspondence is not available to the public:

- Correspondence between and among the ASB, ASB subcommittees and task forces, and AICPA staff;
- Correspondence to and from AICPA counsel;

- Letters from the public, other than letters of comment on exposure drafts;
- Memoranda prepared by the staff; highlights of portions of meetings of the Board that are not open to the public; and
- Highlights of meetings of ASB subcommittees and task forces.

Also, individual written ballots, including ballots on exposure drafts and final pronouncements, are private; however, the results of such ballots on matters included on the ASB agenda are announced in open sessions of ASB meetings.

Record Retention Policies

The ~~AICPA's intranet is Staff's primary~~ AICPA Staff uses the AICPA website, available document filing system. Documents are kept electronically on the AICPA's intranet storage platforms, and a network share drive to retain documents for up to ten years. Documents received in hardcopy, which rarely occurs, are scanned. Documents are archived at the University of Mississippi Accounting Library

Document Retention Policy

The following documents are retained ~~indefinitely, either in hardcopy or electronically:~~

- Highlights of public meetings
- Exposure drafts
- Final standards
- Agendas

AVAILABILITY OF PUBLICATIONS

To promote broad public participation in the process of establishing and improving auditing, attestation, and quality control standards, the ASB will make available via the internet at <http://www.aicpa.org/Research>, each Invitation to Comment, and each Exposure Draft of proposed ASB Statements. Invitations to Comment and Exposure Drafts of proposed ASB Statements are available free of charge.

The ASB also will make available free of charge final ASB Statements and the Interpretations on the "[Standards](#)" page of <http://www.aicpa.org>. The annual paperback editions of the *Codification of Statements on Auditing Standards (Including Statements on Standards for Attestation Engagements)* and the *Codification of Statements on Standards for Attestation Engagements* are available in print. These codifications are also available as part of *AICPA Professional Standards*, which also includes the Statements on Quality Control Standards, in print and electronic format, on <http://www.aicpastore.com> for a charge.

Other documents issued by the ASB will be made available either in print, on <http://www.aicpa.org>, or both.

The publication date of a document issued by the ASB is considered to be the first date that the document is made widely available to the public. In most cases, this will be the date that a document is made available on <http://www.aicpa.org>.

AMENDMENTS

The ASB originally approved these operating policies on June 5, 2002. Conforming changes were approved by the AITF as of September 30, 2002. The operating policies may be amended at any time upon approval of two-thirds of all the ASB members at an open meeting of the ASB. This document was last amended by the ASB at their meeting in ~~October 2017~~December 2021.

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REQUESTS FOR INFORMATION

Requests for information about availability of various ASB publications, ASB meetings, and the ASB's public file may be directed to:

Auditing Standards Board
American Institute of Certified Public Accountants
~~1211~~1345 Avenue of the Americas
New York, NY ~~10036~~-~~8775~~10105

The "Audit and Attest" section of the "Financial Reporting Center" interest area of <http://www.aicpa.org> includes various current information about ASB activities and projects.

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APPENDIX A: HISTORICAL BACKGROUND

In 1917, the American Institute of Certified Public Accountants, then known as the American Institute of Accountants, at the request of the Federal Trade Commission, prepared "a memorandum on balance-sheet audits," which the Commission approved and transmitted to the Federal Reserve Board.

The Federal Reserve Board, after giving the memorandum its provisional endorsement, published it in the Federal Reserve Bulletin of April 1917; reprints were widely disseminated for the consideration of "banks, bankers, banking associations; merchants, manufacturers, and associations of manufacturers; auditors, accountants, and associations of accountants" in pamphlet form with the title of "Uniform Accounting: a Tentative Proposal Submitted by the Federal Reserve Board."

In 1918, it was reissued under the same sponsorship, with a new title—"Approved Methods for the Preparation of Balance-Sheet Statements." There was practically no change from 1917 except that, as indicated by the respective titles and corresponding change in the preface, instead of the objective of "a uniform system of accounting to be adopted by manufacturing and merchandising concerns," the new objective was "the preparation of balance-sheet statements" for the same businesses.

In 1929, a special committee of the American Institute undertook revision of the earlier pamphlet in the light of the experience of the past decade; again under the auspices of the Federal Reserve Board, the revised pamphlet was issued in 1929 as "Verification of Financial Statements."

The preface of the 1929 pamphlet spoke of its predecessors as having been criticized, on the one hand, by some accountants for being "more comprehensive than their conception of the so-called balance-sheet audit," and, on the other hand, by other accountants because "the procedure would not bring out all the desired information." This recognition of opposing views evidenced the growing realization of the impracticability of uniform procedures to fit the variety of situations encountered in practice. Of significance is the appearance in the opening paragraph of "General Instructions" in the 1929 publication of the statement:

The extent of the verification will be determined by the conditions in each concern. In some cases, the auditor may find it necessary to verify a substantial portion or all of the transactions recorded upon the books. In others, where the system of internal check is good, tests only may suffice. The responsibility for the extent of the work required must be assumed by the auditor.

Between 1932 and 1934, there was correspondence, dealing with both accounting and auditing matters, between the Institute's special committee on cooperation with stock exchanges and the committee on stock list of the New York Stock Exchange. The views expressed were an important development in the recognition of the position of accountancy in finance and business. The series of letters was published in 1934 under the title Audits of Corporate Accounts.

In 1936, a committee of the Institute prepared and published a further revision of the earlier pamphlets under the title of "Examination of Financial Statements by Independent Public Accountants." The Institute availed itself of the views of persons outside the ranks of the profession whose opinions would be helpful, but the authority behind and responsibility for the publication

of the pamphlet rested wholly with the Institute as the authoritative representative of a profession that had by that time become well established in the business community.

In the 1936 revision, aside from the very briefly noted "Modifications of Program for Larger or Smaller Companies," the detailed procedures were restrictively stated to be an "outline of examination of financial statements of a small or moderate size company." Moreover, the nature and extent of such examinations were based on the purpose of the examination, the required detail to be reported on, the type of business, and, most important of all, the system of internal control; variations in the extent of the examination were specifically related to "the size of the organization and the personnel employed" and were said to be "essentially a matter of judgment which must be exercised by the accountant."

It is possible from the foregoing narrative to trace the development of the profession's view of an audit based on the experience of three decades. The succession of titles is illustrative. The earliest ambition for "uniform accounting" was quickly realized to be unattainable, and the same listed procedures were related instead to "balance-sheet statements." Then, with the gradually greater emphasis on periodic earnings, the earlier restrictive consideration of the balance sheet was superseded in the 1929 title, "Verification of Financial Statements," by according the income statement at least equal status. When in turn the 1936 revision was undertaken, there was a growing realization that, with the complexity of modern business and the need of the independent auditor to rely on testing, such a word as "verification" was not an accurate portrayal of the independent auditor's function. Accordingly, the bulletin of that year was stated to cover an "examination" of financial statements.

Statements on Auditing Procedure

The Committee on Auditing Procedure had its beginning on January 30, 1939, when the executive committee of the Institute authorized the appointment of a small committee "to examine into auditing procedure and other related questions in the light of recent public discussion."

On May 9 of that year, the report "Extensions of Auditing Procedure" of this special committee was adopted by the Council of the Institute and authority given for its publication and distribution, and in the same year the bylaws were amended to create a standing Committee on Auditing Procedure.

In 1941, the executive committee authorized the issuance to Institute members, in pamphlet form, of the "Statements on Auditing Procedure," prepared by the Committee on Auditing Procedure, previously published only in The Journal of Accountancy.

The "Statements on Auditing Procedure" were designed to guide the independent auditor in the exercise of his judgment in the application of auditing procedures. In no sense were they intended to take the place of auditing textbooks; by their very nature textbooks must deal in a general way with the description of procedures and refinement of detail rather than the variety of circumstances encountered in practice that require the independent auditor to exercise his judgment.

Largely to meet this need, the Institute began the series of Statements on Auditing Procedure. The first of these presented the report of the original special committee, as modified and approved, at the Institute's annual meeting on September 19, 1939, and issued under the title of "Extensions of Auditing Procedure."

Statement No. 1 presented conclusions drawn from the experience and tradition of the profession which largely furnished the foundation for the Committee's present structural outline of auditing standards; the other Statements on Auditing Procedure appropriately fit into that structural outline.

The "Codification of Statements on Auditing Procedure" was issued by the Committee on Auditing Procedure in 1951 to consolidate the features of the first 24 pronouncements which were of continuing usefulness.

When the Securities and Exchange Commission adopted the requirement that a representation on compliance with generally accepted auditing standards be included in the independent auditor's report on financial statements filed with the Commission, it became apparent that a pronouncement was needed to define these standards. Accordingly, the Committee undertook a special study of auditing standards (as distinguished from auditing procedures) and submitted a report that was published in October 1947 under the title "Tentative Statement of Auditing Standards—Their Generally Accepted Significance and Scope." The recommendations of this brochure ceased to be tentative when, at the September 1948 meeting, the membership of the Institute approved the summarized statement of auditing standards.

In 1954 the "tentative" brochure was replaced by the booklet Generally Accepted Auditing Standards—Their Significance and Scope, which was issued as a special report of the Committee on Auditing Procedure. This pronouncement also gave recognition to the approval of Statement on Auditing Procedure No. 23 (Revised), "Clarification of Accountant's Report When Opinion Is Omitted" (1949) and the issuance of the "Codification" (1951).

Statement on Auditing Procedure No. 33 was issued in 1963 as a consolidation of, and a replacement for, the following pronouncements of the Committee on Auditing Procedure: Internal Control (1949), Generally Accepted Auditing Standards (1954), Codification of Statements on Auditing Procedure (1951), and Statements on Auditing Procedure Nos. 25-32, which were issued between 1951 and 1963. Statement No. 33 was a codification of earlier Committee pronouncements which the Committee believed to be of continuing interest to the independent auditor.

Statements on Auditing Standards

After issuance of Statement on Auditing Procedure No. 33, 21 additional Statements on Auditing Procedure, Nos. 34 to 54, were issued by the Committee on Auditing Procedure. In November 1972, these pronouncements were codified in Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures. Also, in 1972, the name of the Committee was changed to the Auditing Standards Executive Committee to recognize its role as the AICPA's senior technical committee charged with interpreting generally accepted auditing standards.

The Auditing Standards Executive Committee issued 22 additional statements through No. 23.

Creation of the Auditing Standards Board

As a result of the recommendations of the Commission on Auditors' Responsibilities, an independent study group appointed by the AICPA, a special committee was formed to study the structure of the AICPA's auditing standard-setting activity. In May 1978, the AICPA Council adopted the recommendations of that committee to restructure the Committee. Accordingly, in

October 1978 the Auditing Standards Board was formed as the successor to prior senior technical committees on auditing matters. The Board was given the following charge:

The AICPA Auditing Standards Board shall be responsible for the promulgation of auditing standards and procedures to be observed by members of the AICPA in accordance with the Institute's rules of conduct.

The board shall be alert to new opportunities for auditors to serve the public, both by the assumption of new responsibilities and by improved ways of meeting old ones, and shall as expeditiously as possible develop standards and procedures that will enable the auditor to assume those responsibilities.

Auditing standards and procedures promulgated by the board shall—

- a. Define the nature and extent of the auditor's responsibilities.
- b. Provide guidance to the auditor in carrying out his duties, enabling him to express an opinion on the reliability of the representations on which he is reporting.
- c. Make special provision, where appropriate, to meet the needs of small enterprises.
- d. Have regard to the costs which they impose on society in relation to the benefits reasonably expected to be derived from the audit function.

The auditing standards board shall provide auditors with guidance with respect to the implementation of its pronouncements, by means of interpretations of its statements, by the issuance of guidelines, and by any other means available to it.

Changes created by Sarbanes Oxley Act of 2002

AICPA members who perform auditing and other related professional services have been required to comply with Statements on Auditing Standards promulgated by the AICPA Auditing Standards Board. These standards constitute what is known as “generally accepted auditing standards” (“GAAS”). Prior to Sarbanes Oxley, the ASB’s auditing standards have applied to audits of all entities. However, as a result of the passage of the Sarbanes-Oxley Act of 2002 (“Act”), the Public Company Accounting Oversight Board was formed and given jurisdiction to establish auditing rules and related professional practice standards to be used in the performance of and reporting on audits of the financial statements of public companies and other entities specified in the Act, as amended. Accordingly, public accounting firms auditing those entities subject to the oversight authority of the PCAOB (that is, those audit reports within the PCAOB’s jurisdiction as defined by the Sarbanes-Oxley Act of 2002, as amended), are now required to be registered with the PCAOB and to adhere to all PCAOB rules and standards in those audits. In 2003, the PCAOB adopted the then-existing Audit and Attest Standards as its interim auditing standards.

The preparation and issuance of audit reports for those entities not subject to the Act, as amended, (hereinafter referred to as “nonissuers”) continue to be governed by generally accepted auditing standards promulgated by the ASB.

The Reconstituted ASB

In February 2004, the AICPA's Board of Directors unanimously recommended that the AICPA's Governing Council take the following action at its meeting in May 2004:

- Designate the PCAOB as a body with the authority to promulgate auditing and related attestation standards, quality control, ethics, independence and other standards relating to the preparation and issuance of audit reports for entities within its jurisdiction as defined by the Act.
- Amend the ASB's current designation to recognize the ASB as a body with the authority to promulgate auditing, attestation and quality control standards relating to the preparation and issuance of audit reports for non-issuers only.

As a result of this action, the ASB was reconstituted and its jurisdiction amended by AICPA Council to recognize the ASB as a body with the authority to promulgate auditing, attestation and quality control standards relating to the preparation and issuance of audit and attestation reports for nonissuers.

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APPENDIX B: CONVERGENCE GUIDELINES

The ASB has a commitment to convergence with the ISAs and to its obligations and responsibilities as an “ISA Base” standard-setter. The following are guidelines for developing standards that converge with IAASB standards and enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner.

GENERAL

- 1) Use the ISA as the base document (“starting point”). Modify the base standard only when necessary to better serve the needs of U.S. users of audited financial statements of nonissuers or when modifications are appropriate for U.S. legal and regulatory reasons (for example, requirements specific to listed entities, references to the IESBA Code of Conduct, or considerations for governmental entities.).
- 2) Compare the ISA to the related extant AU-C section and any interpretations. Consider differences between the existing standards described in Appendix B and other material in the extant AU-C section not included in the extant ISA to determine whether such differences should continue to exist in the redrafted AU-C section.
- 3) When an equivalent auditing standard issued by the PCAOB exists, consider the PCAOB standard during the drafting of the proposed SAS to determine whether any material in PCAOB standards (as requirements or application material in the AU-C section) is appropriate for inclusion in ASB standards. [Example of change made: the ASB retained the term *material weakness* and uses the PCAOB definitions of *material weakness*, *deficiency in internal control*, and *significant deficiency* in internal control, as those terms are well understood in the ASB’s jurisdiction]. Note that the IAASB has begun including PCAOB observers on its Task Forces and considering the PCAOB standards when revising its standards.
- 4) Follow the format of the ISAs in redrafting the SAS; however, GAAS uses “should” instead of “shall”. While keeping wording changes to a minimum is an objective, changes in language to enhance clarity are not prohibited as long as such wording differences do not unintentionally change the meaning and intent of the standard.
- 5) During ASB meetings, focus primarily on discussing the requirement paragraphs, leveraging the work of the task forces to determine the appropriate application material.

DEMONSTRATING CHANGES MADE

- 6) The goal of convergence is to promote consistency between the ISAs and the SASs. Therefore, explain any proposed differences from the ISA wording.
- 7) Prepare a matrix showing differences between the proposed SAS and the ISA. Explain changes, other than wording changes for the US environment, in a comments column.

- 8) When the final SAS is issued, update the narrative explaining substantive differences in requirements between the final SAS and the ISA included in *Professional Standards*, AU-C Appendix B, *Substantive Differences Between ISAs and GAAS*. Such differences are described in terms of
- a) differences in wording,
 - b) requirements in the ISAs not in GAAS,
 - c) requirements in GAAS not in the ISAs,
 - d) differences between requirements, and
 - e) the placement of certain requirements within GAAS

REQUIREMENTS

- 9) In most circumstances, the wording of objectives, definitions and requirements should not be changed (other than for established clarity conventions, e.g. changing “shall” to “should”.) This is because of the potential for confusion as to whether the intent of the requirement was changed.
- 10) Raise all proposed changes to or deletion of requirements for discussion with the ASB along with justification for the change, including feedback from relevant stakeholders if appropriate. In the Explanatory Memo accompanying the exposure draft, explain changes to requirements with a specific question for respondents about the changes.

APPENDIX C: EVALUATION OF ASB CHAIR AND MEMBERS

1. ASB MEMBER

<u>MEMBER NAME:</u> <u>CRITERIA</u>	<u>4</u> <u>Excellent</u>	<u>3</u> <u>Very</u> <u>Good</u>	<u>2</u> <u>Sufficient</u>	<u>1</u> <u>Unacceptable</u>
a) <u>Attend all board meetings for the full agenda.</u>				
b) <u>Read all appropriate advance materials before board and committee meetings.</u>				

c) <u>Identify areas of concern in advance of the meeting when feasible, and raise issues during board discussions.</u>				
d) <u>Participate in board discussions, including expressing support for or opposition to positions raised by others, and related reasons therefor.</u>				
e) <u>Respond to requests from the chair and staff when able.</u>				
f) <u>Participate fully in all Task Forces of which the individual is a member.</u>				
g) <u>Bring knowledge, wisdom or other perspective that adds value to ASB activities.</u>				

Comments:

2. AUDITING STANDARDS BOARD

<u>CRITERIA</u>	<u>4</u> <u>Excellent</u>	<u>3</u> <u>Very Good</u>	<u>2</u> <u>Sufficient</u>	<u>1</u> <u>Unacceptable</u>
a) <u>Board has full and shared understanding of its roles and responsibilities.</u>				
b) <u>Board members understand the ASB’s mission and strategic direction.</u>				
c) <u>Board has clear goals and actions resulting from relevant and realistic strategic planning.</u>				
d) <u>All necessary skills, stakeholders and diversity are represented on the board.</u>				
e) <u>Board meetings facilitate discussion and progress on agenda items.</u>				
f) <u>Board effectively monitors progress on the initiatives in its strategic plan, and takes steps to adjust its focus and resources as necessary.</u>				

List any issues you believe the ASB should focus its attention upon in the coming year.

Other comments:

4. ASB CHAIR

<u>CRITERIA</u>	<u>4</u> Excellent	<u>3</u> Very Good	<u>2</u> Sufficient	<u>1</u> Unacceptable
a) <u>Chair is open to all thoughts and suggestions and allows open dialogue.</u>				
b) <u>Chair runs the meetings effectively and keeps the committee meetings on track.</u>				
c) <u>Chair provides clear leadership.</u>				
d) <u>Chair ensures compliance with ASB policies and ASB strategic plan.</u>				
e) <u>Chair communicates with ASB effectively at meetings and in between meetings.</u>				

Comments:

3. AUDITING STANDARDS STAFF

Note feedback is sought for the Chief Auditor, Director and those staffing the ASB and its Task Forces.

<u>CRITERIA</u>	<u>4</u> Excellent	<u>3</u> Very Good	<u>2</u> Sufficient	<u>1</u> Unacceptable
a) <u>Staff is responsive to the needs of the Board and its task forces</u>				
b) <u>Staff communicates effectively.</u>				

<u>c) Staff delivers quality work product.</u>				
<u>d) Staff provides helpful technical support.</u>				
<u>e) Agenda materials for Board meetings are appropriate and facilitate Board discussion.</u>				
<u>f) Agenda materials are sent timely.</u>				

Comments:

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Quality Management

I. Objective

- A. To provide the ASB with specific wording changes to address the direction provided to the Quality Management Task Forces at the ASB's October 2021 meeting on four specific issues to the following proposed standards:
- [Proposed] Statement on Quality Management Standards (SQMS) *A Firm's System of Quality Control (QM 1)*
 - [Proposed] SQMS *Engagement Quality Reviews (QM 2)*; and
 - [Proposed] Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards* , (collectively the "Proposed QM Standards").
- B. To review proposed revisions to the proposed QM SAS in response to comments received.

II. Quality Management Task Forces

The Quality Standards Task Force has been divided into two groups:

QM1

Sara Lord, *Chair*
Sherry Chesser
Kathryn Fletcher
Phyllis Anderson
Alan Long
Tania Sergott
Kimberly Stazyk

QM2/220

Jon Heath, *Chair*
Harry Cohen
Tom Parry
Jeff Rapaglia
Rick Reeder
Mike Westervelt

The QM1 Task Force acknowledges and thanks Kristen Kociolek for her previous participation on the Task Force.

III. Issues for ASB Consideration

This discussion memorandum presents the Task Force response to the direction provided by the ASB at its October 2021 meeting on the following issues:

Issue #	Title
Issue 1	Self-inspection (SQMS 1)
Issue 2	Cooling-off period (SQMS 2)
Issue 3	Effective date (all proposed QM standards)
Issue 4	Dating of the report when EQR is performed (SQMS 2)

Comments received on all other aspects of the proposed QM standards will be brought to the ASB for consideration at future meetings.

Issue #1: Self-inspection

A. Background

Extant QC Section 10¹, unlike ISQC 1 and ISQM 1, does not preclude firms from inspection of a completed engagement by an individual who served as an engagement team member or engagement quality reviewer on that engagement (referred to as “*self-inspection*”). The proposed QM standards, however, state that engagement team members or the engagement quality reviewer should be prohibited from performing the inspection of the completed engagement.

When the QC standards were last updated (in 2012), the ASB had concluded that it was not necessary to change existing practice to converge QC Section 10 with ISQC 1 because in the United States, the peer review process provides a safeguard via a triennial independent review mechanism of a firm’s monitoring procedures, which may include self-inspection. However, in deliberating the current exposure drafts, the ASB decided to expose the proposed standards as converged with ISQM 1 in order to obtain feedback on the proposed prohibition of self-inspection.

Feedback provided by commentors noted that preclusion of self-inspection is inconsistent with a risk-based approach. Further, particularly for smaller firms, the cost of precluding self-inspection (for example, costs associated with unintended negative consequences, including potentially driving small firms away from an assurance practice) seems to exceed the benefits. Accordingly, at its October 2021 meeting, the ASB directed that the proposed standard not prohibit self-inspection, while also making clear through the wording of paragraph 40 that it is preferable not to self-inspect, and add application material addressing the risks thereof and appropriate safeguards to overcome such threats.

B. Proposed revisions

The following revisions to QM 1 are proposed:

40. The firm should establish policies and procedures that
- a. require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively.
 - b. address the objectivity of the individuals performing the monitoring activities. Such policies or procedures should ~~prohibit~~ **be based on the premise that objectivity is enhanced when** the engagement team members or the engagement quality reviewer of an engagement ~~from~~ **are not involved in** performing any inspection of that engagement. (Ref: par. A168–A169B)

Paragraphs A168-A169

Four respondents raised a concern (see agenda item 4D) that paragraph A168 implicitly prohibits any individual who designed, executed or operated the system from being part of the inspection of the system. This concern is indirectly reflected in other comment letters, mostly from small practitioners. The Task Force is proposing that the last sentence in paragraph A168 be revised to address this concern. Other revisions

¹ Paragraph 52c of QC section 10.

to paragraph A169 and the addition of two paragraphs are proposed to address safeguards against the self-review threat.

Individuals Performing the Monitoring Activities (Ref: par. 40b)

A168. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs an inspection of an engagement was in the case of an audit of financial statements, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period, or

~~for all other engagements, an engagement team member or the engagement quality reviewer of that engagement.~~

A self-review threat may also arise when an individual who performs another type of monitoring activity participated in ~~designing, executing, or operating~~ the response being monitored. **For example, an engagement partner who is responsible for client acceptance also is responsible for monitoring compliance with the firm's client acceptance policies and procedures.**

A169. In some circumstances, for example, in the case of a less complex firm, there may not be personnel who have the competence, capabilities, time, or objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities. ***This standard does not preclude an individual from performing monitoring activities, including inspections, of their own compliance with a quality management system. However, such self-inspections may be less effective than compliance inspections by another qualified individual. When one individual inspects their own compliance, the firm has a higher risk that noncompliance with policies and procedures will not be detected. To effectively monitor one's own compliance with the firm's policies and procedures, it is necessary that an individual be able to critically review their own performance, assess their own strengths and weaknesses, and maintain an attitude of continual improvement.***

A169A. Responses that provide safeguards against the self-review threat and lessen the likelihood of deficiencies in the system of quality management include the following actions:

- *Using network services or a service provider to perform the monitoring activities, thus eliminating the self-review threat*
- *Fostering a commitment to continuing professional education and providing effective training programs so that personnel stay current on accounting, auditing, and quality management standards*
- *Providing training on how to perform monitoring inspections and requiring the use of peer review or other inspection checklists*
- *Requiring the passage of time after the completion of an engagement before monitoring inspections are performed*

A169B. Responses that lessen the likelihood of deficiencies in the system of quality management, and may be particularly helpful when self-inspections are performed, include the following actions:

- *Establishing strong client acceptance and engagement continuance policies that provide reasonable assurance that the firm doesn't accept or retain engagements it doesn't have the competency and resources to perform*
- *Establishing consultation policies that provide reasonable assurance engagement teams will consult when they encounter technical accounting and auditing difficulties*

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- *Taking corrective action in response to the results identified by the firm’s internal monitoring, peer review results or other external inspections, for example, inspections by DOL, GAO, or HUD*
- *Requiring the use of an external service provider to perform either engagement quality reviews or monitoring procedures when*
 - *deficiencies identified by the firm’s peer reviewers or other external inspections indicate that self-inspection is not effective*
 - *changes in conditions and the environment within the firm (such as obtaining clients in an industry not previously serviced or significantly changing the size of the firm) occur*

Questions for the ASB:

1. Does the ASB agree that the revisions above reflect the direction of the ASB at its October meeting?
2. Does the ASB have any suggestions for improving the wording of the revisions?

Issue #2: Cooling-Off Period for Engagement Quality Reviewers

A. Background:

After exposure of their proposed quality management standards, the IAASB added a requirement for a two-year cooling off period before a former engagement partner on a client can serve as the engagement quality reviewer on the engagement for that client.

The ASB has determined not to require a two-year cooling off period (or of any length) for engagement quality reviewers of audits of non-issuers in the U.S. (consistent with the opposition expressed by the majority of respondents), for reasons including the following:

- The inconsistency of requiring engagement quality reviewers to rotate when under AICPA professional standards, engagement partner rotation is not required
- Potential unintended negative consequences to audit quality, including fewer firms performing fewer engagement quality reviews, due to a lack of ability to meet the cooling-off requirements
- Other mechanisms in place that support the performance of an objective audit, including professional standards that require objectivity and professional skepticism and a peer review process that evaluates firm systems of quality control
- The belief that using the former engagement partner may enhance quality

The ASB directed that application material be updated to reflect that a cooling-off period may be an appropriate response to the self-review threat.

B. Proposed revisions

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 specify a 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.** On 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 with those judgments as the engagement partner. In such circumstances, it is important that appropriate safeguards are 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 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. **To address threats to objectivity, a firm may establish policies or procedures that limit the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining whether to apply a cooling-off period and the length of that period depends upon the facts and circumstances of the engagement. A17.** The firm's policies or procedures also may address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual's role and previous involvement with the significant judgments made on the engagement. For example, the firm may determine that an engagement partner responsible for the performance of audit procedures on the financial information of a component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner's involvement in the significant judgments affecting the group audit engagement.

A17. Other policies and procedures designed to maintain the objectivity of an engagement quality reviewer who served as the engagement partner on the previous year's engagement may address the following areas:

- **The extent of changes related to the matters for which significant judgments are made and the facts and circumstances around those significant judgments compared to the period(s) in which the individual was the engagement partner. For example, if a new accounting pronouncement has been implemented, the significant judgments made in the current period may vary from those of the prior period to such an extent that an objective evaluation of those judgments could be made by the individual who served as the engagement partner in the previous period.**
- **The procedures and incentives placed by the firm's system of quality management on objective reviews (for example, the engagement quality reviewer would not be penalized for identifying a misstatement related to a year in which the reviewer was the engagement partner)**

Question for the ASB:

3. Does the ASB agree that the revisions above reflect the direction of the ASB at its October meeting?
4. Does the ASB have any suggestions for improving the wording of the revisions?

Issue #3: Effective Date of the Proposed Standards

A. Background

Comments by respondents indicated concern about most firm’s ability to implement the proposed effective date and the need for implementation guidance to be available as soon as possible after the standards are issued. Respondents noted that firms could benefit from undergoing peer review before the effective date, so as to obtain feedback on changes being made in advance of the effective date.

A few respondents expressed concern about implementation of the proposed standards in the middle of a peer review year. One respondent expressed concern as follows: if the ASB retains a fixed effective date, how will peer reviewers evaluate a firm’s system of quality when no single system of quality will have been in effect for the entirety of the year under review? Several respondents suggested a rolling implementation date, tied to the firm’s peer review year-end. ASB members also were concerned about early adoption of the standard and its effect on peer review.

The ASB agreed that it is appropriate to provide sufficient time for every firm to undergo a peer review between the issuance of the standards and the effective date. ASB members liked the concept of a rolling implementation date but found it confusing to apply. The ASB directed staff to meet with Peer Review staff to obtain their perspective and bring a recommendation back to the Board.

B. Early adoption considerations

Proposed SQMS 1 has an “as of” effective date. An “as of” means that early *implementation* is necessary for the standard to have been adopted by the effective date. Firms need to start implementation in advance of “adopting” the standard; that is,

- design and implement the risk assessment process,
- evaluate whether quality risks exist for which the firm does not have appropriate responses,
- determine whether responses exist for which the firm does not have corresponding quality risks, and
- make changes to their system of quality management accordingly.

The IAASB *First-Time Implementation Guide: ISQM 1* states the following regarding implementation:

- The firm may take a phased approach to implementation, building up to the effective date. For example, this may entail designing and implementing policies or procedures for certain components and commencing the operation of those policies or procedures at various stages before the effective date. In this case, the firm would establish its own effective date for each of the policies or procedures.
 - This approach may lessen the impact of many changes all at once.
 - Although the firm would have implemented policies or procedures before the effective date, the firm would not be considered as “early adopting” SQMS 1 because only a portion of the new SOQM has been implemented.
- The firm may commence operation of all the new and revised policies or procedures at the effective date.
- The firm may pilot or test the new SOQM prior to the effective date. The pilot, or testing, may be on certain areas of the SOQM, or by a selection of engagements teams. The SOQM would not be considered in operation until the firm has formally implemented and commenced operation of the new SOQM in its entirety.

The following address concerns about having a “dual system” in relation to implementing the new QM standards prior to the effective date:

- The changes resulting from the new standard are mostly additive (risk assessment process and new component of information and communication). For example, a firm may pilot its risk assessment process in 2024, its peer review year (for purposes of this example). The firm's peer reviewer may be asked to evaluate the risk assessment process and provide feedback. The firm's risk assessment process may be deficient in 2024, but as long as the firm has not yet *adopted* the new system of quality management, the firm's system of quality control would not be considered deficient in 2024 because the extant standard does not require a risk assessment process. However, the firm would have to remediate those deficiencies by the effective date of SQMS 1.
- The extant standard is more prescriptive than the proposed standards. If a firm stops performing a requirement of the extant standard as a result of performing a risk assessment (as part of implementing the new standard) and deciding that the required response is not necessary to address a quality risk, the firm should be able to provide documentation of the justification for the departure and how the alternative policies or procedures in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement.

C. Feedback from discussion with Peer Review Staff

Peer Review staff explained that, from their perspective, it is not necessary to have an effective date that coincides with a firm's peer review “fiscal year-end”. Peer Review deals with circumstances that affect changes in a firm's system of quality control during any given peer review year (e.g., mergers and changes of peer review year-ends) on a regular basis. They also deal with firms that make changes to improve their systems on a continuous basis.

Peer Review's primary consideration for the effective date, consistent with what many respondents said, is having sufficient time so that each firm would have the benefit of undergoing one peer review before the standards become effective. This would allow the peer reviewer to inform and educate the firm about the upcoming changes and provide feedback on the firm's efforts, if any have been done at that date, to implement the standards, as discussed above.

D. Effective date options and recommendation

If each firm undergoes peer review once every three years, then setting an effective date that is at least three years from the issuance of the standard allows every firm to have undergone one peer review between the issuance of the standard and the effective date. This way every firm has the same effective date, and it is simple to understand.

Although this would result in a longer implementation period than has been customary for ASB standards, FASB tends to have implementation periods of similar length. The public interest is best served by allowing firms sufficient time to correctly implement the standard.

The standards are expected to be approved for issuance in May 2022.

Options considered

The Task Force discussed an effective date of 1/1 for proposed QM 2 and the proposed QM SAS but decided not to change the convention of using the 15th of the month, because of the possibility of entities with 52/53-week years. The Task Force also considered an effective date of 1/1 for QM 1, but concluded that being consistent with the effective date of the other standards would be less confusing. Accordingly,

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the Task Force recommends that the effective date as exposed be revised only to change the year from 2023 to 2025.

	Exposure draft	Proposed
QM 1	Systems of quality management in compliance with proposed SQMS No. 1 would be required to be designed and implemented by December 15, 2023, and the evaluation of the system of quality management required by proposed SQMS No. 1 ² would be required to be performed within one year following December 15, 2023.	Systems of quality management in compliance with proposed SQMS No. 1 would be required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by proposed SQMS No. 1 ³ would be required to be performed within one year following December 15, 2025.
QM 2	Proposed SQMS No. 2 would be effective for <i>a.</i> audits or reviews of financial statements for periods <u>beginning</u> on or after December 15, 2023, and <i>b.</i> other engagements in the firm’s accounting and auditing practice <u>beginning</u> on or after December 15, 2023.	Proposed SQMS No. 2 would be effective for <i>a.</i> audits or reviews of financial statements for periods <u>beginning</u> on or after December 15, 2025 , and <i>b.</i> other engagements in the firm’s accounting and auditing practice <u>beginning</u> on or after December 15, 2025 .
QM SAS	The proposed QM SAS would be effective for engagements conducted in accordance with generally accepted auditing standards for periods <u>beginning</u> on or after December 15, 2023.	The proposed QM SAS would be effective for engagements conducted in accordance with generally accepted auditing standards for periods <u>beginning</u> on or after December 15, 2025 .

Question for the ASB:

5. Does the ASB agree with the Task Force recommendation regarding the effective date of the Proposed Standards?

Issue #4: Dating of the report when EQR is performed

A. Background

Paragraph .41 of extant QC section 10, and paragraph .21 of extant AU-C section 220, require that when an engagement quality control review is performed, the engagement quality control review is completed before the report is released. The exhibit to QC section 10 and AU-C Appendix B, “Substantive Differences

² See paragraphs 54–55 of proposed SQMS No. 1.

³ See paragraphs 54–55 of proposed SQMS No. 1.

Between the International Standards on Auditing and Generally Accepted Auditing Standards,” both state that “... an engagement quality control review is an independent review of the engagement team’s significant judgments, including the date selected by the engagement team to date the report.” As noted in the application material to extant QC section 10, “when the engagement quality control review results in additional procedures having to be performed, the date of the report would be changed.”

Consistent with ISQM 2 and ISA 220 (Revised), paragraph 24*b* of proposed SQMS No. 2 and paragraph 36*d* of the proposed QM SAS require that the engagement quality review be completed before the report is dated.

At its October 2021 meeting, the ASB decided to 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, the logistical cost of restricting the time available for completing the EQR, and the potential for unintended negative consequences outweigh the benefits of this prescriptive requirement.

B. Proposed revisions

Note for purposes of this issues paper, footnotes have been omitted from the following paragraphs.

QM 2

7. For purposes of the SQMSs, the following terms have the meanings attributed as follows:

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed ~~on or before the date of the~~ engagement report **is released**.

...

24. The firm should establish policies or procedures regarding the performance of the engagement quality review that address the following:

- a. The engagement quality reviewer’s responsibilities to perform procedures in accordance with paragraphs 25–26 at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon
- b. The responsibilities of the engagement partner in relation to the engagement quality review, including that the engagement partner is precluded from ~~dating~~ **releasing** the engagement report until notification has been received from the engagement quality reviewer in accordance with paragraph 27 that the engagement quality review is complete (Ref: par. A24–A25)

A24. Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Performed in Accordance With Generally Accepted Auditing Standards* establishes the requirements for the engagement partner in audit engagements for which an engagement quality review is required, including

- determining that an engagement quality reviewer has been appointed;
- cooperating with the engagement quality reviewer and informing other members of the engagement team of their responsibility to do so;
- discussing significant matters and significant judgments arising during the audit

engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and

- not ~~date~~ **releasing** the auditor's report until the completion of the engagement quality review.

A24A. If the engagement quality review is completed after the report is dated and identifies instances where additional procedures are needed or additional evidence is required, the date of the report is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with the professional standards applicable to the engagement. Such instances may be indicative of a deficiency or deficiencies in the firm's system of quality management.

A28. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (for example, planning, performing, and reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction ~~on or~~ before the ~~date~~ **release** of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. Timely performance of the engagement quality review also may reinforce the exercise of professional judgment and, when applicable to the type of engagement, professional skepticism, by the engagement team in planning and performing the engagement.

Note that first sentence of proposed paragraph A24A is paragraph A43 of extant QC section 10. The second sentence is newly proposed guidance.

QM SAS

12. For purposes of GAAS, the following terms have the meanings attributed as follows:

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed ~~on or~~ before the ~~date of the~~ engagement report **is released**.

36. For audit engagements for which an engagement quality review is required, the engagement partner should (Ref: par. A103)

- a. determine that an engagement quality reviewer has been appointed,
- b. cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so,
- c. discuss significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer, and
- d. not ~~date~~ **release** the auditor's report until the completion of the engagement quality review. (Ref: par. A104–A106)

Documentation

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- 41.** In applying AU-C section 230, *Audit Documentation*, the auditor should include the following in the audit documentation: (Ref: par. A117–A120)
- a. Significant issues identified, relevant discussions with personnel, and conclusions reached with respect to
 - i. fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence
 - ii. the acceptance and continuance of the client relationship and audit engagement
 - b. The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented
 - c. If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed ~~on or~~ before the **date release** of the auditor's report
- A104.** AU-C section 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. If applicable to the audit engagement, proposed SQMS *Engagement Quality Reviews* and this proposed SAS require that the engagement partner be precluded from ~~dating~~ **releasing** the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgments made by the engagement team or that the conclusions reached thereon were not appropriate, then the engagement quality review is not complete.

Question for the ASB:

4. Does the ASB agree with the Task Force recommendation regarding retaining the requirement to complete the engagement quality review prior to dating the audit report?

IV. Revisions to the Proposed Quality Management SAS

The QM 2 Task Force did not identify any additional substantive issues raised by respondents to the Exposure Draft that warranted proposed revisions to the requirements of the proposed QM SAS. Comments from respondents on the QM SAS are provided in agenda item 5A, and proposed revisions to the QM SAS are provided in agenda item 5B.

Question for the ASB:

5. Does the ASB agree with the revisions proposed to the QM SAS?

Additional Agenda Items Presented

- Item 5A, Comment Letter Analysis: QM SAS
- Item 5B, Proposed QM SAS, marked with suggested revisions.

Ms. Lord and Mr. Heath will use this issues paper and agenda item 5B for discussion purposes.

Row #	CL ¹	Node	Coded Text	Comments
1	74	QM SAS Overall	The Tennessee Comptroller of the Treasury, Department of Audit, primarily follows quality management standards promulgated by the GAO in Government Auditing Standards. Thus, the proposed changes will not greatly affect our government audit organization. We agree the proposed changes are reasonable, and the language is clear, understandable, and helpful. The application material provided is also sufficient to explain how to apply the requirements in practice.	Noted
2	83	QM SAS Overall	We believe the requirements are clear and understandable and that the application material is helpful in supporting the application of the requirements. Specific guidance, via examples or hypothetical questions with answers, would be beneficial for implementing the standard.	Noted
3	90	QM SAS Overall	We agree with the proposed changes to the existing standard, believe the requirements are clear and understandable, and determine that the application material is helpful.	Noted
4	110	QM SAS Overall	We are generally supportive of the changes proposed in the QM SAS. However, due to the stand-back requirement being new, we request the Board provides greater clarification and develop practice aids to assist the engagement partner and firm in adhering to the stand back requirement.	Noted
5	116	QM SAS Overall	We acknowledge agreement and support of the QM SAS.	Noted
6	121	QM SAS Overall	4a. We strongly support the proposed QM SAS. We agree that the engagement partner needs to be sufficiently and appropriately involved throughout the engagement to achieve high quality audits and agree with the proposed requirements.	Noted
7	123	QM SAS Overall	We generally agree with the ED and with the proposed effective date. As a state audit organization, our comments are limited to the proposed statement on auditing standard and do not extend to the proposed statements on quality management standards, which do not apply to government audit organizations. Our comments on the ED are as follows:	Noted

¹ List of CL respondents was provided as agenda item 4A in the materials for the October ASB meeting

(<https://us.aicpa.org/content/dam/aicpa/research/standards/auditattest/asb/downloadabledocuments/202110-asb-item4a.pdf>)

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8	124	QM SAS Overall	To the extent the requirements mirror the quality control standards mentioned above, the committee has the same concerns with the application of the SAS.	Noted
9	128	QM SAS Overall	We support the proposed QM SAS and believe the proposed requirements are clear and understandable. We further believe that the application material supports the requirements and makes clear that the engagement partner has overall responsibility for managing and achieving quality and is ultimately accountable for compliance with the requirements of the proposed QM SAS.	Noted
10	130	QM SAS Overall	We believe the requirements are generally understandable	
11	134	QM SAS Overall	<p>Group audits</p> <p>We are concerned that the extent of the requirements and the resulting responsibilities that lay directly with the engagement partner could make this standard too onerous to apply to large single-entity engagements or large multinational engagements. We would recommend that the application of the requirements in these circumstances be considered as part of the QM SAS. While we appreciate that, from a group audit perspective, the IAASB and ASB have indicated that the responsibilities of the group engagement partner will be considered in their respective projects on group audits, there will probably be a period of time when QM SAS is effective, but the revisions to AU-C section 600 will still be in development. We are concerned that this would be detrimental to audit quality. As a result, if these requirements are to remain in a revised standard, we recommend that the ASB provide guidance on how to apply these requirements to large single-entity engagements or multinational engagements when the revised standard is approved. If these requirements are not considered as part of the QM SAS, we would recommend that the effective dates of the QM SAS and a revised AU-C section 600 be aligned.</p>	Consider aligning effective dates of Group Audit SAS with QM SAS. Note that if ASB agrees with delaying QM standards to 12/15/25, Group Audit SAS unlikely to be later.
12	145	QM SAS Overall	For our membership, our typical engagement team consists of 2 to 5 team members (including the engagement partner). The partners are significantly involved in all phases of an engagement from planning (including the selection of and intimate knowledge of the engagement staff) to engagement wrap-up. We are of the opinion that this already gives us an advantage because the engagement partner, as team leader, fulfills his or her leadership responsibilities. This includes taking actions to create an environment for the engagement that emphasizes the firm’s culture and the expected behavior of engagement team members; assigning procedures, tasks, or actions to other members of the engagement team; and supporting engagement performance, including taking responsibility for the nature, timing, and extent of the direction, supervision, and review of the work performed. However, for those firms that would be affected by this proposed SQMS, the requirements in proposed QM SAS are clear and	Noted

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			understandable, and the application materials would be helpful. Additionally, we are of the opinion the proposed changes would not be scalable for our membership because the added cost and burden of implementation and maintenance would result in placing our firms at a competitive disadvantage.	
13	06	QM SAS Overall\1 Strongly support	We strongly support the majority of the new SQMs	Noted
14	40	QM SAS Overall\1 Strongly support	We support the ASB’s efforts to clarify and strengthen the key elements of quality management and the related specific responsibilities of the engagement partner and auditor at the engagement level for an audit of financial statements. In general, we believe that the requirements in the proposed QM SAS are clear and understandable and that the application material is helpful.	Noted
15	55	QM SAS Overall\1 Strongly support	The Committee members agreed that the requirements in the proposed QM SAS are clear and understandable. This exposure draft has made explicit what was inherently assumed, and hence makes it easier to understand and implement. The application material is useful and has sufficient examples to illustrate the requirements.	Noted
16	61	QM SAS Overall\1 Strongly support	CRI supports the changes outlined in proposed QM SAS. The proposed QM SAS has clarified the role and responsibilities of the engagement partner from the existing guidance in AU-C Section 220, Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards. The application material is helpful in supporting the application of those responsibilities.	Noted
17	65	QM SAS Overall\1 Strongly support	X I strongly support the proposed QM SAS	Noted
18	77	QM SAS Overall\1 Strongly support	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 engagement partner’s leadership responsibility, stand back responsibility, and the direction, supervision and review of the engagement team.	Noted
19	93	QM SAS Overall\1 Strongly support	We agree with the language in the proposed auditing standard that requires the engagement partner to take ultimate responsibility for ensuring the overall quality of the engagement.	Noted
20	135	QM SAS Overall\1 Strongly support	We acknowledge agreement and support of the QM SAS.	Noted

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21	138	QM SAS Overall\1 Strongly support	We strongly support the proposed QM SAS	Noted
22	144	QM SAS Overall\1 Strongly support	I strongly support the proposed QM SAS.	Noted
23	158	QM SAS Overall\1 Strongly support	We strongly support the proposed QM SAS and its requirements are clear and understandable. The application material in the proposed QM SAS is helpful in supporting the requirements.	Noted
24	159	QM SAS Overall\1 Strongly support	strongly support the proposed QM SAS	Noted
25	162	QM SAS Overall\1 Strongly support	I strongly support the proposed QM SAS	Noted
26	163	QM SAS Overall\1 Strongly support	We agree with the language in the proposed auditing standard that requires the engagement partner to take ultimate responsibility for ensuring the overall quality of the engagement.	Noted
27	167	QM SAS Overall\1 Strongly support	We agree with the requirements outlined in this standard regarding engagement partner responsibilities.	Noted
28	47	QM SAS Overall\2 Somewhat support	We understand that requirements in the proposed QM SAS represent a shift from a more standardize quality control approach to a risk-assessment approach at the firm level, which will require significant effort to implement. In concept, we agree that risk-assessment approach is in the public interest. In practice, many firms rely on templated resources to help consider and document quality management, therefore, the shift to a more “free form,” risk-based approach will likely be a heavy burden. NASBA suggests robust implementation guidance be available to help guide firms through the process.	Noted
29	100	QM SAS Overall\2 Somewhat support	As noted throughout this letter, TIC strongly supports the enhancement of quality throughout all types of engagements; however, we have concerns with some aspects of the QM SAS, but somewhat support the proposed SAS.	Noted
30	147	QM SAS Overall\2 Somewhat support	<p>Overall, we support the proposed QM SAS and believe the requirements are generally clear and understandable, effectively addressing the engagement partner’s ultimate responsibility for ensuring the overall quality of the engagement. The proposed QM SAS appears consistent with and logically linked to the proposed SQMS standards.</p> <p>However, the Committee does request clarification regarding the extent of the engagement partner’s responsibility in relation to members of a component auditor’s engagement team outside of the partner’s own firm.</p> <p>The QM SAS application material, specifically paragraphs A23 - 24, discuss considerations of</p>	To be clarified thru Group Audits project

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			the engagement partner in relation to members of an engagement team outside of the partner’s firm.	
31	156	QM SAS Overall\2 Somewhat support	I support the proposed QM SAS	Noted
32	164	QM SAS Overall\2 Somewhat support	We somewhat support the proposed QM SAS.	Noted
33	168	QM SAS Overall\2 Somewhat support	I somewhat support the proposed QM	Noted
34	76	QM SAS Overall\3 Somewhat oppose	I somewhat oppose the proposed QM SAS	Noted
35	130	QM SAS Overall\3 Somewhat oppose	We somewhat oppose the proposed QM SAS	Noted
36	146	QM SAS Overall\3 Somewhat oppose	We somewhat oppose the proposed QM SAS as it applies to smaller firms as discussed above.	Noted
37	161	QM SAS Overall\3 Somewhat oppose	<p>We support the intent of the revisions, which is to promote consideration of risks to quality at the engagement level, and support many of the proposed revisions. We agree that the engagement partner needs to be sufficiently and appropriately involved throughout the audit to be able to take overall responsibility for the quality of the engagement.</p> <p>However, in building a framework that best supports audit quality, it is important that the requirements in the QM SAS are grounded in a risk-based approach, and are sufficiently principles-based so that they can be appropriately applied across a variety of engagement team structures in a scalable manner, commensurate with the size and complexity of the entity being audited. We are concerned that the proposed SAS is not capable of being effectively implemented in light of the variety of audit delivery models that exist today and how such models (and the technology that supports them) are likely to evolve in the future. New audit delivery models, through which quality is often reinforced through quality control procedures embedded in their design, are typically governed by a firm’s System of Quality Management (SoQM); engagement partners should be able to rely on these firm-level controls to support the execution of quality audits. It is important that the SAS reflect the changing nature of audits and not introduce prescriptive requirements that may impede, rather than support, audit quality. In revising AU-C section 220, the ASB should establish principles-based requirements that promote appropriate review and supervision,</p>	<p>Concern that QM SAS is too prescriptive and words “determine” and “review”.</p> <p>TF addressed this when developing the exposure draft, and believes that clarification of paragraphs 9 and A10 is most appropriately addressed thru implementation and application guidance.</p>

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and develop accompanying material to support the application of those requirements in various circumstances.

We support the assignment of responsibility to others to assist the engagement partner in fulfilling their quality responsibilities. In principle, we believe that the engagement partner should assign responsibility for aspects of quality to those most qualified to deliver on it. In our view, the engagement partner can retain overall responsibility for the engagement while delegating elements of execution that support that responsibility. It is also important to acknowledge that the firm’s policies and procedures are applied to specific engagements or structures based on their assessed risks; not all engagements have the same risks and therefore different responses may be appropriate in order to achieve the same quality objective.

In our view, the proposed SAS needs to be revised to better reflect the principle of shared accountability for aspects of quality, and what would practically be achievable by the engagement partner. Although the application material provides examples of how the requirements can be applied in certain situations, we are concerned with the overall shift in the proposed QM SAS from the context in extant AU-C section 220 of the engagement partner being satisfied regarding certain matters to more robust requirements for the engagement partner to “determine” and “review” a broader range of matters. In these cases, we do not believe the application material can be used to overcome the prescriptive nature of the revised requirements. Particularly as it relates to large and complex engagements, it may not be feasible for the engagement partner to “determine” or “review” in accordance with all of the requirements outlined in the proposed QM SAS, as further discussed in our response to Question 4. Imposing these requirements on the engagement partner, rather than permitting such conclusions to be drawn by other suitability qualified members of the engagement team, may otherwise serve to detract from audit quality.

Paragraph A10 of the proposed SAS acknowledges that ordinarily the engagement team may depend on the firm’s policies and procedures to comply with the requirements of the proposed SAS. Paragraph 9 notes that the engagement partner may need to obtain information from the firm or other members of the engagement team to be able to fulfill particular responsibilities set forth in the proposed SAS. We believe these concepts should be made more prominent in the proposed SAS, and potentially implementation guidance, to assist auditors in understanding how the proposed SAS can be applied to various structures that have become more common. In particular, we are concerned with how the

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			requirements of the proposed SAS interact with AU-C section 600, and believe the ASB needs to consider this before finalizing the proposed SAS to ensure it can be practically applied.	
38	99	QM SAS Overall\4 Strongly oppose	I strongly oppose the proposed QM SAS	Noted
39	65	QM SAS Overall\Specific comments	My former firm has extensive policies and procedures in place for addressing the management of quality at the engagement level, emphasizing the importance of the exercise of professional skepticism, enhancing the documentation of the auditor’s judgments, and robust communications during the engagement.	Noted
40	75	QM SAS Overall\Specific comments	If the engagement partner does not have the appropriate expertise, experience and level of involvement in the conduct of the engagement, it is highly unlikely that a quality engagement will be performed. Therefore, we strongly support the provisions of the ED related to the engagement partner’s responsibility for managing quality, including the “stand-back” requirement.	Noted
41	76	QM SAS Overall\Specific comments	I do not think this is an big issue in small firms as audit partners are already more involved throughout the entire audit process. Seems more of a large firm issue.	Noted
42	95	QM SAS Overall\Specific comments	The committees think that the preceding changes, with exception of those noted in previous comments, are beneficial to the goal of continued audit quality. The requirements are clear and understandable, and the application materials are somewhat helpful.	Noted
43	98	QM SAS Overall\Specific comments	We agree with the language in the proposed auditing standard that requires the engagement partner to take ultimate responsibility for ensuring the overall quality of the engagement.	Noted
44	103	QM SAS Overall\Specific comments	Overall, the application material is helpful in supporting the application of the proposed QM SAS.	Noted
45	109	QM SAS Overall\Specific comments	Engagement Partner's Overall Responsibility for Managing Quality on Audits, Including Engagement Performance and Stand Back The Committee agrees with the proposed changes in an engagement partner's overall responsibility for managing quality on audits. The timely review of documentation at appropriate stages, as discussed in Par. 30-31 and A91, provides excellent guidance on ensuring that review of documentation should occur throughout the engagement rather than at the end to better facilitate the report date being as close to the end of fieldwork as possible. Adding the Stand Back requirement Par. 40, properly adds emphasis to the engagement partner taking responsibility for an audit engagement. The Stand Bank	Noted

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			<p>requirement will help prevent the engagement partner from passing this responsibility to a manager or director unless it is documented that the partner has passed the engagement partner responsibility to someone who has the experience and knowledge to perform this responsibility.</p> <p>Engagement Resources The Committee has the most concern about maintaining the necessary human and intellectual resources for engagements performed by smaller firms. The public accounting industry is dealing with more and more areas requiring the use of resources while the pool of human and intellectual resources has been reducing. This lack of responsibility could cause difficulty finding and training enough CPAs to fulfill the requirements of the new standards.</p> <p>Other New Requirements The Committee feels the clarification added on what the engagement partner needs to review will help focus engagement partners on the things that matter at that level of review. With the reduced availability of staff, the engagement partner needs to be as efficient as possible in reviewing the most valuable sections of the audit versus looking over every workpaper.</p> <p>The Committee feels the requirements in the proposed QM SAS are clear and understandable. The application material is helpful; however, we believe significant implementation guidance will need to be provided, especially to smaller firms.</p>	
46	130	QM SAS Overall\Specific comments	We believe the requirements are generally understandable, however, we believe more information is necessary to fully appreciate the new stand back requirement and the engagement resources requirement.	Add to implementation guidance
47	134	QM SAS Overall\3 Somewhat oppose	We agree that to take overall responsibility for managing and achieving quality on the audit engagement, the involvement of the engagement partner needs to be both sufficient and appropriate. However, there is a level of prescription to these proposed requirements that is not consistent with a principles-based approach. We further believe there are areas where additional clarity is necessary in order to make the QM SAS sufficiently operational, particularly for group audits.	To be addressed thru Group Audit project (including potential amendments to QM SAS).
48	134	QM SAS Overall\Specific comments	<p>Group audits We are concerned that the extent of the requirements and the resulting responsibilities that lay directly with the engagement partner could make this standard too onerous to</p>	To be addressed thru Group Audit project (including

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			<p>apply to large single-entity engagements or large multinational engagements. We would recommend that the application of the requirements in these circumstances be considered as part of the QM SAS. While we appreciate that, from a group audit perspective, the IAASB and ASB have indicated that the responsibilities of the group engagement partner will be considered in their respective projects on group audits, there will probably be a period of time when QM SAS is effective, but the revisions to AU-C section 600 will still be in development. We are concerned that this would be detrimental to audit quality. As a result, if these requirements are to remain in a revised standard, we recommend that the ASB provide guidance on how to apply these requirements to large single-entity engagements or multinational engagements when the revised standard is approved. If these requirements are not considered as part of the QM SAS, we would recommend that the effective dates of the QM SAS and a revised AU-C section 600 be aligned.</p>	<p>potential amendments to QM SAS).</p>
49	139	QM SAS Overall\Specific comments	<p>We have the same issues with the proposed Statement on Auditing Standards as it does with the proposed Statement on Quality Management.</p>	<p>Noted</p>
50	150	QM SAS Overall\Specific comments	<p>Our views on the QM SAS as we understand it is, we are for the overall concept of encouraging proactive management of quality at the engagement level, emphasizing the importance of the exercise of professional skepticism and the need for robust communication during the audit. We are not in favor of additional documentation requirements enhancing the documentation of auditor's judgements. The application material is helpful in supporting the application of the requirements.</p> <p>In the small firm context, nothing has changed. The engagement partner already has those responsibilities and requiring more documentation does nothing to improve the quality of the audit. It may provide some protection for an inadequate attestation engagement, however, it really is just another cost incurred that makes it difficult for small firms performing attestation engagements. As stated previously, there is a real need for attestation engagements that regional and national firms have no interest in. However, the public interest in the smaller engagement arena is still and will always be relevant and the cost of providing those service keeps rising without a reasonable expectation that the entities in need can afford the services. It's not rocket science, there needs to be a vehicle for local firms to provide attestation services competitively without undue and unrealistic requirements.</p>	
51	151	QM SAS Overall\Specific comments	<p>For our firm, our typical engagement team consists of 2 to 5 team members (including the engagement partner). The partners are significantly involved in all phases of an engagement from planning (including the selection of and intimately knowledge of the engagement</p>	<p>Noted</p>

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			staff) to engagement wrap-up. We are of the opinion this gives us the advantage of having the engagement partner as team leader to fulfill their leadership responsibilities, including taking actions to create an environment for the engagement that emphasizes the firm’s culture and the expected behavior of engagement team members, and assigning procedures, tasks, or actions to other members of the engagement team and supporting engagement performance, including taking responsibility for the nature, timing, and extent of the direction, supervision, and review of the work performed. However, for those firms that would be affected by this proposed SQMS, the requirements in proposed QM SAS are clear and understandable, and the application materials would be helpful.	
52	155	QM SAS Overall\Specific comments	We believe that the preceding changes discussed and in the proposed QM SAS were clear and understandable. The application material is helpful and supports the application of the requirements.	Noted
53	162	QM SAS Overall\Specific comments	We support the development of the proposed quality management standards, including the QM SAS, and believe the proposed standards may serve the public interest.	Noted
54	65	QM SAS requirements	Yes	Noted
55	65	QM SAS requirements	The ED information is consistent with my former Firm’s policies and procedures.	Noted
56	69	QM SAS requirements	We agree with the language in the proposed auditing standard that requires the engagement partner to take ultimate responsibility for ensuring the overall quality of the engagement.	Noted
57	100 TIC	QM SAS requirements	The requirements in the QM SAS are clear and understandable; however, TIC believes that they may be difficult for some firms to implement.	Noted
58	138	QM SAS requirements	Yes	Noted
59	146	QM SAS requirements	Yes, the materials are clear and understandable to us, but we have a concern that they will not be clear to smaller firms.	Noted
60	156	QM SAS requirements	Yes, based on our initial reading of QM SAS, although our review has not been extensive.	Noted
61	162	QM SAS requirements	Yes, we believe the requirements in the QM SAS are overall clear and understandable	Noted
62	164	QM SAS requirements	Yes, the requirements are clear and understandable. 4c. Yes, the application material is helpful.	Noted

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63	161	QM SAS requirements\par. 8	<p>Paragraph 8 of the proposed QM SAS acknowledges that, in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks, or actions to other members of the engagement team. In our view, paragraph 4 of PCAOB AS 1201, Supervision of the Audit Engagement, better articulates the concept of additional engagement team members who assist the engagement partner with supervision of the work of other engagement team members and promotes greater accountability by those to which such work is assigned or delegated. We note this concept was similarly articulated in paragraph 6 of extant AU-C section 220, which specifies that “The engagement partner may use the assistance of other members of the engagement team or other personnel within the firm in meeting the requirements of this section.” This terminology acknowledges that the engagement partner remains ultimately responsible for quality on the engagement, but also recognizes other suitably qualified members of the engagement team may perform a significant role with respect to direction, supervision, and review in order to achieve audit quality in the context of the specific engagement. We believe this concept should be explicitly retained in the ASB’s standards; moving away from it could result in a significant change in practice without a commensurate increase in audit quality and creates an unnecessary divergence from PCAOB standards.</p>	See last three rows of this table.
64	40	QM SAS requirements\par. 12	<p>We suggest the following items to QM SAS Definitions in paragraph 12: Include the full definition of “network” as defined in the AICPA Code of Professional Conduct. Define the term “remediation.” Include and define “inspections.” There are several references to inspections in the application guidance. It is our view that inspections should be defined in the definition section to enhance the clarity and ability of the auditor to implement the standard.</p>	<ul style="list-style-type: none"> • Revised consistent with QM1 • No change, dictionary meaning. • Added, consistent with QM1
65	134	QM SAS requirements\par. 13	<p>For example, we note that paragraph 13 of the QM SAS requires the engagement partner to determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. There is little guidance on how the engagement partner evidences the basis for the conclusion reached. We would recommend the incorporation of additional guidance on the documentation expected to demonstrate compliance with this requirement.</p>	See paragraph A30.
66	77	QM SAS requirements	<p>We agree with the requirement in proposed QM SAS that an engagement partner is responsible for compliance with relevant ethical requirements.</p>	For implementation material; also see QM 1 re: technological resources

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			<p>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.</p> <p>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.</p>	
67	89	QM SAS requirements\par. 14, 17, 35, 37	<p>Requirements and application material are generally clear, but we have concerns about the indication that “take responsibility for” means that the engagement partner is permitted to assign these responsibilities to another appropriately skilled or suitably experienced member of the engagement team. We believe that certain responsibilities that appear to be permitted to be “assigned” should not be. Examples of such provisions are noted below.</p> <p>Section 14: establishing and communicating the firm’s commitment to quality and the expected behavior of engagement team members</p> <p>Section 17: making engagement team members aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures, including identifying, evaluating and addressing threats to compliance with independence</p> <p>Section 35: undertaking consultation on difficult or contentious matters and matters on which the firm’s policies and procedures require consultation</p> <p>Section 37: resolving differences of opinion in accordance with the firm’s policies or procedures</p> <p>We agree the engagement partner may need to leverage others in the firm to fulfill all of</p>	We believe this is consistent with the proposed standard. See par. 9 & 15.

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			his/her responsibilities, but the standard should be very clear that the engagement partner has ultimate responsibility for seeing that all of these are carried out on their engagements.	
68	65	QM SAS Requirements/Par. 31	Yes. The proposed QM SAS clarifies that the engagement partner needs to review-significant matters and significant judgments, and formal written communications to management and those charged with governance. The ASB should consider also requiring the engagement partner to review engagement planning on a timely basis (i.e., completed prior to the start of substantial audit work). Engagement quality is most effectively built into the engagement at its start, during planning, not at the end of the engagement.	Overly prescriptive.
69	76	QM SAS requirements\Par. 40	We do not feel the proposed "stand back" requirement is needed in a small firm setting. Audit partners are highly involved with the entire audit process in a small firm setting and therefore already have a high level of involvement. This would be an unnecessary additional requirement that is not needed.	For implementation material; related to documentation requirements.
70	86	QM SAS requirements\par. 40	This new requirement seems overly theoretical, and it is not clear how it differs from concluding on the engagement and adding a check mark on a checklist. If this requirement is retained, the committees request that the requirement be clarified.	Agree
71	97	QM SAS requirements\Par. 40	the stand back position insinuates that engagement partners are too involved in the engagement and therefore can't be impartial in evaluating the engagement. And that the engagement partners have been not living up to their responsibilities relative to the existing auditing standards and to the existing QC standards. Maybe the ASB should stop indicting the members of the profession and take the perception that perhaps most of the members do better than a decent job in performing audits and reviews and other attest type of engagements.	Disagree – the standback position addresses the risk that the engagement partner has not been sufficiently involved. See paragraph A115.
72	103	QM SAS requirements\Par. 40	Stand back” requirement – The requirement to assess the sufficiency and appropriateness of the partner’s involvement in an engagement has been inherent in the quality management system of a firm prior to the proposed QM SAS. We recommend expanding on this guidance to establish a framework by which partners and firms may make an assessment.	See AM A115
73	119	QM SAS requirements\Par. 40	This new requirement seems overly theoretical, and it is not clear how it differs from concluding on the engagement and adding a check mark on a checklist. If this requirement is retained, we request that the requirement be clarified.	The intent is for the engagement partner is required to self-reflect on the adequacy of his/her involvement on the audit.
74	121	QM SAS requirements\Par. 40	4b. Yes, the requirements in the proposed QM SAS are clear and understandable. We would encourage the ASB to provide implementation and other nonauthoritative guidance, specifically as it relates to the “stand-back” requirement, including determining that the	Noted for implementation guidance

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			<p>involvement of the engagement partner in the audit has been sufficient and appropriate throughout the engagement.</p> <p>The examples provided in the proposed QM SAS application material are clear but may have the unintended consequence of limiting the qualitative and quantitative methods/measures used or result in boilerplate responses. I</p> <p>Implementation and other nonauthoritative guidance could address the definition of timely review – is it by actual date of sign-off or number of hours invested in each phase of the audit? Such guidance may include an emphasis on the importance of a one size does not fit all, attributes of partner involvement should be risk-based and scalable to the nature and size of the audit engagement. Without further guidance, we believe there will be inconsistency in practice and audit quality will not be enhanced as intended.</p>	
75	155	QM SAS requirements\Par. 40	<p>However, while we acknowledge the concept of the “stand-back” requirement reflected in paragraph .40, it is not clear to us how this evaluation is expected to be documented. In the absence of application material with such guidance, we expect this will evolve to be little more than one or more steps in an engagement checklist. If the Board has specific documentation expectations for this requirement, we recommend including additional related application material.</p>	Noted for implementation guidance
76	166	QM SAS requirements\Par. 40	<p>Is the “stand back” requirement in this section, the responsibility of the engagement partner, or is this fulfilled by another partner outside of the engagement? I read this to mean that the engagement partner is required to self-reflect on the adequacy of his/her involvement on the audit.</p>	That is the intended meaning.
77	123	QM SAS requirements\Par. 40	<p>Regarding paragraph 40, we consider it confusing that the “engagement partner” is required to “...determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.” We are left wondering when such a self-determination would result in that not being the case. The subsequent bullet point in paragraph 40 directs the engagement partner to self-assess that their involvement has been “sufficient and appropriate”. We would not consider such a self-evaluation as prudent and wonder if the Board intended for someone other than the engagement partner to reach such conclusions.</p> <p>In addition, application paragraph A113 (providing additional guidance to paragraph 40) specifically mentions the application of the proposed statement on quality control management which will not be applicable to government audit organizations; therefore, we would appreciate additional explanation in this paragraph how it would apply to government audit organizations.</p>	<p>The intent is that the engagement partner is required to self-reflect on the adequacy of his/her involvement on the audit.</p> <ul style="list-style-type: none"> GAOs would have to apply the requirements in the QM SAS; the

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				application of SQMS 1 is irrelevant.
78	143	QM SAS requirements	D&T has recommended a number of changes to the proposed QM standards related to engagements conducted in accordance with GAS (refer Appendix 1, responses to question 1 - paragraph 5, and question 3 – paragraphs 2 and A48). In addition to considering the specific edits we are recommending in Appendix 1, we believe that the ASB should holistically revisit all requirement and guidance paragraphs in the proposed QM standards that address GAS in order to review that the appropriate terminology and references are consistently used. In addition, such requirements and terminology should align with the GAS 2018 Revision, inclusive of the Technical Update April 2021, as issued by the Comptroller General of the United States.	Reviewed; TF believes all such references in QM SAS are appropriate.
79	130	QM SAS requirements	The Exposure Draft references ‘Other New Requirements’ which apparently clarifies what an engagement partner needs to review and which are significant judgments and significant matters. We believe that generally the engagement partner is closer to the specifics of an audit engagement and is able to use his or her experience and judgment in determining what items need to be reviewed by the partner more so than the standard setters. This is true in general and especially relevant in smaller, less complex engagements handled by smaller firms.	Noted
80	65	QM SAS AM	Yes	Noted
81	71	QM SAS AM	The Group is neither agrees or disagrees with the changes described in – Proposed QM SAS - Overall Matters. It is unclear on how the application material for No. 1 links to the requirement in AU-C Section 700. Overall, it is difficult to find the application material that relates to the changes in the Proposed QM SAS related to this question. Cross references would be helpful when asking about the application material.	
82	76	QM SAS AM	NO	Noted
83	102	QM SAS AM	QM SAS is clear and understandable.	Noted
84	121	QM SAS AM	4c. Yes, the application material in proposed QM SAS is helpful in supporting the application of the requirements. See the response to 4b. above for a recommendation with respect to implementation and other nonauthoritative guidance.	Noted
85	123	QM SAS AM	Given the exclusion of government audit organization from applying statements on quality management standards, we appreciate paragraph 2’s specific inclusion of this standard to audits conducted by government audit organizations that perform financial audits in accordance with generally accepted auditing standards.	Noted
86	65	QM SAS AM	The ED information is consistent with my former Firm’s policies and procedures.	Noted

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87	146	QM SAS AM	Yes, the application material is helpful.	Noted
88	156	QM SAS AM	Yes, based on our initial reading of QM SAS.	Noted
89	162	QM SAS AM	Yes, we believe the overall application material in the QM SAS are overall clear and understandable.	Noted
90	103	QM SAS AM/paragraph A29	“Scalability (paragraph A29 of the proposed QM SAS) – We recommend providing additional guidance on the level of formality of the communication among the engagement team.	For implementation material
91	40	QM SAS AM/par. A35	We also suggest clarifying the difference between unconscious and conscious auditor biases in QM SAS paragraph A35.	No change, in existing GAAS. Also plain English meanings apply.
92	10	QM SAS AM/Par. A38	Paragraph A38 uses the term “listed entities” when it states “For example, certain requirements related to independence may be applicable only when performing audits of listed entities”. Use of this term does not align with the AICPA Code of Conduct and its inclusion is inconsistent with other areas of the proposed standards where similar references were deleted for jurisdictional purposes.	Agree, delete or replace with relevant example.
93	10	QM SAS AM/Par. A44	Paragraph A44 deletes the example from the IESBA Code contained in the international quality management standard. We believe this is an opportunity to reference the conceptual frameworks embedded in the AICPA Code of Conduct as an alternative example that is relevant to practitioners in the US. There are a number of examples in the AICPA Code of Conduct that could be provided, such as those in section 1.295 Non-attest Services which highlights several “safeguards” that are required.	Agree, example provided
94	10	QM SAS AM/Par. A45	Paragraph A45 provides reference to SQMS No. 1 regarding the establishment of policies and procedures for breaches of relevant ethical requirements. Section 1.298 Breach of an Independence Interpretation of the AICPA Code of Conduct also contains specific requirements regarding appropriate response to breaches of independence. We believe it would be helpful to include reference to the relevant AICPA Code of Conduct requirements.	Such examples better provided in QM1.

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95	10	QM SAS AM/Par. A48	<p>Paragraph A48 could be interpreted to imply that government audit organizations are exempt from relevant ethical requirements and may, instead, take a threats and safeguards approach. We believe the intent is that there is an expectation that government audit organizations comply with the relevant ethical requirements except in certain limited circumstances. We suggest clarifying the language to reflect this intent as follows.</p> <p><u>A48. Government audit organizations are expected to comply with the relevant independence requirements of the AICPA Code of Conduct except in certain limited circumstances.</u> Law or regulation may provide require safeguards for the independence of governmental audit organizations and the auditors they employ. However, in the absence of law or regulation, governmental audit organizations may establish supplemental safeguards to assist the auditor or audit organization in maintaining independence. Additionally, when law or regulation does not permit withdrawal from the engagement, the auditor may disclose in the auditor’s report the circumstances affecting the auditor’s independence.</p>	From extant, no evidence that this is being misinterpreted. No change.
96	40	QM SAS AM/ Par. A85	In proposed QM SAS paragraph A85, item 2, refer to paragraph A35 instead of paragraph A34.	Agree, corrected.
97	143	QM SAS AM\Par. A116	<p>D&T believes the edit to paragraph A116 to consider firm policies and procedures that [may] set forth required actions, is not correct. In such circumstances the engagement partner takes into account the firm policies and procedures and responds accordingly. The use of the term “considering” implies that the engagement partner has flexibility and in doing so may, or may not, consider the policies and procedures, including the related requirements.</p> <p>A116. ... In addition to considering <u>taking account of</u> firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example....</p>	Agree, changed “considering” to “applying”
98	143	QM SAS AM\	<p>Paragraphs A25, A91, and A107</p> <p>It is recommended that the wording in paragraph A25 of proposed QM SAS revert to that of paragraphs A25, A91, and A107 in ISA 220 (Revised).</p> <p>Paragraph A99</p> <p>D&T notes the inclusion of the phrase “such as those that required significant auditor attention” (which is not in ISA 220 (Revised)) to further describe circumstances when consultation may be required relating to significant risks. We believe that, by their nature, significant risks require the focused attention of the auditor; therefore, this phrase does not add any further clarity to the application material. D&T recommends that the phrase be deleted.</p>	<ul style="list-style-type: none"> • Without further justification for this recommendation, no change to ASB direction. • Agreed

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			<p>Paragraph A115</p> <p>D&T believes that the changes to paragraph A115 of proposed QM SAS when compared with ISA 220 (Revised) are unnecessary and are not the result of circumstances that are unique to the United States environment. Consequently, these should be reversed.</p>	<ul style="list-style-type: none"> Revised from ISA for clarity and ease of reading; no change.
99	83	QM SAS/Par. 2	<p>We suggest the Board provide clarification within the QM SAS that government audit organizations are subject to the quality control and assurance requirements of Government Auditing Standards. This is stated in paragraph 5 of the introduction to the proposed SQMS No. 1, but incorporating the language into the proposed QM SAS would provide additional clarity.</p>	<p>This paragraph is from extant but could be strengthened. See proposed revision.</p>
100	143	QM SAS requirements\Paragraph 2	<p>D&T believes that it would be helpful to enhance the auditors’ understanding of paragraph 2 of proposed QM SAS by clarifying the following:</p> <p>Financial audits of governmental entities conducted in accordance with GAGAS may be performed by either auditors of a firm or [government] auditors within a government audit organization. The proposed SAS is applicable to auditors in government audit organizations because GAGAS incorporates by references the SASs (Chapters 2.13 and 6.01 of GAS).</p> <p>Identifying which quality management standards are, in fact, applicable to auditors in government audit organizations.</p> <p>The AICPA code is generally applicable to auditors, including auditors in government audit organizations, conducting financial audits in accordance with GAGAS. This is outlined in chapters 2.14 and 3.05 of GAS and ET section 1.000.02 of the AICPA code.</p> <p>D&T also notes that the wording in paragraph 2 of proposed QM SAS is not entirely consistent with paragraph 5 of proposed SQMS No. 1. It is not clear whether proposed QM SAS is applicable to “auditors in government audit organizations” or to “government audit organizations” as stated in paragraph 5 of proposed SQMS No. 1.</p> <p>D&T recommends the following, including, as outlined in our response to Question 1 above, a reference to the requisite professional literature, or an interpretation thereof where it states that the proposed SQMSs are not applicable to auditors in government audit organizations:</p> <p><u>2. Financial audits of governmental entities conducted in accordance with <i>Government Auditing Standards</i> (GAS) may be performed by auditors of a firm or auditors in government audit organizations. For auditors complying with generally accepted government auditing standards (GAGAS), the proposed Statements on Quality Management Standards (SQMSs) are applicable to auditors of a firm; however, the proposed</u> Although Statements on Quality Management Standards (SQMSs) are not applicable to auditors in government audit organizations. <u>As GAGAS incorporates by reference the SASs (footnote 1)</u>, this proposed SAS is <u>also</u> applicable to auditors in government audit organizations who perform <u>conduct</u> financial audits <u>of governmental entities</u> in</p>	<p>See proposed revision to par. 2</p>

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			<p>accordance with GAAS GAGAS. <u>In addition to the ethical principles in the GAS (footnote 2), other ethical requirements or codes of professional conduct may be applicable when conducting financial audits of governmental entities in accordance with GAGAS, including the AICPA code (footnote 3).</u></p> <p align="center"> <u>Footnote 1: Chapter 2.13, GAS.</u> <u>Footnote 2: Chapters 2.14 and 3.05, GAS.</u> <u>Footnote 3: ET section 1.000.02 of the AICPA code.</u> </p>	
101	161	QM SAS\Par. A90-A94	<p>Consideration should also be given to adding an example specific to group audits, to explain how the group engagement partner needs to seek assistance from the component partner and describe the role the component audit firm’s policies and procedures play. We are not proposing a suggestion here as such guidance will depend on how ISA 600 is drafted, including how the concepts such as the component auditor’s written acknowledgment of the group audit instructions and the component auditor’s overall summary memorandum or report describing the work performed and the results thereof are articulated.</p>	<p>No change; because such guidance depends on how 600 is drafted, this suggestion will be provided to the Group Audits Task Force.</p>
1	161	QM SAS Overall\Specific comments	<p>Overview</p> <p>As noted in our cover letter, we support the intent of the revisions to promote consideration of risks to quality at the engagement level and support many of the revised requirements in the proposed SAS. We agree that the engagement partner needs to be sufficiently and appropriately involved throughout the audit to be able to take overall responsibility for the quality of the engagement. However, as audits become more complex and audit delivery models to support quality audits evolve, it is often necessary to involve others to assist the engagement partner in directing, supervising, and reviewing the engagement. The concept of other partners assisting the engagement partner is contemplated in the definition of an “audit partner” in Rule 2-01 of Regulation S-X, which addresses not only requirements for the lead partner, but also other audit engagement team partners (including those who serve as the lead partner in connection with an audit of subsidiaries of an issuer) who have responsibility for decision-making on significant auditing, accounting, and reporting matters that affect the financial statements. PCAOB AS 1201, Supervision of the Audit Engagement, clearly articulates the concept of other engagement team members who assist the engagement partner with supervision of the work of other engagement team members. In practice, these “auxiliary partners” are an essential part of bringing quality to engagements of varying sizes and complexities, including in the case of group audits. In our experience, using auxiliary partners to assist the (lead) engagement partner is necessary in light of the volume of work to be reviewed - we believe that having other suitably qualified individuals involved in directing, supervising, and</p>	<p>Concerns noted for implementation guidance. Also see last three rows of this table.</p>

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reviewing elements of the overall engagement supports enhanced quality, and does not diminish the (lead) engagement partner’s responsibility for the engagement as a whole. While we understand that the IAASB’s project on ISA 220 is intended to be responsive to concerns from regulators outside the US that the engagement partner may not always be appropriately involved in the audit, we do not believe there are similar concerns in the US that would merit a significant overhaul of extant AU-C section 220.

We believe that, as drafted, the level of prescription regarding the lead engagement partner’s responsibilities in some of the proposed new requirements is in conflict with the premise in paragraph 8 that the engagement partner may need to assign the design or performance of some procedures, tasks, or actions to other members of the engagement team, especially in an audit of an entity whose nature and circumstances are more complex. In our view, it is generally not possible or practicable for the lead engagement partner to satisfy all of the requirements of the QM SAS by themselves. Although the application material provides examples of how the requirements can be applied in certain situations, we are concerned with how the proposed QM SAS seems to shift from extant AU-C section 220’s requirements for the engagement partner to be satisfied regarding certain matters to a more robust requirements for the engagement partner to “determine” and “review” a broader range of matters. We do not believe the application material overcomes the prescriptive nature of the revised requirements. Further, we believe that use of the terms “determine” and “review” is not clear in the context of the requirement outlined in paragraph 9 of the proposed QM SAS. We believe that the lack of specificity as to what it means to “determine” or “review” may result in varied interpretations in practice as to how such requirements are performed and documented within the audit file.

We therefore believe the proposed SAS should more clearly describe the concept of assignment of responsibility to others to assist the engagement partner in fulfilling their quality responsibilities, and take steps to further highlight how the requirements within the standard would be applied in various circumstances (e.g., through additional application material or implementation guidance). In principle, we believe that the engagement partner should be able to assign responsibility for aspects of quality to those most qualified to deliver on it. In addition, many audit delivery models have been put in place to specifically reinforce quality through quality control procedures embedded in their design, including firm policies and procedures. Accountability for different aspects of audit quality in an engagement can, in our view, be shared with others when all participants understand their role and how it is interrelated with those of others. Firm policies and procedures are best suited to address such roles and responsibilities.

In building a framework that best supports audit quality, it is important that the requirements in the proposed QM SAS are grounded in a risk-based approach, and are sufficiently principles-based so that they can be appropriately applied across a variety of engagement team structures in a scalable manner. We offer more specific concerns about circumstances in which the proposed QM SAS will be applied and recommendations to alleviate these concerns below.

Recognizing the evolving nature of how audits are conducted

Today’s audits are being performed with increasingly diverse and distributed delivery models that leverage technology, other tools, and working practices to increase the efficiency and effectiveness of audit work. Further, the impact of the COVID-19 pandemic continues to highlight the need for different structures to bring quality to an engagement, including flexibility in how the principles of adequate direction, supervision, and review can be achieved. So it is timely that the ASB considers how to acknowledge these changing structures in the proposed QM SAS, as we expect to continue to see an increase in engagements using Centers of Excellence, service delivery centers, staff augmentation models, and other audit delivery models across the profession. The primary objective of these audit delivery models is to drive higher quality through consistent performance. While paragraph A15 appropriately acknowledges that engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing, our view is that the proposed SAS downplays the importance of shared accountability for quality by establishing unduly prescriptive requirements for the engagement partner to individually perform and misses an opportunity to further modernize the standards in light of current developments.

In our experience, these newer audit team structures rely on robust policies and procedures established at the firm level and are designed to mitigate perceived risks of the engagement partner delegating responsibilities for direction, supervision, and review. For example, these policies and procedures ordinarily set out responsibilities for interactions between the engagement partner (or an auxiliary partner) and partners and others with supervisory responsibilities using various audit delivery models, as well as specify what audit documentation is to be reviewed by whom, including what should be reviewed by the engagement partner and how such review should be evidenced. These new and evolving models also leverage technology to facilitate direction, supervision, and review, which is also addressed by the firm’s policies and procedures through its SoQM. Consistent with the

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proposed SAS, the engagement partner remains ultimately responsible for quality at the engagement level, but quality is brought to bear by the appropriate involvement of others.

Challenges with how the concepts have been articulated in the proposed SAS and suggestions for further clarity

We are concerned that the proposed SAS may not be capable of being effectively implemented in light of the various audit delivery models that may exist today and how such models (and the technology that supports their functioning) are likely to evolve in the future. It is important that the proposed SAS reflect the changing nature of audits and not introduce prescriptive requirements that may impede, rather than support, audit quality. Specifically, we believe that there are a number of potentially significant unintended consequences of aspects of the proposed changes, as described below. We have identified certain of these concerns in connection with our efforts to commence implementation of ISA 220, and are aware of the IAASB's plans to develop further implementation guidance in relation to practical considerations that were raised in the development of ISA 220. We believe the ASB should seek to address these concerns before finalizing the proposed QM SAS, with a view to avoiding unnecessary differences with the PCAOB's standards. Similarly, it is important the ASB fully considers the impact that the proposed QM SAS will have on group audits and its planned efforts to revise AU-C section 600 once the IAASB finalizes its project.

Given the evolving audit environment, we believe that it is important that the standard recognizes that various ways exist to direct, supervise, and review audit engagements, and encourages the use of professional judgment in making this determination. We believe that the requirements in the proposed SAS are potentially overly prescriptive, considering the increasingly dynamic engagement team structures to which the proposed SAS will be applied.

Paragraph A10 of the proposed SAS acknowledges that ordinarily, the engagement team may depend on the firm's policies and procedures in complying with the requirements of the proposed SAS, and paragraph 9 notes the engagement partner may need to obtain information from or assign certain procedures or tasks to other suitably experienced members of the engagement team to be able to fulfill particular responsibilities set forth in the proposed SAS. We believe these concepts should be made more prominent in the proposed SAS, and potentially implementation guidance, to assist auditors in understanding

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how the proposed SAS can be applied to various structures. We provide drafting suggestions in Appendix 2 to this letter.

In particular, we believe there will likely be practical challenges arising from how the requirements in the following paragraphs have been drafted, or possible inconsistencies in how such requirements are applied in different audit structures (including group audits, as described in more detail below) given the inference that these tasks are to be solely performed by the engagement partner:

Paragraph 25: requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the team in a timely manner

Paragraph 26: requires the engagement partner to determine that members of the engagement team and others collectively have the appropriate competence and capabilities, including sufficient time, to perform the engagement

Paragraph 30: requires the engagement partner to determine that the nature, timing, and extent of direction, supervision, and review is planned and performed in accordance with the firm’s policies or procedures, professional standards, and applicable legal and regulatory requirements, and are responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm

Paragraph 31: requires the engagement partner to review audit documentation related to significant matters, significant judgments, and other matters

Paragraph 35: requires the engagement partner to determine that consultations have been appropriately undertaken, and conclusions agreed and implemented

Paragraph 38: requires the engagement partner to determine that conclusions related to differences of opinion are documented and implemented

Paragraph 39: requires the engagement partner to determine the relevance and effect on the audit engagement of information from the firm’s monitoring and remediation process, including, as applicable, information from the monitoring and remediation process of the network and across the network firms

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			<p>The ASB should evaluate whether changes to the requirements or additional application material is necessary to clarify how the engagement partner would comply with the objective of these requirements when other suitability qualified members of the engagement team are significantly involved in direction, supervision, and review, as well as the important interaction with the firm’s quality responses, including its policies and procedures with which its personnel are expected to comply.</p>	
102	143	<p>QM SAS Overall\Specific comments re: Group audits</p>	<p><i>Changes to Paragraphs Affecting Group Audits</i></p> <p>Although D&T understands the desire to make certain changes to proposed SQMS No. 1 and proposed QM SAS in order to provide additional examples or enhance the clarity of proposed QM SAS relating to group audits, given the current ongoing project to amend ISA 600 (Revised), <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</i>, and the companion work effort currently being undertaken by the ASB pertaining to AU-C section 600, <i>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) (AU-C 600)</i>, we believe that any related changes to proposed SQMS No. 1 and proposed QM SAS should be considered as conforming amendments when AU-C 600 is exposed for comment. This will allow for the conforming amendments to be considered in the appropriate context and avoid the possibility of multiple updates to group audit-related paragraphs in the proposed QM standards to reflect a finalized AU-C 600.</p>	<p>Agree</p>
103	161	<p>QM SAS Overall\Specific comments re: Group audits</p>	<p>Seeking assistance from the component partner and other component engagement team members</p> <p>In order to take responsibility at the group engagement level, the (group) engagement partner will need to rely on actions being taken by the engagement partner at the component as well as the component firm’s policies and procedures. Our experience suggests that the group engagement team member needs assistance from the partner in charge of the component team to comply with a number of requirements, particularly in relation to relevant ethical requirements, engagement resources, and monitoring and remediation. We believe this is appropriate and in the best interests of quality, as the presumption would be that the partner would be an appropriately skilled or suitably experienced member, with visibility into the firm’s policies and procedures that govern the component team’s work.</p>	<p>To be addressed as part of Group Audit project, including any amendments to be proposed to QM SAS.</p>

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In practice, we believe the group engagement partner is able to “take responsibility” or make “determinations” contemplated by the proposed QM SAS based on review of the component auditor’s written acknowledgment of the group audit instructions and the component auditor’s overall summary memorandum or report describing the work performed and the results thereof, supplemented with two-way communication throughout the audit as any issues may arise. The policies and procedures at both the group engagement team’s firm and the component auditor’s firm also play a significant role, in particular when both firms are members of the same network with a common methodology. On the other hand, when the component auditor is from a non-network firm, without additional guidance, it is difficult to envisage how certain of the requirements can be practically undertaken by the group engagement partner, for example understanding results of monitoring and remediation of a non-network firm (paragraph 39 of the proposed QM SAS). In such circumstances, we believe there may be conflicts with national laws or regulations governing confidentiality and potential limitations on what can reasonably be expected to be shared with the engagement leader, in particular about another firm’s SoQM.

As another example, paragraph 35 of the proposed SAS requires the engagement partner to determine that members of the engagement team have undertaken appropriate consultation during the audit engagement and that conclusions have been agreed and implemented. It is not practicable to expect that the group engagement partner would be aware of how the component auditor’s firm sets out consultation requirements nor whether individuals within the component audit team have followed those requirements and appropriately executed the consultation. In a complex group audit, this could extend to a number of matters. Rather, the principle of shared accountability would suggest that the component partner make an assertion to this effect (i.e., thereby providing information to the group engagement partner to be used in making this determination). We have similar concerns with paragraph 38 in relation to differences of opinion at the component level. We are concerned that without additional implementation guidance suggesting how such requirements can be practically implemented, auditors may become unduly focused on less important matters at the expense of audit quality.

Definition of engagement team

We understand that, in the context of a group audit, the revised definition of engagement team is intended to scope in all individuals involved in performing work at components of the group (i.e., component auditor teams, which would include individuals from network

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			and non-network component auditors). We believe this has significant implications for the expectations of a group engagement partner that we do not believe have been sufficiently evaluated.	
104	161	QM SAS\Par. A90-A94	Consideration should also be given to adding an example specific to group audits, to explain how the group engagement partner needs to seek assistance from the component partner and describe the role the component audit firm’s policies and procedures play. We are not proposing a suggestion here as such guidance will depend on how ISA 600 is drafted, including how the concepts such as the component auditor’s written acknowledgment of the group audit instructions and the component auditor’s overall summary memorandum or report describing the work performed and the results thereof are articulated.	No change; because such guidance depends on how 600 is drafted, this suggestion will be provided to the Group Audits Task Force.
105	161	QM SAS\Par. A90-A94	<p>Discussion of significant judgments</p> <p>We agree that the engagement partner would ordinarily review the most critical areas of judgment related to a specific audit engagement, including those relating to difficult or contentious matters, understanding that firm policies and procedures may allow auxiliary partners to perform detailed reviews of significant judgments (including at components). We agree with the guidance in paragraph A92 of the proposed SAS that the firm’s policies or procedures may specify certain matters that are commonly expected to be significant judgments - this is often the case to drive consistency in execution. Paragraph A92 also appropriately recognizes that the engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. It is important that the proposed SAS notes that whether or not the examples in paragraph A92 are significant judgments will also depend on the facts and circumstances of the engagement. See drafting suggestions in Appendix 2. This flexibility will also be important from the perspective of engagement quality reviews as described in our response to Question 3.</p>	See row 109.
106			<p>Documentation</p> <p>We believe there is a significant risk of confusion and inconsistent application of the requirements due to the use of the term “determine” within the requirements. In certain cases, the “determination” appears to be a “stand back requirement” or a “final consideration.” From the use of this terminology, the extent of documentation required to support the engagement partner’s determination, and how that should be evidenced within the audit workpapers, is unclear. We believe that additional application guidance in relation to specific requirements would be helpful as to how the engagement partner or the</p>	Noted for implementation and application guidance.

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engagement team more broadly may be reasonably expected to evidence their determination within the audit file on these key matters. We are concerned that the use of terminology like “determine” or “evaluate” will result in an expectation that detailed documentation will be included, which may not improve quality. This concern is not specific to the proposed SAS, and suggests the ASB may need to more fundamentally revisit how documentation requirements are explained in the AU-Cs, as this has been highlighted as a concern from a scalability perspective.

To illustrate, paragraph 4 requires the engagement team to determine whether to design and implement responses at the engagement level beyond those in the firm’s policies and procedures. As currently worded, such a determination may imply that the engagement partner documents a specific conclusion that no additional responses beyond the firm’s policies and procedures are necessary. For example, in accordance with paragraph 36:

Where an engagement quality review is required, is there an expectation that the determination that an engagement quality reviewer has been appointed include a specific requirement for the engagement partner to document the rationale for the appointment, rather than relying on the firm’s policies and procedures alone?

Correspondingly, if an engagement does not meet the firm’s criteria for an engagement quality review, the requirements in paragraph 4 may suggest that the engagement partner would need to explicitly document the factors taken into account in considering whether to request an engagement quality reviewer be assigned.

We also suggest more guidance is needed to clarify what evidence would need to be documented to support the engagement partner’s determination in accordance with paragraph 40 that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement, and the nature and circumstances of the audit engagement, any changes thereto, and the firm’s related policies or procedures have been taken into account in complying with the requirements of the proposed SAS. We believe the audit file itself will support this determination and the purpose of the requirement is for the engagement partner to reflect before issuing the audit report, rather than to perform a comprehensive assessment of the engagement or

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			drive additional documentation. The ASB could consider specifically addressing this in paragraph A118 of the proposed QM SAS.	
107	161	QM SAS requirements\ Par. 8-9	<p><u>7A. 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. Ordinarily, the engagement team depends on the firm’s policies and procedures in complying with the requirements of this proposed SAS. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing, and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. [Elevated from paragraphs A4 and A82]</u></p> <p>9. The engagement partner remains ultimately responsible and, therefore, accountable, for compliance with the requirements of this proposed SAS. <u>Engagement teams may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing, or may be performing group audits in accordance with AU-C section 600. Accordingly, the engagement partner may often find it necessary to seek assistance from appropriately skilled or suitably experienced members of the engagement team to fulfill the responsibilities pursuant to this proposed SAS. The phrase “takes responsibility for…” is used for those requirements for which the engagement partner is permitted to assign responsibility for aspects of engagement quality (for example, to seek assistance with direction, supervision, and review of the audit engagement) assign the design or performance of procedures, tasks, or actions to appropriately skilled or suitably experienced members of the engagement team.</u> For other requirements, this proposed SAS expressly intends that the requirement or responsibility be fulfilled by the engagement partner, and <u>In such circumstances, the engagement partner may often need to obtain information from the firm or other members of the engagement team in order to fulfill that responsibility. For example, when other appropriately skilled or suitably experienced engagement team members perform supervisory and review responsibilities (including at a component in the context of a group audit), the engagement partner’s determination takes into account the outcome of those activities.</u> (Ref: Para. A21A–A24) [Note: Concept of seeking assistance from others leveraged from PCAOB AS 1201, additional language added to describe how others are likely to assist in practice, including group audits, material elevated from paragraph A15]</p> <p>Scalability</p>	<p>TF does not agree with moving this material from AM to introductory material. Second sentence would be new.</p> <ul style="list-style-type: none"> • See row below

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			<p><u>9A8.</u> The requirements of this proposed SAS are intended to be applied in the context of the nature and circumstances of each audit. Examples follow:</p> <p>a. When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this proposed SAS are not relevant because they are conditional on the involvement of other members of the engagement team. (Ref: par. A13– A14)</p> <p>b. When an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex (<u>including a group audit</u>), the engagement partner may <u>need to seek assistance from</u> assign the design or performance of some procedures, tasks, or actions to other members of the engagement team <u>to fulfill the responsibilities set out in this proposed SAS.</u> [Edits to align with the concepts in paragraph 9.]</p>	
108	161	QM SAS requirements\Paragraph 25 and AM	<p>Engagement Resources</p> <p>25. The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement and, <u>as necessary, input from others who are assisting with responsibilities for direction, supervision, and review.</u> (Ref: par. A59–A70, A73–A74, and A79) [Edits to align with the concepts in paragraph 9 to highlight the view that input from others will often be necessary, in particular in a group audit.]</p> <p>26. The engagement partner should determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. <u>This determination takes into account the firm's policies and procedures and, as necessary, input from others who are assisting with responsibilities for direction, supervision, and review.</u> (Ref: par. A62 and A71–A74) [Edits to align with the concepts in paragraph 9 to highlight the view that input from others will often be necessary, in particular in a group audit.]</p> <p><i>Sufficient and Appropriate Resources to Perform the Engagement</i> (Ref: par. 25)</p>	<p>Task Force believes that all the edits proposed, in the aggregate, overemphasize the point and could diminish the engagement partner's understanding of their responsibility. Task Force agreed to add first sentence proposed as par. A70A, and noted to address service centers in implementation/application guidance.</p>

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			<p>A70. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm’s related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm’s technological development, implementation, and maintenance programs when using firm-approved technology to perform audit procedures.</p> <p><u>A70A. The engagement partner may often find it necessary to seek assistance from others who are assisting with responsibilities for direction, supervision, and review to make the determinations required by paragraphs 25-27 of the proposed SAS. For example, in the case of a service delivery center, the partner or other senior engagement team member may be best placed to determine whether personnel at the service delivery center have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. If there is a concern with engagement resources at the service delivery center, such concerns would be communicated to the engagement partner and addressed as necessary in accordance with the firm’s policies and procedures.</u></p> <p><u>A70B. Similarly, in the case of a group audit, communication with the partner responsible for overseeing work at the component will likely be necessary to make this determination, for example in the form of an acknowledgment (see also paragraph A76).</u></p>	
109	161	QM SAS \Paragraph 30-34 and AM	<p>30. The engagement partner should determine that the nature, timing, and extent of direction, supervision, and review is (Ref: par. A81–A89 and A94–A97)</p> <ul style="list-style-type: none"> a. planned and performed in accordance with the firm’s policies or procedures, professional standards, and applicable legal and regulatory requirements, and b. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm. <p><u>This determination takes into account, as necessary, input from others who are assisting with responsibilities for direction, supervision and review. [Edits to align with the concepts in paragraph 9 to highlight the view that input from others will often be necessary, in particular in a group audit.]</u></p> <p>The Engagement Partner’s Review (Ref: Par. 30-34)</p>	See comment above. Task Force believes the proposed revisions to application material are too granular.

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A90. As required by AU-C section 300, the engagement partner reviews the overall audit strategy and audit plan. As required by AU-C section 230, the engagement partner documents the date and extent of the review. As noted in paragraph A63, technological resources may be used to effectively manage the audit, for example, a tool that illustrates assigned workflow may evidence the preparation of an appropriate plan for the effective direction, supervision, and review of planned audit procedures.

A91. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation. In conjunction with the firm's policies and procedures, the engagement partner exercises professional judgment in determining the extent of documentation to be reviewed, for example, when determining the nature and extent of the review of component auditor documentation in a group audit.

A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures often may specify certain matters that are commonly expected to be significant judgments, what is expected to be documented in relation to them, and who is expected to review such judgments (including whether others with supervisory responsibilities can assist the engagement partner with their review). Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team. Depending on the facts and circumstances of the engagement, examples follow of matters that may be considered significant judgments include:

[no changes suggested to bulleted list]

A94. The nature, timing, and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm's policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm's policies or procedures may include the following:

- c. Work planned to be performed at an interim date is to be directed, supervised, and reviewed at the same time as the performance of the procedures, rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.

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- d. Certain matters are to be reviewed by the engagement partner, and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.
- When others are permitted to assist the engagement partner with their review of the matters in paragraph 31, how the reviews may be executed, including how technology may be utilized.

A94A. The granularity of reviews by an engagement partner is influenced by the experience of other reviewers and the extent of their review. An engagement partner may make judgments regarding the appropriate extent of assistance requested of other partners in areas of significant judgments in the audit. Such other partners may perform a more detailed review of the underlying audit documentation of the work performed and discuss the outcome of this review with the engagement leader to enable the engagement partners to fulfill the requirement in paragraph 30 of this proposed SAS.

A94B. Similarly, service delivery centers may be used to execute certain components of the audit plan. Where audit work is performed using service delivery centers, firm policies and procedures may provide guidance to assist the engagement partner in satisfying the direction, supervision, and review requirements included in paragraph 31. Consideration of facts and circumstances and the application of firm policies and procedures may assist the engagement partner in determining the nature, timing, and extent of the engagement partner's review.



Proposed Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*

Introduction

Scope of This Proposed Statement on Auditing Standards

1. This proposed Statement on Auditing Standards (SAS) addresses the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements and the related responsibilities of the engagement partner. This proposed SAS also applies, adapted as necessary, to other engagements conducted in accordance with generally accepted auditing standards (GAAS) (for example, a review of interim financial information conducted in accordance with AU-C section 930, *Interim Financial Information*).[□] This proposed SAS is to be read in conjunction with the AICPA Code of Professional Conduct (AICPA code) and other relevant ethical requirements. (Ref: par. A1, A38)

2. Although government audit organizations are subject to the quality control and assurance requirements of Government Auditing Standards and Statements on Quality Management Standards (SQMSs) are not applicable to auditors in government audit organizations¹, this proposed SAS is applicable to auditors in government audit organizations who perform financial audits in accordance with GAAS.

Commented [AG1]: To clarify as requested by NSAA.

The Firm's System of Quality Management and Role of Engagement Teams

3. Under proposed SQMS *A Firm's System of Quality Management* the objective of the firm is to design, implement, and operate a system of quality management for engagements performed by the firm in its accounting and auditing practice that provides the firm with reasonable assurance that (Ref: par. A2–A3)

- a. the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements; and
- b. engagement reports issued by the firm or engagement partners are appropriate in the circumstances.²

4. The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this proposed SAS, for the following: (Ref: par. A4–A11)

- a. Implementing the firm's responses to quality risks (that is, the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm
- b. Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those in the firm's policies or procedures

* All AU-C sections can be found in AICPA *Professional Standards*.

¹ Paragraph 5 of proposed SQMS *A Firm's System of Quality Management*.

² Paragraph 15 of proposed SQMS *A Firm's System of Quality Management*.

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c. Communicating to the firm information from the audit engagement that is required to be communicated by the firm's policies or procedures to support the design, implementation, and operation of the firm's system of quality management.

5. Complying with the requirements in other AU-C sections may provide information that is relevant to quality management at the engagement level. (Ref: par. A12)

6. The public interest is served by the consistent performance of quality audit engagements through achieving the objective of this proposed SAS and other AU-C sections for each engagement. A quality audit engagement is achieved through planning and performing the engagement and reporting on it in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgment and exercising professional skepticism.

7. In accordance with AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*,³ the engagement team is required to plan and perform an audit with professional skepticism and to exercise professional judgment. Professional judgment is exercised in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional skepticism supports the quality of judgments made by the engagement team and, through these judgments, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism, such as unconscious bias or resource constraints. (Ref: par. A33–A36)

Scalability

8. The requirements of this proposed SAS are intended to be applied in the context of the nature and circumstances of each audit. Examples follow:

- When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this proposed SAS are not relevant because they are conditional on the involvement of other members of the engagement team. (Ref: par. A13–A14)
- When an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks, or actions to other members of the engagement team.

The Engagement Partner's Responsibilities

9. The engagement partner remains ultimately responsible and, therefore, accountable, for compliance with the requirements of this proposed SAS. The phrase "take responsibility for..." is used for those requirements for which the engagement partner is permitted to assign the design or performance of procedures, tasks, or actions to appropriately skilled or suitably experienced members of the engagement

³ Paragraphs .17–.18 and .A22–.A31 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

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team. For other requirements, this proposed SAS expressly intends that the requirement or responsibility be fulfilled by the engagement partner, and the engagement partner may obtain information from the firm or other members of the engagement team. (Ref: par. A22–A25)

Effective Date

10. This proposed SAS is effective for engagements conducted in accordance with GAAS for periods beginning on or after [December 15, 2023].[□]

Objective

11. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that

- a. the auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
- b. the auditor's report issued is appropriate in the circumstances.

Definitions

12. For purposes of GAAS, the following terms have the meanings attributed as follows:

Engagement partner.⁴ The partner or other individual appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

Engagement quality review. An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed ~~on or~~ before the ~~date of the~~ engagement report is released.

Engagement quality reviewer. A partner, other individual in the firm, or an external individual appointed by the firm to perform the engagement quality review.

Engagement team. All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external specialist⁵ and internal auditors who provide direct assistance on an engagement.⁶ (Ref: par. A15–A25)

Firm. 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)

Inspection. Inspection is a retrospective evaluation of the adequacy of the firm's quality management policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with them.

Commented [AG2]: Added per comment letter suggestion. In extant.

* This date is provisional but will not be earlier than December 15, 2023.

⁴ *Engagement partner*, *partner*, and *firm* refer to their governmental equivalents when relevant.

⁵ Paragraph .06 of AU-C section 620, *Using the Work of an Auditor's Specialist*, defines the term *auditor's specialist*.

⁶ AU-C section 610, *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance.

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Network. An association of entities ~~that includes one or more firms~~, as defined in “Definitions” (ET section 0.400) in the AICPA ~~cCode of Professional Conduct~~. (Ref: par. A27)

Commented [AG3]: To be more consistent with ET section 0.400.33 wording.

Network firm. A firm or other entity that belongs to a network, as defined in “Definitions” (ET section 0.400) in the AICPA ~~cCode of Professional Conduct~~. References to a *network firm* are to be read hereafter as “another firm or entity that belongs to the same network as the firm.” (Ref: par. A27)

Partner. 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.

Personnel. Partners and staff in the firm.

Professional standards. Standards promulgated by the AICPA Auditing Standards Board or the AICPA Accounting and Review Services Committee under the “General Standards Rule” (ET sec. 1.300.001) or the “Compliance With Standards Rule” (ET sec. 1.310.001) of the AICPA ~~cCode of Professional Conduct~~, or other standard-setting bodies that set auditing and attest standards applicable to the engagement being performed and relevant ethical requirements.

Relevant ethical requirements. Principles of professional ethics and ethical requirements to which the engagement team and engagement quality reviewer are subject, which consist of the AICPA ~~cCode of Professional Conduct~~ together with rules of applicable state boards of accountancy and applicable regulatory agencies that are more restrictive.

Response (in relation to a system of quality management). Policies or procedures designed and implemented by the firm to address one or more quality risks:

- Policies are statements of what should, or should not, be done to address a quality risk or risks. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
- Procedures are actions to implement policies.

Staff. Professionals, other than partners, including any specialist the firm employs.

Requirements

Leadership Responsibilities for Managing and Achieving Quality on Audits

13. The engagement partner should take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasizes the firm’s culture and expected behavior of engagement team members. In doing so, the engagement partner should be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: par. A28–A37)

14. In creating the environment described in paragraph 13, the engagement partner should take responsibility for clear, consistent, and effective actions being taken that reflect the firm’s commitment to quality and that establish and communicate the expected behavior of engagement team members, including emphasizing the following: (Ref: par. A30–A34)

- a. That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level

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- b. The importance of professional ethics, values, and attitudes to the members of the engagement team
 - c. The importance of open and robust communication within the engagement team and supporting the ability of engagement team members to raise concerns without fear of reprisal
 - d. The importance of each engagement team member exercising professional skepticism throughout the audit engagement
15. If the engagement partner assigns the design or performance of procedures, tasks, or actions related to a requirement of this proposed SAS to other members of the engagement team to assist the engagement partner in complying with the requirements of this proposed SAS, the engagement partner should continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team and review of their work. (Ref: par. 9 and A37)

Relevant Ethical Requirements, Including Those Related to Independence

16. The engagement partner should have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: par. A38–A42 and A48)
17. The engagement partner should take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address the following: (Ref: par. A23–A25 and A40–A44)
- a. Identifying, evaluating, and addressing threats to compliance with relevant ethical requirements, including those related to independence
 - b. Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches
 - c. The responsibilities of members of the engagement team when they become aware of an instance of noncompliance with laws and regulations by the entity⁷
18. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner should evaluate the threats by complying with the firm's policies or procedures; using relevant information from the firm, the engagement team, or other sources; and take appropriate action. (Ref: par. A43–A44)
19. The engagement partner should remain alert throughout the audit engagement, through observation and making inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: par. A45)
20. If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, should take appropriate action. (Ref: par. A46)

⁷ See AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

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21. Prior to dating the auditor's report, the engagement partner should take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: par. A38 and A47)

Acceptance and Continuance of Client Relationships and Audit Engagements

22. The engagement partner should determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. (Ref: par. A49–A52, A58)

23. The engagement partner should take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with GAAS and complying with the requirements of this proposed SAS. (Ref: par. A53–A56)

24. If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner should communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: par. A57)

Engagement Resources

25. The engagement partner should determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: par. A59–A70, A73–A74, and A79)

26. The engagement partner should determine that members of the engagement team, and any auditor's external specialists and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: par. A62 and A71–A74)

27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner should take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: par. A75–A78)

28. The engagement partner should take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: par. A63–A69)

Engagement Performance

Direction, Supervision, and Review

29. The engagement partner should take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: par. A80)

30. The engagement partner should determine that the nature, timing, and extent of direction; supervision, and review is (Ref: par. A81–A89 and A94–A97)

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- a. planned⁸ and performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements, and
- b. responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.

31. The engagement partner should review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to (Ref: par. A90–A93)

- a. significant matters;⁹
- b. significant judgments, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
- c. other matters that, in the engagement partner's professional judgment, are relevant to the engagement partner's responsibilities.

32. On or before the date of the auditor's report, the engagement partner should determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. (Ref: par. A90–A94)

33. Prior to dating the auditor's report, the engagement partner should review the financial statements and the auditor's report, including, if applicable, the description of the key audit matters¹⁰ and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.¹¹

34. The engagement partner should review, prior to their issuance, formal written communications to management, those charged with governance, or regulatory authorities. (Ref: par. A98)

Consultation

35. The engagement partner should (Ref: par. A99–A102)

- a. take responsibility for the engagement team undertaking consultation on
 - i. difficult or contentious matters and matters on which the firm's policies or procedures require consultation, and
 - ii. other matters that, in the engagement partner's professional judgment, require consultation;
- b. determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm,
- c. determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted, and

⁸ Paragraph .11 of AU-C section 300, *Planning an Audit of Financial Statements*.

⁹ Paragraph .08 of AU-C section 230, *Audit Documentation*.

¹⁰ See AU-C section 701, *Communicating Key Audit Matters in the Auditor's Report*.

¹¹ See AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, or AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

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- d. determine that conclusions agreed have been implemented.

Engagement Quality Review

36. For audit engagements for which an engagement quality review is required, the engagement partner should (Ref: par. A103)

- a. determine that an engagement quality reviewer has been appointed,
- b. cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so,
- c. discuss significant matters and significant judgments arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer, and
- d. not **date release** the auditor's report until the completion of the engagement quality review. (Ref: par. A104–A106)

Commented [AG4]: To conform with extant

Differences of Opinion

37. If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, including those who provide consultation, the engagement team should follow the firm's policies or procedures for dealing with and resolving such differences of opinion. (Ref: par. A107–A108)

38. The engagement partner should

- a. take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures,
- b. determine that conclusions reached are documented and implemented, and
- c. not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

39. The engagement partner should take responsibility for the following: (Ref: par. A109–A112)

- a. Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm, including, as applicable, the information from the monitoring and remediation process of the network and across the network firms
- b. Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39a and take appropriate action
- c. Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process

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Taking Overall Responsibility for Managing and Achieving Quality

40. Prior to dating the auditor's report, the engagement partner should determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner should determine that (Ref: par. A113–A116)

- the engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
- the nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this proposed SAS.

Documentation

41. In applying AU-C section 230, *Audit Documentation*, the auditor should include the following in the audit documentation:¹² (Ref: par. A117–A120)

- a. Significant issues identified, relevant discussions with personnel, and conclusions reached with respect to
 - i. fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence
 - ii. the acceptance and continuance of the client relationship and audit engagement
- b. The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented
- c. If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed ~~on or~~ before the date-release of the auditor's report

Application and Other Explanatory Material

Scope of This Proposed SAS (Ref: par. 1)

A1. This proposed SAS applies to all audits of financial statements, including audits of group financial statements. AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. AU-C section 600 also provides guidance on how to adapt and apply the requirements of this proposed SAS in an audit of group financial statements involving component auditors. AU-C section 600, adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, AU-C section 600 may be useful when involving such an individual to attend a physical inventory count; inspect property, plant, and equipment; or perform audit procedures at a shared service center at a remote location.

The Firm's System of Quality Management and Role of Engagement Teams (Ref: par. 3–9)

A2. Proposed SQMS *A Firm's System of Quality Management* addresses a firm's responsibilities for designing, implementing, and operating its system of quality management.

¹² Paragraphs .08–.11 of AU-C section 230.

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A3. Firms may use different terminology or frameworks to describe the components of the system of quality management.

The Engagement Team’s Responsibilities Relating to the Firm’s System of Quality Management (Ref: par. 4)

A4. 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 A *Firm’s System of Quality Management*, 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 experts in specific engagements to perform audit procedures related to particular matters (for example, the firm may specify that firm-designated credit-risk modeling experts are to be involved in auditing expected credit loss allowances in audits of financial institutions).

A5. Firm-level responses 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 *Firm’s System of Quality Management* within the “Network Requirements or Network Services” section).¹³ 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 *Firm’s System of Quality Management*, 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.¹⁴

A6. Some firm-level responses to quality risks are not performed at the engagement level but are, nevertheless, relevant when complying with the requirements of this proposed SAS. For example, firm-level responses that the engagement team may be able to depend on when complying with the requirements of this proposed SAS include

- personnel recruitment and professional training processes,
- the IT applications that support the firm’s monitoring of independence,
- the development of IT applications that support the acceptance and continuance of client relationships and audit engagements, and
- the development of audit methodologies and related implementation tools and guidance.

A7. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement team exercises

¹³ Paragraph 50b of proposed SQMS A *Firm’s System of Quality Management*.

¹⁴ Paragraph 50a of proposed SQMS A *Firm’s System of Quality Management*.

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professional judgment in determining whether to design and implement responses, beyond those set forth in the firm's policies or procedures, at the engagement level to meet the objective of this proposed SAS.¹⁵

A8. The engagement team's determination of whether engagement-level responses are necessary (and, if so, what those responses are) is influenced by the requirements of this proposed SAS, the engagement team's understanding of the nature and circumstances of the engagement, and any changes during the audit engagement. For example, unanticipated circumstances may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available by the firm.

A9. The relative balance of the engagement team's efforts to comply with the requirements of this proposed SAS (that is, between implementing the firm's responses and designing and implementing engagement-specific responses beyond those set forth in the firm's policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (for example, an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement team's actions in complying with the engagement performance requirements of this proposed SAS may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (for example, planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs).

A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this proposed SAS, unless

- the engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement, or
- information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise (for example, information provided by the firm's monitoring activities, external inspections, or other relevant sources indicates that the firm's policies or procedures are not operating effectively).

A11. If the engagement partner becomes aware (including by being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement or the engagement partner is unable to depend on the firm's policies or procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph 39c because such information is relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit software program has a security weakness, timely communication of such information to the appropriate personnel enables the firm to take steps to update and reissue the audit program. See also paragraph A69 in respect of sufficient and appropriate resources.

Information Relevant to Quality Management at the Engagement Level (Ref: par. 5)

A12. Complying with the requirements in other AU-C sections may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its

¹⁵ AU-C section 200 requires the auditor to exercise professional judgment in planning and performing an audit of financial statements.

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environment required to be obtained under AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, provides information that may be relevant to complying with the requirements of this proposed SAS. Such information may be relevant to the determination of one or more of the following:

- 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 experts to deal with complex matters
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations
- The nature, timing, and extent of review of the work performed by members of the team based on the assessed risks of material misstatement
- The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher

Scalability (Ref: par. 8)

A13. In a smaller firm, the firm's policies or procedures may designate an engagement partner or partners, on behalf of the firm, to design many of the responses to the firm's quality risks because doing so may be a more effective approach to designing and implementing responses as part of the firm's system of quality management. Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence and, rather, independence will be monitored at the individual engagement level by the engagement partner.

A14. The requirements relating to direction, supervision, and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

Definitions

Engagement Team (Ref: par. 12d)

A15. The engagement team may be organized in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organized in groups by the activity they are performing. Regardless of how the engagement team is organized, any individual who performs audit procedures¹⁶ on the audit engagement, excluding an auditor's external specialist¹⁷ and internal auditors who provide direct assistance on an engagement,¹⁸ is a member of the engagement team.

A16. The definition of an *engagement team* focuses on individuals who perform audit procedures on the audit engagement. *Audit evidence*, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.¹⁹ Audit procedures

¹⁶ Paragraph .A44 of AU-C section 500, *Audit Evidence*.

¹⁷ Paragraph .06 of AU-C section 620 defines the term *auditor's specialist*.

¹⁸ AU-C section 610 establishes limits on the use of direct assistance.

¹⁹ Paragraph .A32 of AU-C section 200.

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comprise risk assessment procedures²⁰ and further audit procedures.²¹ As explained in AU-C section 500, *Audit Evidence*, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures, and inquiry, often performed in some combination.²² Other AU-C sections may also include specific procedures to obtain audit evidence, for example, AU-C section 520, *Analytical Procedures*.

A17. Engagement teams include personnel and may also include other individuals who perform audit procedures who are from

- a network firm, or
- a firm that is not a network firm or another service provider.²³

For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count, or inspect physical fixed assets at a remote location.

A18. Engagement teams may also include individuals from service delivery centers who perform audit procedures. For example, it may be determined that specific tasks that are repetitive or specialized in nature will be performed by a group of appropriately skilled personnel; thus, the engagement team includes such individuals. Service delivery centers may be established by the firm, the network, or by other firms, structures, or organizations within the same network. For example, a centralized function may be used to facilitate external confirmation procedures.

A19. Engagement teams may include individuals with expertise in a specialized area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A99–A102.

A20. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.

A21. An internal auditor providing direct assistance and an auditor's external specialist whose work is used in the engagement are not members of the engagement team.²⁴ AU-C sections 610, *Using the Work of Internal Auditors*, and 620, *Using the Work of an Auditor's Specialist*, provide requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external specialist, respectively. Compliance with these AU-C sections requires the auditor to obtain sufficient appropriate audit evidence on the work performed by an internal auditor who is providing direct assistance and perform audit procedures on the work of an auditor's specialist.

The Engagement Partner's Responsibilities (Ref: par. 9, 12d)

A22. When this proposed SAS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the engagement partner may need to obtain information from the firm or other members of the engagement team to fulfill the requirement (for example, information to make the required

²⁰ AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, provides requirements related to risk assessment procedures.

²¹ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

²² Paragraph .A43 of AU-C section 500.

²³ Paragraph 17v of proposed SQMS *A Firm's System of Quality Management*.

²⁴ See paragraphs .12–.13 of AU-C section 620 and paragraphs .20–.24 of AU-C section 610.

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decision or judgment). For example, the engagement partner is required to determine that members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement. To make a judgment on whether the competence and capabilities of the engagement team is appropriate, the engagement partner may need to use information compiled by the engagement team or from the firm's system of quality management.

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: par. 8)

A23. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the audit engagement. Engagement team members from another firm are neither partners nor staff of the engagement partner's firm. As such, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement partner's firm. For example, policies or procedures regarding direction, supervision, and review may be different, particularly when the other firm is in a jurisdiction with a different legal system, language, or culture than that of the engagement partner's firm. Accordingly, when the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures with respect to the work of those individuals.

A24. In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm

- has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes and, therefore, the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or oversight body. Paragraphs 22 and A47–A48 of AU-C section 600 contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
- understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm's training with regard to the firm's policies or procedures for relevant ethical requirements. The firm's policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A25. When firm policies or procedures require specific activities to be undertaken in certain circumstances (for example, consultation on a particular matter), it may be necessary to communicate with individuals who are not personnel about what is expected of them to enable the engagement partner to comply with the firm's policies or procedures. For example, in a group audit engagement, communicating the group auditor's policies and procedures about matters subject to consultation to a component auditor enables the component auditor to determine which identified difficult or contentious matters that are relevant to the group financial statements to bring to the attention of the group engagement team.

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Firm (Ref: par. 12e)

A26. The definition of *firm* in relevant ethical requirements may differ from the definition set out in this proposed SAS.

“Network” and “Network Firm” (Ref: par. 12f–g)

A27. The definitions of *network* or *network firm* in relevant ethical requirements may differ from those set out in this proposed SAS. The AICPA code also provides guidance in relation to the terms *network* and *network firm*. Networks and other network firms may be structured in a variety of ways and are in all cases external to the firm. The provisions in this proposed SAS in relation to networks also apply to any structures or organizations that do not form part of the firm but that exist within the network.

Leadership Responsibilities for Managing and Achieving Quality in Audits (Ref: par. 13–15)

Taking Overall Responsibility for Managing and Achieving Quality

A28. Proposed SQMS *A Firm's System of Quality Management* requires the firm to establish quality objectives that address the firm's governance and leadership that supports the design, implementation, and operation of the system of quality management. The engagement partner's responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. In addressing the requirements in paragraphs 13 and 14 of this proposed SAS, the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through personal conduct and actions (for example, leading by example). A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement.

Scalability

A29. The nature and extent of the actions of the engagement partner to demonstrate the firm's commitment to quality may depend on a variety of factors, including the size, structure, geographical dispersion, and complexity of the firm and the engagement team and the nature and circumstances of the audit engagement. With a smaller engagement team with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

Sufficient and Appropriate Involvement

A30. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including the following:

- Taking responsibility for the nature, timing, and extent of the direction and supervision of the members of the engagement team and the review of their work in complying with the requirements of this proposed SAS
- Varying the nature, timing, and extent of such direction, supervision, and review in the context of the nature and circumstances of the engagement

Communication

A31. Communication is the means through which the engagement team shares relevant information on a timely basis to comply with the requirements of this proposed SAS, thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team or with

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- a. the firm, (for example, individuals performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management),
- b. others involved in the audit (for example, internal auditors who provide direct assistance²⁵ or an auditor's external specialist²⁶), and
- c. parties that are external to the firm (for example, management, those charged with governance, or regulatory authorities).

A32. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the appropriate means of effective communication with the members of the engagement team. For example, to support appropriate direction, supervision, and review, the firm may use IT applications to facilitate the communication between the members of the engagement team when they are performing work across different geographical locations.

Professional Skepticism (Ref: par. 7)

A33. The engagement partner is responsible for emphasizing the importance of each engagement team member exercising professional skepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with AU-C section 300, *Planning an Audit*, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.

A34. Impediments to the exercise of professional skepticism at the engagement level may include the following:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, 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.
- Tight deadlines, which may negatively affect the behavior of those who perform the work as well as those who direct, supervise, and review. For example, external time pressures may create restrictions to analyzing complex information effectively.
- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control, and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate judgments and an informed questioning of management's assertions.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.

²⁵ See paragraph .A47 of AU-C section 610.

²⁶ See paragraphs .11c and .A33 of AU-C section 620.

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- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.

A35. Unconscious or conscious auditor biases may affect the engagement team's professional judgments, including, for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional skepticism and, therefore, the reasonableness of the professional judgments made by the engagement team in complying with the requirements of this proposed SAS, may include the following:

- *Availability bias*, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not
- *Confirmation bias*, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief
- *Groupthink*, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility
- *Overconfidence bias*, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions
- *Anchoring bias*, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed
- *Automation bias*, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions about whether such output is reliable or fit for purpose.

A36. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level may include the following:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement
- Explicitly alerting the engagement team to instances or situations in which vulnerability to unconscious or conscious auditor biases may be greater (for example, areas involving greater judgment) and emphasizing the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement
- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with
- Involving members of the engagement team with specialized skills and knowledge or an auditor's expert to assist the engagement team with complex or subjective areas of the audit
- Modifying the nature, timing, and extent of direction, supervision, or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis, or more in-depth reviews of certain working papers for

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- complex or subjective areas of the audit;
- areas that pose risks to achieving quality on the audit engagement;
- areas with a fraud risk; and
- identified or suspected noncompliance with laws or regulations
- Setting expectations for
 - less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner, and
 - more experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice, or assistance
- Communicating with those charged with governance when management imposes undue pressure, or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: par. 15)

A37. Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks, or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including the following:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof, and to provide any other necessary instructions and relevant information
- Direction and supervision of the assignees
- Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34

Relevant Ethical Requirements, Including Those Related to Independence (Ref: par. 16–21)

Relevant Ethical Requirements (Ref: par. 1, 16–21)

A38. AU-C section 200²⁷ requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of ~~listed entities~~ depository institutions or employee benefit plans. AU-C section 600 includes additional requirements and guidance to those in this proposed SAS regarding communications about relevant ethical requirements with component auditors.

Commented [AG5]: Changed to relevant example

A39. Based on the nature and circumstances of the audit engagement, certain law, regulation, or aspects of relevant ethical requirements, such as those pertaining to noncompliance with laws or regulations, may

²⁷ Paragraphs .16 and .A15–.A21 of AU-C section 200.

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be relevant to the engagement (for example, laws or regulations dealing with money laundering, corruption, or bribery).

A40. The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may do the following:

- Communicate the independence requirements to engagement teams
- Provide training for engagement teams on relevant ethical requirements
- Establish manuals and guides (that is, intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements
- Assign personnel to manage and monitor compliance with relevant ethical requirements (for example, proposed SQMS *A Firm's System of Quality Management* requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements
- Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to
 - communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter
 - communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and, if it is not, address the threat by eliminating it or reducing it to an acceptable level
 - promptly communicate any breaches of the relevant ethical requirements, including those related to independence

A41. The engagement partner may take into account the information, communication, and resources described in paragraph A39 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.

A42. Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in

- drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement, and
- keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

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Identifying and Evaluating Threats to Compliance With Relevant Ethical Requirements (Ref: par. 17–18)

A43. In accordance with proposed SQMS *A Firm's System of Quality Management*, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating, and addressing threats to compliance with the relevant ethical requirements.

A44. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, the AICPA code [ET section 1.295.040] provides safeguards for reducing threats to independence to an acceptable level when performing nonattest services to an attest client.

Commented [AG6]: To replace deleted example from IESBA Code.

Breaches of Relevant Ethical Requirements (Ref: par. 19)

A45. In accordance with proposed SQMS *A Firm's System of Quality Management*, the firm is required to establish policies or procedures for identifying, communicating, evaluating, and reporting of any breaches of relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.

Taking Appropriate Action (Ref: par. 20)

A46. Examples of appropriate actions may include the following:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action.
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor's Report (Ref: par. 21)

A47. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.²⁸ Performing the procedures required by paragraphs 16–21 of this proposed SAS provides the basis for these statements in the auditor's report.

Considerations Specific to Governmental Audit Organizations

A48. Law or regulation may provide safeguards for the independence of governmental audit organizations and the auditors they employ. However, in the absence of law or regulation, governmental audit organizations may establish supplemental safeguards to assist the auditor or audit organization in maintaining independence. Additionally, when law or regulation does not permit withdrawal from the

²⁸ Paragraph .28c of AU-C section 700.

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engagement, the auditor may disclose in the auditor's report the circumstances affecting the auditor's independence.

Acceptance and Continuance of Client Relationships and Audit Engagements (Ref: par. 22–24)

A49. Proposed SQMS *A Firm's System of Quality Management* requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.

A50. Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity and ethical values of the principal owners, key management, and those charged with governance of the entity
- Whether sufficient and appropriate resources are available to perform the engagement
- Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement
- Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement
- Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement

A51. Under proposed SQMS *A Firm's System of Quality Management*, for acceptance and continuance decisions, the firm is required to make judgments about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

A52. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A53. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this proposed SAS and making informed decisions about appropriate courses of action. Such information may include the following:

- Information about the size, complexity, and nature of the entity, including whether it is a group audit, the industry in which it operates, and the applicable financial reporting framework
- The entity's timetable for reporting, such as at interim and final stages
- In relation to group audits, the nature of the control relationships between the parent and its components
- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised, and reviewed

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A54. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other AU-C sections, as well as this proposed SAS, for example, with respect to the following:

- Establishing an understanding of the terms of the audit engagement, as required by AU-C section 210, *Terms of Engagement*²⁹
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with AU-C section 315 and AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*
- Understanding the group, its components, and their environments, in the case of an audit of group financial statements in accordance with AU-C section 600, and directing, supervising, and reviewing the work of component auditors
- Determining whether, and how, to involve an auditor's specialist in accordance with AU-C section 620
- The entity's governance structure in accordance with AU-C section 260, *The Auditor's Communication With Those Charged With Governance*, and AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*

A55. Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected noncompliance with laws and regulations to the proposed successor auditor.

A56. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.

A57. In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (for example, the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or is not satisfied that the matter has been appropriately resolved, the firm's policies or procedures for resolving differences of opinion may be applicable.

Considerations Specific to Governmental Audit Organizations (Ref: par. 22–24)

A58. When the auditor is a government audit organization, the auditor may be appointed in accordance with law or regulation, and the auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 22–24 and A48–A56 may be valuable to such auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: par. 25–28)

A59. Under proposed SQMS A *Firm's System of Quality Management*, the resources assigned or made available by the firm to support the performance of audit engagements include

- human resources,

²⁹ Paragraph .09 of AU-C section 210, *Terms of Engagement*.

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- technological resources, and
- intellectual resources.

A60. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation, or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group engagement team.³⁰ In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

A61. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

Human Resources

A62. Human resources include members of the engagement team (see also paragraphs A5 and 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.

Technological Resources

A63. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological resources may include tools that allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends, or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional skepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of technological resources may, however, increase the risk of overreliance on the information produced for decision-making purposes or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.

A64. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm-approved technological tools to perform audit procedures and may require, depending on the tool used, the involvement of individuals with specialized skills or expertise in evaluating or analyzing the output.

A65. When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, communications with those individuals may indicate that the use of such automated tools and techniques needs to comply with the engagement team's instructions.

A66. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (for example, software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm-approved to determine it is appropriate for use, for example, by requiring

- the engagement team to have appropriate competence and capabilities to use the technological resource.

³⁰ See paragraph .03 of AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*.

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- testing of the operation and security of the IT application.
- specific documentation to be included in the audit file.

A67. The engagement partner may exercise professional judgment in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application that has not been specifically approved for use by the firm is appropriate for use in the audit engagement include whether

- use and security of the IT application complies with the firm's policies or procedures.
- the IT application operates as intended.
- personnel have the competence and capabilities required to use the IT application.

Intellectual Resources

A68. Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists, or forms.

A69. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, law and regulation, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry-specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: par. 25)

A70. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily, the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation, and maintenance programs when using firm-approved technology to perform audit procedures.

A70A. The engagement partner may find it necessary to seek input from others with responsibilities for direction, supervision, and review to make the determinations required by paragraphs 25-27 of this proposed SAS.

Commented [AG7]: From PwC letter

Competence and Capabilities of the Engagement Team (Ref: par. 26)

A71. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's

- understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- understanding of professional standards and applicable legal and regulatory requirements.
- expertise in specialized areas of accounting or auditing.
- expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
- knowledge of relevant industries in which the entity being audited operates.

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- ability to exercise professional skepticism and professional judgment.
- understanding of the firm's policies or procedures.

A72. Internal auditors and an auditor's external specialist are not members of the engagement team. AU-C section 610³¹ and AU-C section 620³² include requirements and guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external specialist, respectively.

Project Management

A73. In situations in which there are many engagement team members, for example, in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialized skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

A74. Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example

- increasing the engagement team's ability to exercise professional skepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional skepticism;
- facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- monitoring the progress of the audit against the audit plan,³³ including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources; or
- facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: par. 27)

A75. Proposed SQMS A *Firm's System of Quality Management* addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognizes and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. Proposed SQMS A *Firm's System of Quality Management* also addresses the firm's responsibilities for planning for resource needs and obtaining, allocating, or assigning resources in a manner that is consistent with the firm's commitment to quality. However, in certain circumstances, the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.

A76. In an audit of group financial statements, when there are insufficient or inappropriate resources in relation to work being performed at a component by a component auditor, the engagement partner may discuss the matter with the component auditor, management, or the firm to make sufficient and appropriate resources available.

A77. The engagement partner's determination of whether additional engagement level resources are

³¹ Paragraph .13 of AU-C section 610.

³² Paragraph .09 of AU-C section 620.

³³ See paragraph .09 of AU-C section 300.

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required is a matter of professional judgment and is influenced by the requirements of this proposed SAS and the nature and circumstances of the audit engagement. As described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39c. For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures regarding recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.

A78. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include the following:

- Changing the planned approach to the nature, timing, and extent of direction, supervision, and review (see also paragraph A94)
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement
- Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation

Considerations Specific to Audits of Governmental Entities (Ref: par. 25–28)

A79. For audits of governmental entities, competence may include skills that are necessary to comply with applicable law or regulation, such as knowledge of *Government Auditing Standards* and an understanding of the applicable reporting requirements, including reporting to the legislature or other governing body or reporting in the public interest. The scope of a governmental audit may include, for example, additional requirements with respect to detecting misstatements that result from violations of provisions of contracts or grant agreements that could have a direct and material effect of the determination of financial statement amounts or the need to examine and report on internal control over financial reporting or compliance.

Engagement Performance

Scalability (Ref: par. 29)

A80. When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's overall responsibility for managing and achieving quality on the audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing, and extent of direction, supervision, and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.

Direction, Supervision, and Review (Ref: par. 30)

A81. Under proposed SQMS A *Firm's System of Quality Management*, the firm is required to establish a quality objective that addresses the nature, timing, and extent of the direction and supervision of engagement teams and review of their work. Proposed SQMS A *Firm's System of Quality Management*

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also requires that such direction, supervision, and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised, and reviewed by more experienced engagement team members.

A82. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing, and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision, and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm's policies or procedures and engagement-specific responses.

A83. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this proposed SAS and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.

A84. Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision, and review in accordance with paragraph 30.

Direction

A85. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as the following:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication, and actions
- Maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional skepticism when gathering and evaluating audit evidence (see paragraph A354)
- Fulfilling relevant ethical requirements
- The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement
- The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise, and review the work of less experienced engagement team members
- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing, and extent of planned audit procedures as set forth in the overall audit strategy and audit plan
- Addressing threats to the achievement of quality, and the engagement team's expected response, for example, the threat that budget constraints or resource constraints result in the engagement team members inappropriately modifying planned audit procedures or failing to perform planned audit procedures

Commented [AG8]: To correct

Supervision

A86. Supervision may include matters such as the following:

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- Tracking the progress of the audit engagement, which includes monitoring
 - the progress against the audit plan;
 - whether the objective of work performed has been achieved; and
 - the ongoing adequacy of assigned resources
- Taking appropriate action to address issues arising during the engagement, including, for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies
- Creating an environment where engagement team members raise concerns without fear of reprisals

Review

A87. Review of the engagement team's work provides support for the conclusion that the requirements of this proposed SAS have been addressed.

A88. Review of the engagement team's work consists of consideration of whether, for example

- the work has been performed in accordance with the firm's policies or procedures, professional standards, and applicable legal and regulatory requirements;
- significant matters have been raised for further consideration;
- appropriate consultations have taken place, and the resulting conclusions have been documented and implemented;
- there is a need to revise the nature, timing, and extent of work performed;
- the work performed supports the conclusions reached and is appropriately documented;
- the evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and
- the objectives of the audit procedures have been achieved.

A89. The firm's policies or procedures may contain specific requirements regarding

- the nature, timing, and extent of review of audit documentation;
- different types of review that may be appropriate in different situations (for example, review of each individual working paper or selected working papers); and
- which members of the engagement team are required to perform the different types of review.

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The Engagement Partner's Review (Ref: par. 30–34)

A90. As required by AU-C section 300, the engagement partner reviews the overall audit strategy and audit plan.³⁴ As required by AU-C section 230, the engagement partner documents the date and extent of the review.³⁵

A91. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation. The engagement partner exercises professional judgment in determining the extent of documentation to be reviewed, for example, when determining the nature and extent of the review of component auditor documentation in a group audit.

A92. The engagement partner exercises professional judgment in identifying the areas of significant judgment made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgments. Significant judgments in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement, and the overall conclusions reached by the engagement team. Examples follow:

- Matters related to planning the engagement, such as matters related to determining materiality
 - The composition of the engagement team, including
 - personnel using expertise in a specialized area of accounting or auditing
 - the use of personnel from service delivery centers
 - The decision to involve an auditor's specialist, including the decision to involve an external specialist
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information
- The engagement team's risk assessment process, including situations in which consideration of inherent risk factors and the assessment of inherent risk requires significant judgment by the engagement team
- The engagement team's consideration of related party relationships and transactions and disclosures
- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions concerning certain accounting estimates, accounting policies, or going concern considerations
- The engagement team's evaluation of the work performed by specialists and conclusions drawn therefrom
- In group audit situations
 - the proposed overall group audit strategy and group audit plan;

³⁴ Paragraph .11 of AU-C section 300, as amended by this proposed SAS.

³⁵ Paragraph .09c of AU-C section 230.

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- decisions about the involvement of component auditors, including how to direct and supervise them and review their work, including, for example, when there are areas of higher assessed risk of material misstatement of the financial information of a component; and
- the evaluation of work performed by component auditors and the conclusions drawn therefrom
- How matters affecting the overall audit strategy and audit plan have been addressed
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement
- The proposed audit opinion and matters to be communicated in the auditor’s report, for example, key audit matters, or a “Material Uncertainty Related to Going Concern” paragraph.

A93. The engagement partner exercises professional judgment in determining other matters to review, for example, based on

- the nature and circumstances of the audit engagement.
- which engagement team member performed the work.
- matters relating to recent inspection findings.
- the requirements of the firm’s policies or procedures.

Nature, Timing, and Extent

A94. The nature, timing, and extent of the direction, supervision, and review are required to be planned and performed in accordance with the firm’s policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm’s policies or procedures may include the following:

- Work planned to be performed at an interim date is to be directed, supervised, and reviewed at the same time as the performance of the procedures, rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.
- Certain matters are to be reviewed by the engagement partner, and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.

Scalability

A95. The following are examples of factors that may influence the firm’s approach to direction, supervision, and review:

- The engagement team member’s previous experience with the entity and the area to be audited. For example, if the work related to the entity’s information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less, and the review of the related working papers may be less detailed.

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- The complexity of the audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater, and the review of the related working papers may be more detailed.
- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.
- The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
- The structure of the engagement team and the location of engagement team members. For example, direction and supervision of individuals located at service delivery centers and the review of their work may
 - be more formalized and structured than when members of the engagement team are all situated in the same location, or
 - use IT to facilitate the communication between the members of the engagement team.

A96. Identification of changes in the engagement circumstances may warrant reevaluation of the planned approach to the nature, timing, or extent of direction, supervision, or review. For example, if the assessed risk of material misstatement at the financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

A97. In accordance with paragraph 30b, the engagement partner is required to determine that the approach to direction, supervision, and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Review of Communications to Management, Those Charged With Governance, or Regulatory Authorities (Ref: par. 34)

A98. The engagement partner uses professional judgment in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

Consultation (Ref: par. 35)

A99. Proposed SQMS *A Firm's System of Quality Management* requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may be appropriate or required, for example, for

- issues that are complex or unfamiliar (for example, issues related to an accounting estimate with a high degree of estimation uncertainty);

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- significant risks, ~~such as those that required significant auditor attention;~~
- significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual;
- limitations imposed by management; and
- noncompliance with laws or regulations.

Commented [AG9]: This is no longer the definition of significant risk, with the issuance of SAS 142 and 145.

A100. Effective consultation on significant technical, ethical, and other matters within the firm or, where applicable, outside the firm, may be achieved when those consulted

- are given all the relevant facts that will enable them to provide informed advice and
- have appropriate knowledge, seniority, and experience.

A101. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, in areas where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies, or commercial organizations that provide relevant quality control services.

A102. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.³⁶

Engagement Quality Review (Ref: par. 36)

A103. Proposed SQMS *A Firm's System of Quality Management* contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with proposed SQMS *Engagement Quality Reviews*³⁷ and requiring an engagement quality review for certain types of engagements.³⁸ Proposed SQMS *Engagement Quality Reviews* deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

Completion of the Engagement Quality Review Before Dating of the Auditor's Report (Ref: par. 36d)

A104. AU-C section 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.³⁹ If applicable to the audit engagement, proposed SQMS *Engagement Quality Reviews* and this proposed SAS require that the engagement partner be precluded from ~~dating-releasing~~ the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgments made by the engagement team or that the conclusions reached thereon were not appropriate, then the engagement quality review is not complete.⁴⁰

A105. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.

A106. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality

³⁶ Paragraphs .09 and .A13b of AU-C section 701.

³⁷ Proposed SQMS *Engagement Quality Reviews*.

³⁸ Paragraph 35f of proposed SQMS *A Firm's System of Quality Management*.

³⁹ Paragraph .43 of AU-C section 700.

⁴⁰ Paragraph 21b of proposed SQMS *Engagement Quality Review*.

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review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.

Differences of Opinion (Ref: par. 37–38)

A107. Proposed SQMS *A Firm's System of Quality Management* requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management. Proposed SQMS *A Firm's System of Quality Management* also requires that differences of opinion are brought to the attention of the firm and resolved. For example, a component auditor may be instructed to communicate differences of opinion to the group engagement team.

A108. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example

- seeking legal advice or
- withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Monitoring and Remediation (Ref: par. 39)

A109. Proposed SQMS *A Firm's System of Quality Management* sets out requirements for the firm's monitoring and remediation process. Proposed SQMS *A Firm's System of Quality Management* requires the firm to communicate to engagement teams information about the firm's monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities. Further, information provided by members of the engagement team may be used by the firm in the firm's monitoring and remediation process, and exercising professional judgment and professional skepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.

A110. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office, or inspection results of previous audits of the entity.

A111. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that

- an auditor's specialist is needed, or
- the nature, timing, and extent of direction, supervision, and review needs to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (for example, if it relates to a technological resource that the engagement team did not use), then no further action may be needed.

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A112. A deficiency in the firm's system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements or that the auditor's report was not appropriate in the circumstances.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: par. 40)

A113. Proposed SQMS *A Firm's System of Quality Management* requires the firm to establish a quality objective addressing the engagement team's understanding and fulfillment of their responsibilities in connection with the engagement. Proposed SQMS *A Firm's System of Quality Management* further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.

A114. Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this proposed SAS, given the nature and circumstances of the audit engagement and how the audit documentation evidences the engagement partner's involvement throughout the audit engagement, as described in paragraph A118.

A115. Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example, the following:

- Lack of timely review by the engagement partner of the audit engagement planning, including reviewing the assessment of risks of material misstatement and the design of those responses to those risks towards the end of the audit
- Evidence that assignees were not provided necessary instructions and relevant information, such as not being adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof
- A lack of evidence of the engagement partner's direction and supervision of the other members of the engagement team and the review of their work

A116. If the engagement partner's involvement does not provide the basis for determining that the significant judgments made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. In addition to ~~considering applying~~ firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example

- updating and changing the audit plan;
- reevaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
- consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: par. 41)

A117. In accordance with AU-C section 230,⁴¹ audit documentation provides evidence that the audit complies with GAAS. However, it is neither necessary nor practicable for the auditor to document every

⁴¹ Paragraph .A9 of AU-C section 230.

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matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A118. Documentation of the performance of the requirements of this proposed SAS, including evidencing the involvement of the engagement partner and the engagement partner's determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. Examples follow:

- Direction of the engagement team can be documented through sign-offs of the audit plan and project management activities.
- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency, and effectiveness of the engagement partner's communications and other actions regarding culture and expected behaviors that demonstrate the firm's commitment to quality.
- Agendas from discussions between the engagement partner and other members of the engagement team and, when applicable, the engagement quality reviewer, and related sign-offs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team.
- Sign-offs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A119. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional skepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 24), the documentation may include explanations of how the engagement team dealt with the circumstance.

A120. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of

- the nature and scope of the issue on which consultation was sought, and
- the results of the consultation, including any decisions taken, the basis for those decisions, and how they were implemented.