

QM 1 Detailed Comments¹

Row	CL	Par.	Feedback	Task Force Comment
1	121	overall	1b. We agree with the fundamental aspects of the proposed SQMS No.1, including the components of the system of quality management and the integration of the components. We appreciate the changes to expand resources to include technological and intellectual resources, the emphasis on the responsibility of firm leadership for proactively managing quality, the importance of a continuous flow of information and communication, more robustly addressing monitoring activities and understanding network requirements.	Noted
2	144	overall	I generally feel that the new and enhanced components are reasonable. The suggestion of implementation guidance related to monitoring and remediation would be greatly appreciated.	Noted
3	089	overall	The committees felt that the requirements and application material are generally clear, with the exception of comments on specific sections as listed below. With the newness of this approach for many firms, additional non-authoritative guidance, training and practice aids on how to do a risk-based approach will be important. Resources will need to be developed that include directional advice for firms of various sizes to assist in complying with the requirements.	Noted
4	160	Note	<p>The proposed standards include several paragraphs that reference the proposed QM SAS standard and other audit related guidance for the relevant topics. I suspect this is the case because auditing standards address those elements in its literature, while other standards do not.</p> <p>I believe quality management standards should be an overarching set of standards that are applicable to all levels of service. In areas such as partner involvement, partner responsibilities, and independence, discussion is presented that only indicates applicability to audit engagements. I believe these concepts are relevant to all levels of service and the materials should address the concepts in that fashion. Given my view that QM standards are overarching, there is no need to have these elements addressed in the</p>	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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			separate standards, unless there is a specific additional need under that level of service. QM standards should indicate the concept that applies to all engagements and need not reference other standards. This would make it less confusing for practitioners and help achieve a higher level of quality.	
5	143	1	<p>Paragraph 1 D&T believes that the reference to “its” in the first scope paragraph should be clarified, as it is not otherwise immediately apparent whose accounting and auditing practice is being referenced.</p> <p>1. This proposed Statement on Quality Management Standards (SQMS) deals with a firm’s responsibilities to design, implement, and operate a system of quality management for its <u>the firm’s</u> accounting and auditing practice.</p>	Consistent with extant use of “its”; no change.
6	061	3	SQMS No. 1, paragraphs 3, A98, and A100, address partner involvement through reference to auditing standards, presumably due to the inclusion of such relevant guidance in those standards, and a lack thereof in other standards. However, this gives the implication that those concepts are only relevant to audit engagements. We believe those three paragraphs should be removed as the quality management standards do not need to replicate other standards. Instead, we believe SQMS No. 1 is an independent standard that applies to all engagements, as indicated in paragraph 6. Verbiage should be added instead to emphasize that matter and provide guidance for all engagements.	Moved paragraph A1 into par. 3 to counterbalance.
7	074	5	However, we suggest the ASB explicitly address the likelihood that government audit organizations performing audits in accordance with Governmental Auditing Standards (i.e., Yellow Book) will follow the Government Accountability Office’s (GAO) quality management (QM) standards, instead of both the GAO’s QM and the ASB’s proposed SQMS: A Firm’s System of Quality Management. Because GAO does not incorporate by reference the ASB’s quality management standards, we suggest the ASB address in the scope (or application guidance for the scope) for the government environment that government audit organizations, for example, need not apply the ASB QM standard when the government audit organization is required by law, rule, regulation, or policy to follow the GAO quality control standards in the Yellow Book. The reason for this exemption is that complying with both QM standards (GAO and ASB) could be inconsistent and overly burdensome. As an analogy, COSO and Green Book are both listed as acceptable internal control frameworks for which the ASB recommends following one framework, not both (even though they are consistent).	Par. 5 states that government audit organizations don’t have to follow SQMS 1 or SQMS 2.
8	143	5	The bullets below describe our comments relating to the application of the proposed QM standards within the context of GAS, including whether there are differences when an	

		<p>engagement is being conducted in accordance with generally accepted government auditing standards (GAGAS) either by a firm or a government audit organization. We believe that, where specific reference is being made to the foundations and principles in GAS or requirements for complying with GAS, it would be appropriate to explicitly footnote the references to the relevant chapters in GAS as issued by the United States Government Accountability Office (GAO). Unless these footnote references are included in proposed SQMS No. 1, the basis for the statements in paragraph 5 of proposed SQMS No. 1 when engagements are being conducted in accordance with GAGAS is unclear. Our recommended changes are provided below.</p> <ul style="list-style-type: none"> • We do not believe it is necessary for the phrase “CPA firms” in paragraph 5 of proposed SQMS No. 1 to be used, as it introduces confusion as to whether the phrase “CPA firm” differs from “firm” as defined in paragraph 17 of proposed SQMS No 1. Further, there is only one instance of the use of the phrase “CPA firm” in the proposed QM standards. Chapter 1.12 of GAS provides examples of the various types of users who may be required to or may elect to use GAGAS, which includes certified public accounting firms. Consequently, providing the appropriate reference to GAS provides sufficient context for the use of “firm.” Our recommended changes are provided below. • Paragraph 5 of proposed SQMS No. 1 notes that the “proposed SQMS applies to audit and attestation engagements performed by CPA firms in accordance with Government Auditing Standards.” While it is clear in chapter 5 that GAS sets quality control and assurance requirements for [government] audit organizations conducting engagements in accordance with GAGAS, it is not as clear as to the applicability of proposed SQMS No. 1 when the firm is conducting the following engagements in accordance with GAGAS: (a) financial audits, (b) attestation engagements, and (c) reviews of financial statements. Chapters 6.01 and 7.01 in GAS note that GAGAS incorporates by reference the AICPA’s SASs, SSAEs, and AR-C section 90, Review of Financial Statements. Supplemental amendments to proposed SQMS No. 1 specific to paragraph A20 of AU-C section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards, and paragraph 6 of AT-C section 105, Concepts Common to All Attestation Engagements, reference proposed SQMS No. 1, thereby inferring the applicability of the proposed QM standards when an engagement is being conducted by the firm in accordance with GAGAS. 	<ul style="list-style-type: none"> • Agree • This is from extant. No change. • This has been in the QC standards since at least 2006. GAO is not aware of
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			<p>D&T proposes that the ASB collaborate with the GAO to develop a technical interpretation to clearly articulate the applicability of proposed SQMS No. 1 when conducting the aforementioned engagements in accordance with GAGAS. One additional area where clarification is sought pertains to the statement in paragraph 5 of proposed SQMS No. 1 that “[it] does not apply to government audit organizations.” As previously highlighted, chapter 5 of the GAS addresses the quality control and peer review of [government] audit organizations, but it would appear that the GAS professional literature is silent as to the exemption of government audit organizations from proposed SQMS No. 1. D&T recommends that the basis for this statement be provided as a footnote reference. We recommend the following edits be made to paragraph 5 relating to the first and second bullets:</p> <p>5. This proposed SQMS applies to <u>the firm performing financial audits, -and attestation-level examination, review, and agreed-upon procedures engagements or reviews of financial statements performed by CPA firms in accordance with generally accepted Government Auditing Standards (collectively, “engagements conducted in accordance with GAGAS”) (footnote 1, footnote 2).</u> This proposed SQMS does not apply to government audit organizations. Instead, those government audit organizations are subject to the quality control and assurance requirements of Government Auditing Standards <u>(footnote 3).</u></p> <p><u>Footnote 1: Chapter 1.12 b, Government Auditing Standards (GAS).</u></p> <p><u>Footnote 2: Chapter 1.16, GAS.</u></p> <p><u>Footnote 3: Chapter 5, GAS.</u></p> <ul style="list-style-type: none"> • In addition to the edits to paragraph 5 of proposed SQMS No. 1 noted above, we recommend the ASB separately address the observations outlined in the third and fourth bullets regarding the applicability of proposed SQMS No. 1 to firms for engagements conducted in accordance with GAGAS and the basis of the stated exemption of government audit organizations from proposed SQMS No. 1. 	<p>difficulties in practice in applying this.</p>
9	040	10	Paragraph 10 of Proposed Statement on Quality Management Standards (SQMS) No. 1, Quality Management: A Firm’s System of Quality Management, reads as follows	Changed

			<p>(underline added): This proposed SQMS requires that, at least annually, the individuals assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluate the system of quality management and concludes whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 15a–b, are being achieved.</p> <p>The equivalent paragraph 9 in International Standard on Quality Management (ISQM) No. 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, uses “individual(s).” We suggest that the Auditing Standards Board (ASB) add “individual or” in front of “individuals” in paragraph 10 to indicate that this role can be fulfilled by a single person or multiple people, depending on the complexity and size of the specific audit organization. In addition, “evaluate” and “concludes” are plural and singular verbs, respectively, whereas the ISQM No. 1 uses a singular verb in both cases.</p>	
10	143	10	<p>D&T does not believe that it is appropriate to diverge from the International QM standards and only use the plural form of “individual” throughout the proposed QM standards, as the plural form implies that there should be more than one person assigned ultimate responsibility and accountability for the firm’s SQM, and similarly that there should be more than one person assigned operational responsibility for the firm’s SQM. Depending on the organizational structure of the firm, this may or may not be the case. By inferring that multiple individuals are needed to fill these roles, this change has scalability implications that are contrary to the overarching principles followed when developing proposed SQMS Nos. 1 and 2. D&T recommends that all instances of the use of the word “individuals” be identified in proposed SQMS No. 1 and that the wording be aligned with the International QM standards (i.e., revert to a format (“individual(s)”) where such positions may be filled by one or more than one individual).</p>	Agree – changed to “individual or individuals”
11	075	10	<p>During the performance of peer reviews, we have encountered situations where non-A&A partners view their firms quality control policies and procedures as not important and not applicable to them. This creates significant challenges to the appropriate design of and compliance with strong QC policies and procedures.</p> <p>Therefore, we strongly support placing the ultimate responsibility for QM with the managing partner/CEO or equivalent. We understand that some commenters believe it would be a challenge when the CEO is a tax partner, however in this case we think it is</p>	Supportive

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			even more important that ultimate responsibility rest with them so that all firm policies and procedures are supportive and consistent with A&A QM policies and procedures.	
12	078	10	10. This proposed SQMS requires that, at least annually, the individuals assigned ultimate responsibility and accountability for the system of quality management, on behalf of the firm, evaluate the system of quality management and conclude conclude whether the system of quality management provides the firm with reasonable assurance that the objectives of the system, stated in paragraph 15a–b, are being achieved. (Ref: par. A5)	Corrected
13	168	10	Role of managing partner to oversee quality –For firms where audit is not the predominant service area, it may not be practical for the Managing Partner to have “ultimate responsibility” for the firm’s quality control. There are many firms that have significant tax or other non-attest services, and as such, the managing partner may not have the requisite audit technical expertise to oversee firmwide audit quality initiatives. In these instances, the responsibility for managing quality for audits will revert (whether directly or indirectly) back to the audit partner in -charge, who may otherwise be an engagement or service partner. For these instances, it may be appropriate for the standards to enable someone other than the managing partner to act in this capacity. We believe the requirements work for large primarily audit firms, but for firms with smaller audit practices, the added responsibilities to the managing partner may not have any practical effect.	No change. Peer review always interviews managing partner.
14	040	17	<p>We suggest the following items to SQMS No. 1 Definitions in paragraph 17:</p> <ul style="list-style-type: none"> • Include the full definition of “network” as defined in the AICPA Code of Professional Conduct. • Define the term “remediation.” • Provide further clarity as to the meaning “external oversight authority” as used in the definition of external inspections. • Define “inspections.” There are several references to inspections in the requirements and application guidance. However, 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. We suggest the following definition, based on GAGAS paragraph 5.54: 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. 	<ul style="list-style-type: none"> • In extant, no change. • Disagree, plain English • Add examples – Peer Review, DOL... in Par A15 • Agree, in extant

15	078	17	<p>17. For purposes of the SQMSs, the following terms have the meanings attributed as follows:</p> <p>...Deficiency in the firm’s system of quality management (referred to as deficiency in this proposed SQMS). This exists when (Ref: par. A10 and A169–A170)</p> <p>a quality objective required to achieve the objective of the system of quality management is not established;</p> <p>a quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: par. A11)</p> <p>a response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the responses are not properly designed, implemented, or operating effectively; or</p> <p>an other another aspect of the system of quality management is absent, or not properly designed, implemented, or operating effectively, such that a requirement of this proposed SQMS has not been addressed. (Ref: par. A12–A13)...</p>	<p>Changed to be consistent with American English usage.</p>
16	103	17	<p>Definitions</p> <p>The definitions provided in proposed SQMS No. 1 provide an appropriate base for practitioners to begin to establish a sound quality management system. There are a few areas where we believe more guidance would enhance consistency and effective adoption.</p> <p>Under this principles-based model, firms are to define their own quality objectives. The directive and application material included in proposed SQMS No. 1 appear to us as somewhat vague. Additional guidance would improve consistency in the objectives set by each firm.</p> <p>Using a risk assessment model in any risk assessment process is highly subjective, especially given the variability of quality risks among firms and the monitoring of those risks. We believe small firms will find the assessment of quality risk to be the most difficult aspect of the implementation of proposed SQMS No. 1.</p> <p>Without establishing more specific quality objectives in the areas of identification of quality risk, addressing those risks, and monitoring and remediation, significant variability can arise between how firms self-monitor on an annual basis and how peer review will identify a deficiency in a firm’s system of quality management.</p> <p>Changing the terminology from engagement quality control review (EQCR) to engagement quality review (EQR), for the sake of convergence, could be confusing and misleading. Under PCAOB standards the engagement quality review is generally more extensive than an engagement quality control review under extant QC section 10. Small</p>	<p>Noted</p>

			<p>and mid-size firms tend to have a Quality Control or Quality Assurance department or process where they determine the level of review needed on an engagement. In many cases, an independent pre- issuance review of an engagement is performed, not an EQCR, for a variety of reasons including, but not limited to, risk assessment and resource constraints within a firm.</p>	
17	134	17	<ul style="list-style-type: none"> • Engagement team’ We are concerned with the proposed definition of “engagement team.” It is our understanding that the proposed definition of engagement team would include component auditors, which we believe could lead to a variety of operational challenges when applying certain requirements. In particular, we are concerned with the clarity of the requirements, as well as how such requirements would be applied, related to intellectual and technological resources in the context of component auditors some of whom are both engagement team members and service providers. Likewise, we are concerned with the appropriate application of quality management at the engagement level and the extent of the engagement partner’s responsibilities, such as taking responsibility for consultations being undertaken by component auditors and determining that sufficient and appropriate resources are made available to component auditors. While we appreciate some of the additional application guidance that has been added beyond international standards, the requirements themselves are not clear on their own. We understand that the IAASB intends to address the various concerns raised regarding the application of the proposed quality management requirements to component auditors as part of its group audits project. As a result, we encourage ASB members to consider whether waiting for the IAASB to make further progress on its group audits project might help clarify how to apply the proposed quality management standards and requirements at the engagement level. We note, however, that international standards do not allow engagement teams to make reference to a component auditor in the auditor’s report. Accordingly, we believe the ASB needs to decide whether component auditors, when the group auditor makes reference, are in fact members of the engagement team and, based on that conclusion, determine whether additional guidance is necessary. We further believe it is vital that the AICPA’s Professional Ethics Executive Committee (PEEC) deliberate, conclude, and provide guidance on the related independence ramifications of including component auditors as members of the 	<ul style="list-style-type: none"> • ASB considering as part of Group Audit project and will amend QM standards thru that project if necessary.

			<p>engagement team prior to adopting the proposed definition. We do not believe that the independence requirements apply equally to firms and engagement team members who are component auditors.</p> <p>In addition, an incorrect interpretation of what constitutes a “procedure” in this definition could result in diversity in practice and the misapplication of the proposed requirements, such that additional guidance may be warranted. For example, which aspects of an external confirmation constitute the procedure? Absent further clarity of these issues, we believe the proposed definition may have unintended consequences on who is considered a member of the engagement team as well as on the procedures that are required for those individuals. This includes situations that are described in the group audits standard where an auditor may use the work of another auditor (other auditor) that is not a component auditor.</p> <ul style="list-style-type: none"> • ‘Auditor’ To address potential unintended legal consequences arising from network firms and other firms comprising an engagement team under the proposed definition, we suggest that the Board consult with legal counsel as to the proposed change in the definition of engagement team as well as whether there is a need to modify the definition of an “auditor” in the Glossary of Terms in US GAAS. As currently defined, the term “auditor” includes members of the engagement team. With the proposed definition of engagement team, the Board would include component auditors (or other auditors) within the firm’s network and other firms in the proposed definition of auditor. However, references to an “auditor” throughout generally accepted auditing standards (GAAS) have been made historically in the context of the firm and the related engagement team issuing the auditor’s report. Therefore, it might be inappropriate to imply that references to “auditor” throughout GAAS now also include component auditors (or other auditors), as this interpretation could considerably blur the lines of responsibility. In this regard, the definition of “auditor” could be enhanced or clarified to refer to or acknowledge the auditor of the group financial statements. • ‘Deficiency’ We also have concerns about the proposed definition of “deficiency in the firm’s system of quality management” (deficiency) and how this term is intended to interact with the definition of “deficiency” as it appears in paragraph 70b of Standards for Performing & Reporting on Peer Reviews (PRS). The inconsistency 	<ul style="list-style-type: none"> • Group Audit TF will be asked to consider • Group Audit TF to address • Agree; see par. A167A
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			<p>in definitions could lead firms to draw different conclusions in evaluating their systems of quality management and in peer reviewers’ evaluation of such systems. We believe this is a matter to be further discussed with the Peer Review Board (PRB), and we encourage the AICPA to develop guidance for firms and peer reviewers to enhance the understandability and consistency of the terms used. This may further include understanding the PRB’s plans, if any, to revise the PRS and collaborating on key definitions or requirements.</p> <p>We note that some of our comments concern differences that specifically relate to our jurisdiction. In this regard, we continue to encourage the Board to consider differences in our jurisdiction as part of their convergence and harmonization efforts with international standards.</p>	
18	143	17	<ul style="list-style-type: none"> • Accounting and auditing practice – D&T believes that the definition of “accounting and auditing practice” would be improved by referencing the professional standards that are applicable when performing the relevant audit and assurance engagements that are addressed by the proposed QM standards. Given that “professional standards” is also a defined term, it is not necessary to repeat those bodies designated by the AICPA Counsel as having standard-setting authority. <p>In addition, D&T has proposed edits by leveraging words in the definition of “professional services” from the AICPA code. As drafted, the definition of “accounting and auditing practice” is audit-focused and does not reflect all aspects of the accounting practice.</p> <p>Further, D&T recommends that the last sentence of the definition be included as application material, as it is not pertinent to the definition itself.</p> <p>Therefore, the following amendments are proposed to paragraph 17 of proposed SQMS No. 1, as well as corresponding changes throughout the proposed QM standards:</p> <p><i>Accounting and auditing practice.</i> A practice <u>of the firm where the professional services are performed by engagement teams requiring accountancy or related skills. For purposes of the proposed SQMS, professional services are those engagements conducted in accordance with the following suites of professional standards:</u></p> <ul style="list-style-type: none"> ○ <u>Statements on Auditing Standards (SAS).</u> ○ <u>Statements on Standards for Attestation Engagements (SSAE).</u> ○ <u>Statements on Standards for Accounting and Review Services (SSARS).</u> 	<ul style="list-style-type: none"> • Accounting and auditing practice - Agree with mentioning standards; see proposed revisions to par. A9A.

		<p>that performs engagements covered by this section, which are audit, attestation, review, compilation, and any other services for which standards have been promulgated by the AICPA Auditing Standards Board (ASB) 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 Code of Professional Conduct. Although standards for other engagements may be promulgated by other AICPA technical committees, engagements performed in accordance with those standards are not encompassed in the definition of an accounting and auditing practice. <u>(Ref: par. Axx)</u></p> <p><u>Axx. Although standards for other engagements may be promulgated by other AICPA technical committees, engagements conducted in accordance with those standards are not encompassed in the definition of an accounting and auditing practice.</u></p> <ul style="list-style-type: none"> • Network – D&T believes that consideration should be given to including the entire definition of “network” from the AICPA code, but at a minimum, the definition should reference “firms” as it will provide better linkage to the companion definition of “network firm.” D&T recommends the following edits: Network. An association of entities <i>that includes one or more firms</i>, as defined in “Definitions” in the AICPA Code of Professional Conduct (ET section 0.400). • Network Firm – Although D&T agrees with the clarification in the last sentence of the definition of “network firm,” we believe this is best placed in application material. Further, the manner in which the sentence is drafted may lead an individual referencing the proposed QM standards to substitute the phrase “network firm” with the phrase “as another firm or entity that belongs to the same network as the firm” throughout the proposed QM standards. There are, however, instances where the phrase cannot be readily substituted into an existing paragraph — for example, paragraph A21 of proposed SQMS No. 1. D&T recommends the last sentence be redrafted as follows and included as application material: Network firm. A firm or other entity that belongs to a network, as defined in 	<ul style="list-style-type: none"> • Network - Agree with proposed change • Network Firm - Disagree that the phrase can't be substituted in par. A21. Unsure of the ramifications of using “intended to mean” instead of “read as”. No change.
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			<p>“Definitions” in the AICPA Code of Professional Conduct (ET section 0.400). 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. Axx) <u>Axx. Throughout the proposed SQMS, references to a network firm are intended to mean to be read hereafter as “another firm or entity that belongs to the same network as the firm.”</u></p> <ul style="list-style-type: none"> Partner – D&T believes that the penultimate sentence of the definition of “partner” is intended to encompass persons that are “partner equivalents” as defined by the AICPA code. We therefore recommend amending the sentence to reflect the AICPA code. <p>Further, similar to other defined terms that are common to both proposed SQMS No. 1 and the AICPA code, there should be a reference to the applicable section in the AICPA code; otherwise, there will be confusion when considering this defined term in relation to the AICPA code. We propose the following edits: <i>Partner.</i> Any individual with authority to bind the firm with respect to the performance of a professional services engagement. For purposes of this definition, partner encompasses both partner and partner equivalent as defined in “Definitions” in the AICPA Code of Professional Conduct (ET section 0.400) 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.</p>	<ul style="list-style-type: none"> Partner- No change; in extant. Definition of <i>partner equivalent</i> states it is solely for the purpose of applying the “Independence Rule”
19	143	17	<p>Engagement partner – The footnote “Engagement partner, partner, and firm refer to their governmental equivalents when relevant” included in proposed QM SAS was inadvertently omitted from the definition of “engagement partner” in proposed SQMS No. 1. We recommend reinserting it.</p>	No change; not applicable to SQMS1. Consistent with extant.
20	143	17	<p>We believe that the types of engagements managed by the firm’s system of quality management (SOQM) could be more clearly articulated by referring to the professional standards that they are conducted in accordance with, instead of referring to the names of the services performed. D&T understands the need to use the phrase “accounting and auditing practice” throughout the proposed QM standards instead of continually listing all the engagements addressed; however, there may be confusion when referencing certain engagements without providing the necessary context. For example, a reference to “review engagements” may refer to “review engagements conducted in accordance with the Statements on Standards for Attestation Engagements” or “review engagements conducted in accordance with the Statements on Standards for Accounting and Review</p>	No change

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			Services.” Given the importance of having clearly defined parameters for the engagements to which the firm’s SOQM applies, we believe it is simplest to refer to the professional standards (refer Appendix I, response to question 1 for our recommended edits to the definition of “accounting and auditing practice”).	
21	156	17	<ul style="list-style-type: none"> • “Response” vs “Response to quality risk” - Throughout the document the phrase commonly used is “response to quality risk.” We noted a few instances where “response” was used (e.g., A40, A41, A120). For clarity, it would help to use the phrase “response(s) to quality risk” throughout the document. • Throughout the document, there are indexed references (e.g., 17a, 17b, 17c) back to defined terms in paragraph 17. However, paragraph 17 is not referenced in such a manner, thus either the references throughout should be revised to reference paragraph 17 or the terms in paragraph 17 should be indexed 	<ul style="list-style-type: none"> • “Response” is a defined term. “response to quality risk” is not used in the standard (phrase is, appropriately, “response to address quality risk”). No change. • Agree, changed.
22	160	17	<p>The term “public interest,” or close variants, is used throughout the document. I suggest this term be defined in the document and that it should expressly include “client.” ET sections define and differentiate “the public” and “clients” depending on whether discussing the profession or individual members. Most practitioners reading this standard would likely interpret “public interest” to not include clients.</p> <p>Since most firms do not include a true “public” element, they may believe the standards do not apply in the respective cases where that term is used. I believe the standard should stress the importance of applying these standards to all engagements, and the public interest includes clients and colleagues, as Ethics would imply. It should not be left to cross-referencing standards or a separate reading of other standards.</p>	No change; all mentions of public interest appear to have context to them that explains the meaning and/or connections to the ethics standards.
23	026	24	<p>Good session but focus on peer system is separate problem, not root cause of discontent. I believe It is the current lack of information and examples that rile them up. I think the smaller firm is missing the concept of what a principal based system is. We actually envision with a more risk based principal approach we will save time and cut out some of the more mundane EQCR review clients. Currently our policy is all audits, reviews with a guide (i.e. non-profits or say construction) and any new compilation client require an EQCR. Reading the proposal, under a risk based approach we will evaluate the engagement partner, the client sophistication , the length and complexity of our relationship, and any industry issues and then decide if an extra set of eyes are needed. Also currently our policy requires the partner or technical reviewer to</p>	Noted

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			look at every workpaper. Under a principal based risk approach we will evaluate each client separately.	
24	047	24	NASBA agrees in concept with the risk-based approach in the proposed standards and believes the changes will improve audit quality and benefit the public interest.	Noted
25	061	24	SQMS No. 1 makes it clear that a firm should design and implement a risk assessment process to: 1) establish quality objectives, 2) identify and assess quality risks, and 3) design and implement responses to address quality risks. However, practical examples are not present in the guidance. For example, paragraph 25, A43, A44, and A45 address quality objectives but there are no practical examples of a quality objective. It seems the guidance should provide some examples of basic quality objectives, as well as quality risks, to provide firms a starting point for designing a risk assessment process under this new guidance. As written, the guidance is broad and passes the responsibility of establishing a “template” for a risk assessment process to the firms. In the case of small firms, the development of a risk assessment template will likely fall to service providers.	Par. 25 provides ALL the quality objectives. Implementation material will clarify and provide templates.
26	075	24	<p>While we appreciate that the proposed risk assessment process provides scalability to the QM standards, we are very concerned with the ability of smaller firms to perform an appropriate risk assessment. Our concern is not that we think it will be too difficult, but because we understand the lack of resources of smaller firms.</p> <p>Even in firms some would consider “larger”, firm partners are involved in client engagements and cannot afford the significant (non-billable) time it will take to implement these standards properly. In order to make the implementation possible for smaller firms, robust implementation guidance will be necessary. Such implementation guidance needs to include checklists and sample risk assessments/responses. The implementation guidance needs to be scaled to various size firms, from the smallest less complex practice up.</p> <p>Such implementation guidance, from the AICPA and/or third-party providers should be available with sufficient lead time before the effective date. Whether that means moving the effective date out (with early implementation allowed) or having tiered implementation dates is not as important as having the necessary resources in hand with sufficient time to implement effectively.</p>	Noted

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27	077	24	The risk assessment process, as described, provides a scalable and organized approach to establish a firm’s quality objectives, identify and assess risks to the achievement of the quality objectives, and design and implement responses to address the quality risks.	Noted
28	089	24	The committees believe that similar to audits, there should be some presumed risks identified that apply to all firms. Two examples of such risks discussed by the committees as examples to consider include: the risk of override of controls, and the risk of the incapacity of key persons in the system of quality control (including the managing partner, quality control partner, and engagement partner.) Both are frequent reasons for findings of non- conforming engagements in peer review.	Noted for implementation material
29	092	24	In general, we believe the application material is helpful. Additional clarifications, illustrations, or practice aids in the following areas would also be helpful: The Firm’s Risk Assessment Process Illustrations of a risk assessment for a more complex firm. Guidance on the expected extent of documentation. Guidance regarding conditions, events, circumstances, actions, or inactions, if any, that should presumptively be assessed at high for quality risks	Noted
30	094	24	Proposed SQMS No. 1: Requiring and implementing a risk assessment process, prohibiting self- inspection and requiring a cooling off period are our primary concerns within this proposed standard for sole practitioners and small firms. Creating a risk assessment for quality management system with a customized quality management plan is both burdensome and costly for many smaller CPA firms and sole practitioner members and may not result in improved quality of audits. Additionally, assessing the system every two years in addition to the three-year cycle for peer review adds costs and raises the need for the peer review program to be aligned.	Noted
31	100 TIC	24	As noted previously, TIC is supportive of the Board including a risk assessment process within the proposed standards. While we do not have any significant concerns with the risk assessment approach, TIC is concerned there may be diversity in practice when applying this guidance. For example, some firms may identify quality risks at a very high level and others may take a very granular approach. This, in turn, would have an affect on the risk response and ongoing monitoring requirements. To address this concern, TIC encourages the development of a practice aid which includes examples that provide: A brief overview of the type of firm and their operating environment The quality objective being illustrated, with references to the specific paragraphs of the	Noted

			<p>standard</p> <p>Examples of quality risks which may be identified by the firm related to that objective</p> <p>Example of responses to the identified risks</p>	
32	100 TIC	24	<p>TIC appreciates the Board applying a risk-based approach to identify and respond to quality risks, because that approach corresponds with how engagements are performed, which results in harmony between the approaches. However, TIC suggests the Board consider the following revisions to several aspects of the proposed SQMS.</p>	Noted
33	102	24	<p>The proposed SQMS No. 1 sets forth 8 components for a firm's quality management systems.</p> <p>The first component is a risk assessment which requires a firm to perform a tailored risk assessment of its quality risks, considering the firm's nature and circumstance, the firm's engagements to be performed and the barriers to which the firm's specific operations could adversely affect the achievement of the firm's quality objectives. For each quality risk identified, the firm will be required to design and implement a response.</p> <p>Under Paragraph A48 examples of the firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives and related examples of quality risks that may arise are set forth. To paraphrase one example under this paragraph: Example of the Firm's Understanding - The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority. Example of Quality Risks that Might Arise - In the context of governance and leadership, this may give rise to a number of quality risks such as that Leadership's responsibilities and accountability for quality are not clearly defined and assigned and that the actions and behaviors of leadership that do not promote quality are not questioned.</p> <p>Members believe this leadership process will not be instinctive and that small and medium sized firms will find the process hard to implement. This will result in quality management failures.</p> <p>Paragraph A49 provides an additional example of how complex this process could be. Specifically, it explains that responses to quality risks could cause additional quality risks. Members see these additional risks after assessment of the first risks as evidence that</p>	Noted

		<p>this process could be overly complicated.</p> <p>The risk assessment process will need to be ongoing. Firms will need to be aware of potential changes to its quality risks at all time including in the middle of performing engagements. This will be</p> <p>Members further are concerned with how to define systematic causes in order to properly assess and design procedures to overcome any systematic deficiency.</p> <p>Finally members are concerned about how to properly define "risk assessment" and how to document the risk assessment process properly. The documentation process could be viewed as overly complex. Improper documentation will result in quality management failures.</p> <p>Smaller firms monitor their risks in a very different way than larger firms. A smaller firm when assessing engagement level risks during the course of the engagement will address the risk, but not professionally document this. With the peer review mantra of "If it isn't documented it wasn't done" this is akin to "set up to fail" for these firms.</p> <p>Implementation of risk assessment procedures in audits has taken more than a decade including a 3 year "bye" period. Firms will need more than the allotted time for the proper implementation of applying risk assessment to themselves. Many of the difficulties firms confronted in applying the audit procedures will be encountered internally</p>	
34	103	<p>24</p> <p>As noted above, the risk assessment process is highly subjective, which will inevitably result in significant diversity in application, process and results. The diagram on page 10 of proposed SQMS No. 1 provides a good graphic depiction of what a risk assessment process needs to include, but more guidance would prove beneficial to fully execute this process.</p> <p>For consistency and effectiveness, further information on what the risk assessment process should look like and how that process should be documented is needed. We recommend an outlined framework to assist in assessing quality risk objectives, providing a scale (low, medium, high, for example) which would incorporate the factors influencing the auditor’s professional judgment, and a methodology for monitoring at the conclusion of the engagement.</p>	Noted

			<p>Small firms face greater challenges in accomplishing a robust risk assessment process due to their limited resources to develop their own quality management system. These firms could become overly reliant on their third-party providers for sample models.</p> <p>Past peer reviews and other regulator inspections reported that auditors struggle with assessing risks in an audit of financial statements appropriately. Firm objectivity on its own risk assessment will likely be more challenging than the risk assessment performed for an engagement. Without more definitive and clear guidance, we believe firms may not adopt the standards effectively and be set up to fail external monitoring.</p> <p>Quality may be lacking because of poor or uninformed judgment when it comes to risk assessment. A framework that can be reasonably and consistently applied in combination with professional judgment may be necessary for an effective result.</p>	
35	109	24	<p>The Committee supports using a risk assessment process to help customize how firms approach their quality management system. Each firm faces unique challenges based on size, client base, and geographic location. Small firms that serve only nonpublic, nonissuer clients will have a much more simplistic framework than a larger firm that serves public and issuer clients. This problem holds true for niche firms that only serve clients in a specific industry.</p> <p>As auditors, we currently use a risk-based auditing approach to help tailor our audit procedures to the areas most at risk to create a material misstatement on the financials. If we follow this same concept, many firms should reduce the amount of work needed to design and maintain their quality management system (in theory). The Committee's main concern with implementing these new standards is the same issue we faced in developing a risk-based approach to our audits. That concern is related to over- or under-designing the framework of the quality management system. Auditors struggle with how much auditing is too much auditing vs. "have they addressed all risks." Without proper guidance, many firms will try to think of every possibility without determining the quality of the risk. This fear comes from the worry that the firm's peer reviewer will second guess their judgment, resulting in comments or a non-clean peer review report.</p> <p>Peer reviewer training will be crucial to the success of this project. If peer reviewers have the authority to second guess the judgment of the quality management team, the purpose of this proposed change will be lost. Firms will perform a "kitchen-sink" approach vs. a risk-based approach. The program will be more successful if peer reviewers are focused on the process taken and the documentation to support the identified quality risks and corresponding responses.</p>	Noted

			<p>The Committee feels the iterative risk assessment process should emphasize that updating the firm's quality management system should not be overly burdensome while always being aware of new risks or changes to quality risk. If it becomes too onerous to maintain, firms will avoid the process. The guidance should emphasize that as deficiencies are noted through internal or external sources (inspections, changes in IT, etc.), consideration should be given to the need to update a firm's quality management system during the annual update. Of course, if a new quality risk is significant, immediate changes may be required, but those will take time to implement.</p>	
36	110	24	<p>We believe the risk assessment process is a positive change and will result in a more comprehensive quality management system. However, we are concerned that some firms will have a challenge implementing the risk assessment process and we request the ASB to provide additional clarity and examples within the final standard or supplemental practice aids to assist firms of all sizes in applying those requirements.</p>	Noted
37	119	24	<p>The proposed SQMS No. 1 would require a firm to perform a tailored risk assessment of its quality risks, taking into consideration the nature and circumstance of the firm, the engagements performed, and the degree to which these firm-specific factors could adversely affect the achievement of the firm's quality objectives. For each quality risk identified, the firm is required to design and implement a response.</p> <p>Paragraph A48 provides examples of the firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives and related examples of quality risks that may arise. One such example includes the following:</p> <p>The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.</p> <p>In the context of governance and leadership, this may give rise to a number of quality risks such as the following:</p> <p>Leadership's responsibilities and accountability for quality are not clearly defined and assigned.</p> <p>The actions and behaviors of leadership that do not promote quality are not questioned. We do not find this process to be intuitive and believe that many firms will struggle with the process, resulting in many quality management failures. More importantly, we do not believe that this will result in improved audit quality.</p> <p>Paragraph A49 provides an additional example of how complex this process could be. Specifically, it explains that responses to quality risks could cause additional quality risks.</p>	Opposition to risk-based process noted

		<p>Given the evolving nature of the system of quality management, the responses designed and implemented by the firm may give rise to conditions, events, circumstances, actions, or inactions that result in further quality risks. For example, the firm may implement a resource (for example, a technological resource) to address a quality risk, and quality risks may arise from the use of such resource.</p> <p>We view these additional risks as evidence that this process could be overly complicated. Furthermore, as the risk assessment process is to be iterative, the firm needs to continuously be aware of any potential changes to quality risks. This is particularly onerous for small firms with limited accounting and auditing practices. Larger firms may have teams of quality management professionals that are dedicated to the implementation of this new approach, but smaller firms like ours cannot afford the additional cost of continually reconsidering whether they have identified all appropriate quality risks.</p> <ul style="list-style-type: none"> • Consider a firm that performs only Statement on Standards for Accounting and Review (SSARS) engagements or a firm that performs a handful of attest engagements. How much time and training would it take to implement this new approach? Outside expertise may be needed as firms only performing SSARS may not be familiar with the risk assessment process, and peer reviewers would not be able to assist with quality management system design due to independence constraints. • Consider a small firm of two partners, with five professionals total, where all attest engagements are performed by one partner. The new standard requires the managing partner to have ultimate responsibility and accountability for the system of quality management. Under the current standards, the managing partner can rely on the annual monitoring report and peer review to determine the adequacy of the firm's quality control system. How will this firm be able to maintain a fluid quality management system? How much time and effort will the managing partner need to spend to ensure that the system is updated every time risks are changed? How much training will this entail? This effort is difficult to conceptualize. <p>We have noted in connection with peer review results that many practitioners struggle with risk assessment and linking assessed risks to appropriately tailored responses, leading to overreliance on and improper use of practice aids. We believe that this proposed risk-based approach to tailoring a firm's quality management system will be difficult and costly for many firms to implement.</p>	
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			If the risk-based approach is retained, we recommend extensive practice aids for varying sizes of firms and templates that firms can tailor with dropdown menus providing examples of quality risks and sample responses.	
38	125	24	We note that one of the two new elements The firm’s risk assessment process states that this is a new approach that focuses the firms’ attention to risks that may have an impact on engagement quality. I would disagree that this is new, but rather inherent in the firm’s current system of quality control. When a firm has developed its existing system of quality control, the policies and procedures included in that system are directly in relation to risks. Although inherent in the existing systems, it is most apparent in the firms’ Engagement Quality Control Policy in which the firm’s, through an evaluation of the make-up of their client base, specifically identify the types of engagements that present heightened risks and therefore require the firm to subject those engagements to additional review procedures.	Noted
39	132	24	While risk assessment is core to the effective audit, a continuing and perpetual reconsidering of re-assessing all aspect of impact or potential impact/influence of risk and how that might revise the audit team actions seems incredibly complicated and burdensome that will be difficult to implement and apply, and which will likely overly emphasize focus on administrative monitoring and documentation of ongoing assessment rather than the actual performance of the audit. Further, the overall inferences of the proposed standard is that, as a part of the quality management system, such risk assessments should be applied to non-audit engagements as well, such as reviews and compilations, which far exceed the statement goals and responsibilities of these engagements, and would appear to greatly expand the liability threats to the CPA practitioner providing a non-verification (non0-audit) engagement.	Noted
40	134	24	Risk assessment process As our firm continues to work on the implementation of the international quality management standards, we have encountered some challenges with the risk assessment component. We believe the profession would greatly benefit from robust implementation guidance to assist practitioners in understanding the level of granularity that is expected in the documentation of this component. This guidance could include examples of how risk assessment may differ, regardless of the size of the firm. We believe this guidance could also assist with the risk of inconsistent application as well as our concern expressed above. Application guidance would also be helpful in the area of documentation and,	Noted

			particularly, the nature and extent of documentation of the firm’s rationale for the level at which the firm assessed its quality risks.	
41	135	24	<p>However, the requirements of SQMS No. 1 regarding the new component of risk assessment appear to be conceptual and not fully inclusive of clear guidance for successful implementation by firms.</p> <p>The proposed standard requires the firm to establish specific quality objectives for each component except monitoring and remediation. The firm is required to establish additional quality objectives when necessary to achieve the objective of the system of quality management; however, based on the nature and circumstances of the firm and its engagements, the firm may not find it necessary to establish additional quality objectives.</p> <p>Requiring “specific” quality objectives while stating the firms can apply professional judgement appears contradictory in nature and not a design for successful implementation. Additional guidance will be needed for firms to properly identify the specific quality objectives and additional quality objectives that will comprehensively address the requirements of the proposed standard.</p> <p>The same can be said for the risks to the achievement of the specific quality objectives and quality risks. Additional guidance will be needed for firms to properly assess the risks to the achievement of the identified specific quality objectives and additional quality objectives that will comprehensively address the requirements of the proposed standard. Other components of the Quality Management Standards will not feel as foreign to firms as 6 of the remaining 7 components are already rooted in QC Section 10.</p>	Noted
42	136	24	<p>Getting back to the risk-based approach to quality management (as you have included in the QB document), wouldn't it make sense that if a risk is identified, such as a new "complex" accounting standard has been implemented or a "new industry" client for the firm that this would be the circumstance for a small firm to obtain an outside engagement quality review. This risk as identified by the firm should then be a Peer Review inspection item to ensure that this is in fact the practice of the firm. If the firm is found by its Peer Reviewer to not comply or have performed a questionable engagement quality review, then that firm should be required to outsource its EQR for the next two years. If, in the judgment of the Peer Reviewer, the firm has complied then the firm may continue to use the risk-based assessment noted above.</p>	Agree, for implementation guidance

Regarding internal inspections, rather than outsourcing this process under all circumstances, We recommend that the if a risk has been identified that those engagement(s) internal inspection be outsourced. However, if a risk has not been assessed, we recommend that a cooling off period from the date of the financial report is adequate for a Partner to later inspect that engagement.

Also, the practice of outsourcing the engagement quality review and internal inspections is sure to hit roadblocks as the number of available practicing and qualified CPAs continues to decline. (The Illinois CPA Society has a 2021 Special Feature dedicated to "Decoding the Decline" in the CPA credential.) Who will perform these reviews if there are not available reviewers? This will impact the audited client. This will affect the audited organization in a financial way, e.g., from funder or financial institution requirements and timeliness of available audited financial reports.

Development of the SQMS

In the development of the Standards, have the committees considered the following:

How much latitude will firms have when determining quality risks?

Are there specific examples that always or in most cases pose a quality risk?

Are there examples or recommendations for the conditions, events, circumstances, actions, or inactions that create a quality risk?

Since the proposed language states "The assessment of quality risks does not require formal ratings or scores", is it appropriate to use low, moderate, and high or a score of 1 to 10 as appropriate ranges for risk? Without an end-result in mind for scoring and/or ranking risks, how will a firm determine, understand, and respond appropriately to the severity of the risks?

Will the firm be subject to the redetermination of the risk levels by the firm's peer reviewer? How does the firm's risk levels impact the peer reviewer's risk assessment process?

What if the peer reviewer determines the risks to be more severe than the peer reviewed firm?

When assessing the degree to which the factors may adversely affect the achievement of the quality objectives, are there examples that will assist firms in determining if a risk is low, moderate, or high?

Risk assessment is a complex process where mitigating procedures to eliminate risks

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			could create other risks. Guidance needs to be established regarding when a firm should stop identifying risks. For example, if the firm uses an outside reviewer to mitigate the self-review threat, there is now a risk that the outside reviewer doesn't identify all key findings during his/her review because the outside reviewer may or may not have been qualified. How should firms prevent being caught in a circular risk assessment process?	
43	138	24	Regarding the risk assessment component, additional guidance on the approach and documentation requirements should be provided to ensure a consistent approach across firms.	Noted
44	139	24	Risk Assessment Process Developing and documenting the risk assessment process for smaller firms will be costly and will require implementation guidance. Firms who currently do not perform audits may be unfamiliar with the risk assessment process and therefore may struggle to develop the risks associated with their practices and the responses thereto. In addition, small firms who do not have teams of quality management professionals will find it difficult and costly to continually reconsider whether all risks have been identified, documented and appropriate responses developed.	Noted
45	142	24	Furthermore, we support the proposed requirements for evaluating findings and identifying deficiencies, and evaluating the severity and persuasiveness of the deficiencies, including investigating the root cause of identified deficiencies. However, there is potential risk that without sufficient application guidance, firms may not apply such analyses consistently, which could result in varying results that may not be in the spirit of the requirement. We believe a consistently applied root cause process can provide insight into potential systemic issues of identified deficiencies and assist firms in developing remedial actions that are directly responsive to such issues and highlight opportunities to enhance the firm's system of quality management. A consistently applied root cause analysis could also provide the ASB insights into potential areas of profession-wide improvements. This information could help drive future standard setting projects and related guidance activities, such as developing indicators of audit quality that could provide additional insights on factors that may contribute to or detract from audit quality.	Noted
46	145	24	We are of the opinion the new risk assessment standard in this proposed exposure draft is already being addressed in the next round of Audit Quality Initiatives by the AICPA. Since the typical composition of the engagement teams of our membership are already being addressed, the proposed changes would not be appropriate for our membership.	Noted

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			<p>However, for those firms that would be affected by this proposed SQMS, the application materials are helpful.</p> <p>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.</p>	
47	148	24	<p>However, identifying, assessing, and responding to quality risks in an effective, efficient manner may be a challenge for many firms unaccustomed to assessing firm structures and operations, especially for sole practitioners and smaller firms. The Society requests additional clarity and examples on several components of the risk assessment process and that additional guidance be provided for the proposed SQMS No. 1 before moving forward with implementation.</p>	Noted
48	149	24	<p>I was very disappointed to see that the proposed new quality management standards are incorporating a risk assessment process. I was very disappointed when the audit risk assessment standards were implemented several years ago as I don't believe they increased the quality of audit engagements but rather provided firms with a tool to not audit or review certain aspects of a clients trial balance based on a low level of assessed risk. I do realize that is a very simplified reference to the risk assessment standards but from my point of view the biggest result of the standards was an incredible amount of paperwork to fill out. Though there is of course some inherent benefit to utilizing a risk based approach, I learned the auditing profession by auditing all of the assets and liabilities on a clients trial balance rather than determining which areas should be audited and to what extent based on a self completed risk assessment. Your proposed quality management standards want to eliminate the self inspection aspect (which I will address separately) though the auditing individual or firm is able to self complete a risk assessment on what aspects of a client they feel need to be audited and to what extent. This assessment can be completed and documented in an effort to guide what you have to audit and what you don't want to audit simply by documenting the justifications for your assessment. As there is always a level of professional judgement involved in this process it would be difficult for any external review to realistically question the assessments made. Based on the way I learned the auditing professional I probably over audit a bit in order to make sure nothing is missed. I doubt that is the predominant philosophy.</p> <p>The three step risk assessment process seems like unnecessary additional steps to what should already be the expectation in completing an auditing engagement. The first step</p>	Noted

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			being the establishment of quality standards seems particularly unnecessary as the main objective of the auditing engagement should be to perform the audit in accordance with all of the applicable rules and regulations. If this is done it would seem as though the natural result would be a high quality engagement. I am perhaps over simplifying this aspect but it could also be argued that the new standards are over complicating this aspect.	
49	156	24	<p>New Approach Focused on Quality Management: The principles-based approach taken in SQMS No. 1, centered on the 8 components to quality, is theoretically sound. However, we are finding the practical application of the model very complicated as we develop our implementation approach. We have worked through some of our quality management processes with the proposed standard in mind and found some aspects of the model difficult to apply and document in a holistic manner. The integration of the various components of quality causes complexities. The process of identifying and assessing quality risks to achieving quality objectives often extends beyond a single component. Further, processes supporting quality management support various quality objectives. Thus, the linkages of control activities to quality objectives will be multifaceted. Using the Information and Communication Component as an example, there are risks pertaining to the quality objectives set forth in paragraph 34 of SQMS No. 1 which cascade into risks that pertain to other components. (e.g., information supporting judgments on whether to accept or continue a client relationship). Building a system that documents our risk assessment and related responses to demonstrate how our QM system achieves the requirements in SQMS No. 1 will be very challenging to develop and maintain. We agree with the principles-based approach but acknowledge and bring to your attention the intensive time and effort firms will have to undertake to properly implement the standard and maintain compliance going forward.</p>	Noted
50	160	24	<p>I believe the shift from a focus on the standalone elements of the extant standards to the new integrated and risk-based approach is a positive improvement.</p> <p>Having said that, the new standard appears to emphasize assessment of risk, i.e. what could go wrong and how bad would it be? I believe a more thorough description of how and why this is different from extant standards should be added or incorporated in the Application and Other Explanatory Material (AOEM). I believe extant standards provided for this to a large degree and I saw that was how many firms approached the standard and the design of their systems.</p>	Noted

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			<p>In conjunction with this, I also believe extant standards provided for scalability to a large degree, and third-party providers recognized that with the materials they developed. Paragraph .A1 of QC Section 10 implies that scalability is present in the extant standard “This section does not call for compliance with requirements that are not relevant (for example, in the circumstances of a sole practitioner with no staff).”</p> <p>How this proposed standard is different should be further emphasized if a different and improved result is desired.</p>	
51	161 PwC	24	<p>We support the principle of a quality management approach. In our view, this model is more reflective of how firms should be proactively managing quality, and more aligned to risk management frameworks used by other organizations.</p> <p>To achieve the transformational benefits of a more proactive approach to quality management, we believe it is important for a firm to take a top-down approach to assessing its specific risks to delivering audit quality. We support the framework set out in proposed SQMS No. 1 that would require the firm to establish quality objectives, which set the context for appropriately identifying and assessing the risks to achieving them.</p>	Noted
52	162	24	<p>Risk Assessment Process</p> <p>We believe a “risk based” approach is appropriate; however, we caution that without implementation guidance, the overall risk assessment process may be limited and not consistent with the overall risks that many firms face in today’s environment. Please see our response in Part 6, Question 9A, Development of Core Package for further discussion of ways we propose to aid in the implementation of the QM standards.</p>	Noted
53	166	24	<p>I like the risk assessment approach prescribed in the proposed SQMS No. 1, and appreciate that the standard addresses the importance of the firm’s operational and financial policies.</p>	Noted
54	167	24	<p>The addition of a firm risk assessment process appears appropriate.</p>	Noted
55	047	29	<p>NASBA recommends more clarity and discussion around firm governance, the responsibility for quality management within the firm other than the engagement partner and how firm quality management oversight should be exercised, for example, by specifically identifying the responsibilities, authority and separation of quality management oversight from engagement teams.</p>	This is specific to the nature and circumstances of the firm.
56	061	29	<p>This component is generally similar to the leadership responsibilities for quality within the firm (tone at the top) element of quality control in SQCS #8.</p>	Noted

			<p>Regarding understandability and clarity, it seems that there are too many references to follow to arrive at the guidance being sought. The guidance provided in the body of the proposed standard could include the information provided in the application material to make the guidance easier to follow. For example, paragraph 29.b. states that leadership is responsible and accountable for quality and then references paragraph A59. Paragraph A59 states that leadership is responsible for performance evaluations and then references paragraph 57. Paragraph 57 states that the firm should undertake performance evaluations and then references paragraphs A217-A219. Paragraph A218 indicates that a smaller firm may rely on the results of monitoring activities to provide an indication of the performance of an individual. It is not clear why it is necessary to present this information through a maze of references when it could be explained in a single paragraph. The concern that we have attempted to express here is perhaps articulated better in the Drafting Principles and Guidelines [DRAFT] prepared by the International Auditing and Assurance Standards Board’s Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group, dated July 2021.</p>	<p>Agree but a clarity revision of the proposed standards is beyond the scope of this project. This feedback will be taken into consideration for drafting implementation guidance.</p>
57	077	29	<p>We agree with the inclusion of the Governance and Leadership component and the impact a firm’s leadership has on audit quality, including the system of quality management. A firm’s leadership is responsible for the overall direction of the firm and the success of its people, its clients, and its responsibilities to the public and the profession. The Governance and Leadership component outlines these areas and provides for ways to monitor involvement and execution.</p>	Noted
58	092	29	<p>Governance and Leadership Examples of organizational structures that demonstrate a commitment to quality.</p>	Noted
59	103	29	<p>We agree that quality begins with the tone at the top, where the leadership of a firm supports those with operational responsibility for the quality system and establishes governance that enables the partners and staff to understand how the culture, ethics, and monitoring impact the firm’s decisions. The substantial enhancements addressing governance and leadership provide improved, more specific guidelines to the managing partners, chief executives, and other leaders. Proposed SQMS No. 1 makes quality the responsibility of everyone in a firm, not just the Quality Control Department, while providing guidance on firm structure of responsibility. We do recommend the following:</p> <ul style="list-style-type: none"> • Under extant QC section 10, paragraph .20, the “...person or persons assigned operational responsibility for the firm’s system of quality control by the firm’s leadership has sufficient and appropriate experience and ability, and the 	<ul style="list-style-type: none"> • See par. 22

			<p>necessary authority, to assume that responsibility.” We do not see the same emphasis on authority for those with operational responsibility in proposed SQMS No. 1. Furthermore, putting the monitoring responsibility with the chief executives, managing partners, or top leadership group (an executive committee for example) could lead to conflicts of interest depending on the extent of engagement responsibilities of those leaders. We recommend adding language emphasizing and clarifying the need for independent, objective, authority of those with operational responsibility for the quality management system and the need for independent monitoring of the quality management system. While small and mid- size firms may find this more challenging, they can consider a group of partners and staff, or a third-party who can monitor.</p> <ul style="list-style-type: none"> Proposed SQMS No.1, paragraph 17, allows for policies to address quality risks that are “...implied through actions and decisions.” We recommend taking out this phrase and emphasizing that policies should be documented in the QM manual or another centralized receptacle, at least in all but the most unusual of circumstances (such as the beginning of the pandemic). Unwritten policies lead to inconsistency and confusion within a firm, resulting in a breakdown of quality, not an elevation of quality. We believe that if an action or decision is important enough, a policy can be written and disseminated appropriately throughout a firm in a timely manner. 	<ul style="list-style-type: none"> No change; this would result in a less scalable standard
60	104	29	As a two CPA firm, the effect of the increased requirements on leadership and governance is nominal. Small firms like ours are adaptive instantly to change in our clients and any accounting or auditing issues that arise. There is no large hierarchy; each of us reviews the other’s work regularly which allows for timely corrections or enhancements.	Noted
61	109	29	The Committee supports the increased emphasis on governance and leadership (Par. 29) in the proposed quality management system. Having firms establish a "chain of command" while still emphasizing that the ultimate responsibility resides with the firm gives specific people ownership of the process, which usually leads to a better solution. The Committee's concern is small firms with limited staff having to maintain independence (Par. 29e). The current environment has put a tight ceiling on fees small firms can charge on assurance engagements. Adding costs to the process makes it more difficult for small firms to acquire talented staff and leadership. This potential loss of talent could have a more significant adverse effect on the quality of engagements than allowing an alternative for small firms to address the independence issue in Governance	Noted

			<p>and Leadership.</p> <p>Having a focus on accountability through performance evaluations and other means, if properly designed, will allow the leadership of a firm's quality management system to provide the resources needed (their time) to maintain a well-designed system. People will perform based on the reward system; therefore, if a proper plan is not used to reward those responsible for the quality management, the focus on that area will fade away.</p>	
62	134	29	<p>Governance and leadership</p> <p>We generally support the revisions to the standard to address the responsibilities of firm leadership and do not have any recommended revisions to the proposed requirements.</p>	Noted
63	139	21	<p>Governance and Leadership</p> <p>SQMS No. 1 requires the assignment of ultimate responsibility and accountability for the system of quality management to the firm's managing partner or equivalent. In smaller firms it would not be unusual for the managing partner to be a tax practitioner. How will this individual be able to assess whether the system of quality management is appropriately designed and that proper responses have been established for all identified risks? How much training will be required for such an individual and how much reliance can this individual place on other personnel assigned to operational responsibility for the system of quality management or personnel assigned to specific aspects of the system of quality management?</p>	The managing partner can rely on audit partners to do this, but still is ultimately responsible for "tone at the top" and firm commitment to quality. Consistent with Peer Review. Implementation guidance will address how "ultimate responsibility" and "operational responsibility" relate.
64	146	21	<p>Role of Managing Partner</p> <p>For firms where the audit function is not the predominant practice area, it may not be practicable for the Managing Partner to have "ultimate responsibility" for the firm's quality control. Many firms in our state have significant tax or other non-attest services, and as such the managing partner may not be suited to have "ultimate responsibility" for the firm's quality control. In these instances, the responsibility of managing quality for audits would default to the audit partner in charge who most probably is also the audit engagement partner. For these instances, it may be appropriate for the standards to enable someone other than the managing partner to act in this capacity. We believe these requirements work for large, primarily audit firms, but for firms with smaller audit practices, the added responsibilities to the managing partner (who is or may be a tax partner) may not provide the desired effect.</p>	See par. A33; responsibility can be shared but managing partner is embodiment of firm. Peer review always interviews managing partner.

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65	162	29	<p>We agree overall with the proposed standard’s governance and leadership aspects. For the many firms that will be merging in the next 5 – 10 years and thus moving from a smaller environment to a larger one, the importance of appropriate governance and leadership and overall “tone at the top” will become more important for the Profession.</p>	Noted
66	010	30	<p>The section on Relevant Ethical Requirements refers to “applicable regulatory agencies.” Paragraph 1.400.050 of the AICPA Code of Conduct uses the terms “governmental bodies, commissions, or other regulatory agencies” with whose ethical requirements members are required to comply. The broader reference in the Proposed Standards could be interpreted to scope in additional entities and requirements. We suggest aligning the reference in the Proposed Standards with the definition in the AICPA Code of Conduct to avoid the risk of unintentionally expanding the scope of complying with the quality management standard to requirements of agencies that are not contemplated in the AICPA Code of Conduct.</p>	In extant, no change.
67	143	30	<p>Involvement of the AICPA’s Professional Ethics Executive Committee (PEEC) Given the significant connection between the proposed QM standards and the AICPA Code of Conduct (the “AICPA code”), D&T believes that it is imperative that PEEC review the wording used in the proposed QM standards, specifically those paragraphs that either (1) refer to the AICPA code, or (2) more broadly relate to relevant ethical requirements, including those that were revised from International QM standards to reflect the provisions of the AICPA code (i.e., instead of the International Code of Ethics for Professional Accountants). We also recommend that, in addition to their current monitoring of the ASB’s activities relating to the proposed QM standards, PEEC undertake a project to review the AICPA code for the impact of changes resulting from proposed SQMS Nos. 1 and 2. Such a project will ensure that the AICPA code and the AICPA’s suite of professional standards remain aligned. Further, in order to provide enhanced transparency across the various AICPA senior committees, we recommend that a representative from the ASB and PEEC, respectively, be present during pertinent discussions on topics of mutual interest when the corresponding senior committee deliberates. This collaboration will enable a more fulsome discussion of issues raised with real-time input from observers with the necessary expertise. Similarly, it will allow for more timely dissemination of information by the members to the respective senior committees for additional discussion and</p>	Such a review was performed in advance of the issuance of the exposure draft.

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			resolution as needed. This recommendation applies not only to the proposed QM standards but to all standards developed by AICPA senior committees.	
68	015	31	The beginning of the quality we have worked hard to secure starts with client acceptance. When someone comes to us outside what we consider our specialty, such as a request a few years back for us to be involved in a single audit engagement, we referred them to someone else. Just last week I told a potential client we do not perform work on public entities as it is outside our sphere of expertise. My point here is that we gladly accept ERISA and small business engagements in which we specialize, but we use firm judgement to stay out of the areas that could get us in trouble due to a lack of experience. So, we believe we know as much or more about the audit issues we are working to solve than an outside reviewer. Otherwise, we would not accept the engagement.	Noted
69	168	31	Client acceptance / continuance – The Committee feels that especially for smaller firms, a great deal of quality management arises from the initial acceptance / retention of clients. We would welcome more guidance and practice aids on integrating a firm-wide approach to client acceptance / continuance decisions.	Agree
70	040	32	<p>b. The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams. In addition, the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members with an appropriate level of skill and proficiency.</p> <p>We suggest adding “with an appropriate level of skill and proficiency” to reflect our view that skill and proficiency as well as experience are essential for directing, supervising, and reviewing high-quality engagements.</p>	Agree – revised to say “suitably experienced” which is consistent with extant
71	143	32	<p>D&T believes that the insertion of punctuation in paragraph 32b as compared to the International QM standards changes the context and intent of the requirement. We believe the nature, timing, and extent of direction and supervision of engagement teams and review of work performed is directly related to, and dependent on, the resources assigned or made available to the engagement teams. D&T recommends that the wording revert and align with paragraph 31(b) of ISQM No. 1 as follows:</p> <p>32b. The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements. T and the resources assigned or made available to the engagement</p>	Agree - revised

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			teams;, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members.	
72	155	32	<p>Proposed SMQS No. 1 – we recommend consideration of changing the reference to “more experienced team members” to “appropriately qualified team members” as more experience alone may not be sufficient to provide appropriate direction and supervision depending upon the subject matter.</p> <p>Proposed SMQS No. 1 – we recommend that the definition of Personnel in paragraph .17 and/or the related application material in paragraph .A22 address whether this definition is intended to include auditor-employed or auditor-engaged specialists.</p> <p>Proposed SMQS No. 1 - paragraphs .A14- .A19 reference paragraphs .17g -.17j, however paragraph .17 does not include these letter references.</p> <p>Proposed SMQS No. 1 - paragraphs .A51, .A64, and the headings prior to paragraphs .A22, .A110 and .A159 all have similar subparagraph references to .17</p>	<ul style="list-style-type: none"> • Agree, revised to be consistent with extant • See definition of “staff”. • Agree, corrected
73	170	32	<p>We believe there is a typographical error in 32(b) and recommend the following edits: The nature, timing, and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements- and the resources assigned or made available to the engagement teams;, and the work performed by less experienced engagement team members is directed, supervised, and reviewed by more experienced engagement team members. (Ref: par. A80–A81)</p>	Agree, corrected.
74	026	33	<p>I like the inclusion of the broadening of the QC concept to other areas than just A&A and having focus on things like technology and Intellectual and HR areas. As an example of how it struck me and our firm, we have started to go over with the team what we need to improve on to make our system better. This includes a formalization of our HR evaluations, shoring up and make more formal our CPE review by individual, and thinking through better the individual team member growth mentoring. I think the smaller firm is seeing “big brother” coming instead of improvements.</p>	Noted
75	061	33	<p>This section was expanded to include technology resources and intellectual resources. We agree with the placement of technology and intellectual resources in this section. We noted that the standard does not seem to address “consultation” resources. We believe the standard should highlight the need of some firms to establish external consultation resources. For example, a firm should identify risks related knowledge and experience limitations within the firm when evaluating the need to use its external consultation resources.</p>	Noted

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76	077	33	<p>We agree with the inclusion of technological and intellectual resources within the Resources component as they are a vital part of a firm’s system of quality management and impact all engagements.</p>	Noted
77	092	33	<p>Resources Guidance on documenting that “appropriate intellectual resources” are available and used to enable the operation of the firm’s system of quality management and the consistent performance of quality engagements.</p> <p>Clarification of the degree to which firms need to document their evaluation of the appropriateness of technological resources that are used by engagement teams in performing engagements.</p>	Noted
78	109	33	<p>Resource availability is the section that causes the most concern to the Committee. Suppose we look at resources as two buckets. The first bucket is guidance provided by the ASB and the AICPA and the second bucket is workpapers and checklists created by PPC and other publishers. We see the first will be crucial for understanding with little to no costs outside of gaining knowledge, and the second will be essential for implementation with possibly significant costs.</p> <p>As noted above, smaller firms will incur the most significant hit to their bottom lines. In addition, they may lean too heavily on the resources provided by publishers and take the approach to answer every question and mark every checkbox to make sure they do not miss anything. This extra cost is both monetary and human. The desire to cover all bases will take considerable time, further pinching a firm's most valuable resource — time. Limited time means the first resource the ASB will need to provide is detailed guidance to help small firms feel comfortable doing less. As noted in Par. A29, smaller firms could exclude specific non-relevant requirements based on their facts and circumstances. Smaller firms would need help to ensure they do not include non- relevant areas and exclude relevant ones incorrectly.</p>	Noted
79	134	33	<p>Resources We generally support the proposed requirements related to the Resources component. Further, we appreciate the guidance provided by proposed paragraph A115, which we believe clarifies the interplay of the requirements for service providers who are component auditors.</p>	Noted
80	160	33	<p>I believe a critical element for most firms, other than the largest, are maintaining resources outside the firm. Many firms, particularly smaller firms, do not recognize their</p>	Noted

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			own limitations and have not appropriately addressed acquiring, assessing, maintaining or accessing such resources. This proposed standard appears to mostly address practice aids, technical literature access, and personnel used in engagement performance, but not “consultation” resources. I believe the standard should highlight the need for firms to develop external consultation (to use old verbiage) resources as needed and to specifically assess their needs in that area. Firms should identify where the risks are due to their knowledge and/or experience limitations. This should be an element more clearly and directly addressed under Resources in the main body of the standard, and elaborated on in the supplemental sections.	
81	162	33	We agree overall with the proposed standard’s resources aspect. As technology has improved and firms having expanded capabilities to serve non-attest functions, more is occurring at CPA firms. We believe the proposed standards will appropriately reinvigorate the focus of quality management on many aspects of firms.	Noted
82	170	33	We recommend revising 33(e) to make it consistent with the wording of the other requirements in paragraph 33 and to clarify the guidance as follows: Individuals <u>are assigned to perform activities within the system of quality management</u> who have appropriate competence and capabilities, including sufficient time, to perform such activities are assigned to perform activities within the system of quality management.	No change, because it could cause confusion about whether there is a different meaning between GAAS / ISAs and the language as currently written is understandable.
83	077	34	We agree with the addition of the Information and Communication component and the importance for a continuous flow of information throughout the firm. As the first firm to define audit quality and a firm that publishes an annual audit quality report, we believe communication to the public and the relevant stakeholders is an important part of a system of quality management.	Noted
84	092	34	Information and Communication Additional examples of laws and regulations that would require a firm to communicate information to external parties. Clarification of when communication to regulators may be required. Illustrations of how relevant and reliable information can be communicated externally to support external parties’ (such as investors) understanding of the system of quality management (e.g., what might be included in a transparency report, an audit quality report, or on a web page).	Noted

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85	092	34	In general, we believe the requirements in SQMS No. 1 are clear. However, we do question the level of effort necessary to comply with certain requirements and are concerned that it may be difficult to determine whether a requirement has been met. For example, the information and communication component requires that the firm recognize and reinforce the responsibility of personnel to exchange information with the firm and with one another. We believe it may be difficult for firms to demonstrate how they met this subjective requirement.	Open for consideration of how to document this – Address in implementation guidance
86	109	34	The Committee agrees with the emphasis on communication. Most failures are related to a lack of communication; therefore, making this a priority may help better identify quality risks and their pervasiveness within the system and better respond to pervasive quality risks. A well-maintained communication system combined with a robust, risk-based quality management system will save considerable time in the long run.	Noted
87	125	34	The second new concept relates to information and communication. Although we recognize that there is a great deal of flexibility in the proposed standards in how firm’s may design their system to address this component, the need to design procedures around this seem to result in minimal advantages to the firms.	Noted
88	130	34	We believe that the consideration of the technological, intellectual resources in addition to the existing consideration of human resources may impose a measurable burden on smaller organizations. While well intended, and particularly helpful with large national and global firms, we do not believe that for smaller firms the added cost is outweighed by the benefit of providing meaningful information to external parties about a firm’s quality management systems.	Noted
89	134	34	Information and communication We generally support the proposed requirements related to the Information and Communication component. We believe further guidance may be needed for firms to understand the boundaries of the requirement, the extent of the evidence that firms need to gather, and the documentation needed to comply. We feel the lack of guidance is particularly apparent in proposed paragraph 34(d) from the perspective of communications with service providers. Practically speaking, we are struggling to identify communications that would be necessary to third parties or non-network firms on these topics in order for those resources to fulfill their responsibilities.	Noted
90	155	34	However, we believe additional clarification related to paragraphs 34 and 47 of the proposed standard regarding the expected formality of required communications would be beneficial. For instance, paragraph 47 requests ongoing communication related to the	The formality of documentation is specific to the nature and

			<p>monitoring and remediation between those assigned operational responsibility for monitoring and remediation to those assigned ultimate responsibility and accountability for the system of quality management. The three bullets in paragraph 47 require “(a) a description of the monitoring activities performed; (b) the identified deficiencies, including the severity and pervasiveness of such deficiencies; and (c) the remedial actions to address the identified deficiencies.”</p> <p>Additional application material could be provided by expanding paragraph A186 to provide an example. For instance, is the expectation to include details regarding how a firm identified the severity and pervasiveness of a given deficiency, or is a brief summary of the deficiency appropriate? Also, for remedial actions, is it sufficient to document the developed approach for remedial actions or is there an expectation to include evidence of each remedial action taken?</p> <p>Paragraph 34 and the application guidance supporting paragraph 34 provide examples under information and communication, however it is not clear how formal the documentation supporting this communication should be. For example, one of the bullet points in paragraph A120 states that engagement teams may communicate information about the operation of the firm’s responses (for example concerns about the firm’s processes for assigning personnel to engagements). This is an ongoing process for firms, but the process for assignment of personnel may not always be formally documented. It would be helpful to have guidance/examples illustrating the expected level of documentation within the application materials.</p>	<p>circumstances of the firm. Implementation guidance on documentation would be helpful.</p>
91	158	34	<p>The proof of communication and discussion at a smaller firm may be challenging to add additional documentation to support that communication was formally adhered to, whereas a small firm may present in an informal setting or discussion.</p>	Noted
92	162	34	<p>We agree overall with the proposed standard’s information and communication aspect, but note making this fully operational may be difficult for a number of firms. For firms that issue robust internal communications and/or external transparency reports, there is a structure and mechanism for a number of communications. However, few firms issue such reports and those that do likely expend a large amount of resources to prepare and review such reports. We feel this aspect, while written in a principles-based manner, is not operational without further application guidance.</p>	Noted

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93	167	34	The information and communication addition is vague and appears to leave firms open to more scrutiny over whether or not those changes are properly implemented and being followed.	Noted
94	156	35	Paragraph 35d(ii): The firm establishes policies or procedures that address the following circumstances: The firm is obligated by law or regulation to accept a client relationship or specific engagement. We could not identify an example or scenario in which this requirement would apply. It would be helpful for the application guidance to elaborate as to what types of scenarios the ASB anticipates with this requirement.	ASB can't identify any either but this concept is in extant.
95	010	36	Evaluating identified deficiencies in the firm's system of quality management We believe additional clarity around how firms should evaluate the severity and pervasiveness of identified deficiencies would help firms more effectively implement the requirements. A lack of clarity could lead to inconsistencies in how firms evaluate deficiencies and the impact on the overall assessment of effectiveness of the system of quality management. management.	Noted for implementation guidance
96	077	36	The changes to Monitoring and Remediation which shift the focus from engagement level monitoring to monitoring of the system of quality management will bring about the desired focus on the overall system rather than only the completed engagements. This will help to review the integrated nature of the eight components of the system of quality management.	Noted
97	161 PwC	36	Monitoring and remediation We agree with the objective of proposed SQMS No. 1 that "the firm is to design, implement, and operate a system of quality management ... that provides the firm with reasonable assurance..." In the context of proposed SQMS No. 1, it is intended that the operation of the SoQM as a whole provides the firm with such reasonable assurance. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a SoQM. Additionally, it is neither reasonable nor cost effective for a SoQM to be designed to achieve absolute assurance. Instead, a robust monitoring and remediation process can provide a continuous feedback loop to enable firms to address any items that have come to the firm's attention through monitoring. We believe the approach taken in proposed SQMS No. 1 would encourage a more proactive approach to monitoring and likely enhance firms' ability to prevent audit deficiencies. Developing a robust monitoring and remediation process will likely require a significant investment for those firms that do not already have robust monitoring	Supportive

techniques in place – and could present particular challenges to smaller firms or those that perform only a small number of audits. It is important for firms to develop an appropriate mix of ongoing and periodic monitoring activities. These monitoring activities can include performing pre-issuance reviews, internal inspections of completed engagements, and examination of identified deficiencies to determine root causes. The proper mix can drive quality and enhance the continuous feedback loop to prevent future engagement deficiencies, but depends on the nature and circumstances of the firm. The ASB should acknowledge that no single approach makes sense for all firms, that innovation and experimentation should be encouraged, and that smaller firms may not find the benefits of certain approaches commensurate with the costs.

In this regard, we believe a firm should have policies and procedures addressing the evaluation of the relative severity and pervasiveness of any identified deficiencies, including the effect of the identified deficiencies, individually and in aggregate, on the firm’s SoQM. Having a principles-based requirement such as that in proposed SQMS No. 1 enables the firm to consider deficiencies that have been identified in the context of the firm’s overall design of its SoQM. Evaluating deficiencies in a firm’s SoQM is subjective and involves considerable judgment, taking into account the firm’s specific quality objectives, the related risks, and the connection between different components of the SoQM.

Evaluating when deficiencies, individually or in aggregate, preclude a firm from concluding that its SoQM achieved reasonable assurance also requires judgment. For example, matters identified at the individual engagement level (e.g., from external inspections or financial statement issues such as restatements) are not always indicative of a deficiency and cannot necessarily be used to draw conclusions about the overall effectiveness of the SoQM. As acknowledged in proposed SQMS No. 1, evaluating whether the firm’s SoQM provides reasonable assurance also involves evaluating whether the remedial actions are (1) appropriately designed to address the identified deficiencies and their related root causes and (2) have been implemented.

Each firm’s quality responses and monitoring and remediation process are expected to be tailored to its identified quality risks. We do not think it is necessary for the ASB to provide further direction on evaluating the severity of deficiencies or to attempt to establish specific thresholds that would preclude a firm from concluding that its SoQM was effective.

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98	162	36	We agree overall with the proposed standard’s monitoring and remediation aspect. Particularly given the “fresh look,” that the proposed QM standards may bring, we encourage appropriate implementation guidance to assist firms and their peer reviewers to have a mutual and consistent understanding of the evaluation of deficiencies.	Supportive
99	166	36	The specific area of the proposed standard that may be difficult to scale is the monitoring and remediation requirement. For small firms, using an outside person to provide this service will probably be necessary, which might be expensive and difficult. With a shortage of staff and practitioners in some practice areas and regions of the country, it may be difficult to find practitioners who are qualified and able to take on this additional work.	Noted
100	168	36	Monitoring Activities – This requirement will be significant for smaller firms; see discussion under scalability below.	Noted
101	108	39	Another area where the exposure draft seems to be overly ambitious is in the area of monitoring and remediation. Looking over old engagements has always seemed like a waste of time. Further more, most small firms are not members of associations. This is another area where there could be challenges that will be experienced by smaller firms in applying the standards. The monitoring for smaller firm is not going to be the same as it would be for a larger firm . Rather than adding a lot of additional rules in this area, why not require that as a part of the planning process the firm perform an inspection of the prior year's engagement documentation in order to determine, what changes need to be made, and what if any additional work will be required on the current year's engagement, in order for it to follow professional standards?	Noted; inspection is currently required.
102	086	42a	Proposed SQMS No. 1 would require a firm to tailor its monitoring procedures based on the reasons for the assessments given to the quality risks, the design of the responses, the design of the firm’s risk assessment process and monitoring and remediation process, and any changes in the quality management system, the results of previous monitoring activities, and other relevant information. As the success of the firm’s monitoring and remediation process is dependent on the effectiveness of the firm’s risk assessment process, the committees are concerned with the ability of firms to properly tailor monitoring to meet the quality control objectives. Root Cause Identification For almost 20 years, peer review committee members have noted that practitioners and peer reviewers struggle with identifying the system cause of matters, findings, and deficiencies. Adding this requirement to SQMS No. 1 may add another area where	Agree that this is an area where implementation guidance and training is needed. Noted for Content Development.

			<p>smaller firms will not succeed. We anticipate many peer review findings that highlight that the firm did not identify an appropriate root cause, and as a result failed to implement an appropriate remedial response.</p>	
103	119	42a	<p>Proposed SQMS No. 1 would require a firm to tailor its monitoring procedures based on the reasons for the assessments given to the quality risks, the design of the responses, the design of the firm's risk assessment process and monitoring and remediation process, and any changes in the quality management system, the results of previous monitoring activities, and other relevant information. As the success of the firm's monitoring and remediation process is dependent on the effectiveness of the firm's risk assessment process, we are concerned with the ability of firms to properly tailor monitoring to meet the quality control objectives.</p> <p>Root Cause Identification</p> <p>For almost 20 years, peer review committee members have noted that practitioners and peer reviewers struggle with identifying the system cause of matters, findings, and deficiencies. Adding this requirement to SQMS No. 1 may add another area where smaller firms will not succeed. We anticipate many peer review findings that highlight that the firm did not identify an appropriate root cause, and as a result failed to implement an appropriate remedial response.</p>	<p>Agree that this is an area where implementation guidance and training is needed. Noted for Content Development.</p>
104	103	42a	<p>The shift of focus from the engagement level to the entire system of quality management is a positive change steered by the four factors listed on page 15 of proposed SQMS No. While focusing on the design of the underlying system, the nature and circumstances of the firm and engagements it performs, the extent of changes to the system, and the results of other internal and external monitoring activities improves the monitoring process, we believe that additional guidance on monitoring activities will improve consistency on evaluating the system of quality management. This consistency will enable firms and peer reviewers to appropriately evaluate the system of quality control. We suggest consideration of the following:</p> <p>We strongly support the AICPA's consideration of implementation guidance that will assist firms and peer reviewers in the assessment and understanding of the evaluation of deficiencies. We recommend this additional guidance include options for small and mid-size firms with limited resources who might have a difficult time implementing an ongoing monitoring system.</p> <p>In general, auditors are not trained or skilled in root cause analysis. The requirement to perform an effective root cause analysis will potentially be a significant challenge for</p>	<p>Agree, noted</p>

			<p>many firms, particularly those that are small and mid- size. Devoting internal resources to evaluate findings, identify deficiencies, assess the pervasiveness of deficiencies, and establish and monitor a remedial action plan, when necessary, may be near impossible with small and mid-size firms since objectivity and the ability to identify what one does not know could be compromised. These requirements may require a small or mid-size firm to seek external resources that could be costly and potentially expose the firm’s weakness to market competitors.</p> <p>Proposed SQMS No. 1 calls for at least an annual evaluation of the system of quality management to conclude whether the system provides the firm with reasonable assurance that the objectives of the system are being achieved. Additional guidance on the objectives of the evaluation and the formality of the conclusion reached would enhance the process, increase consistency, and clarify how small to mid-size firms can meet this requirement. The Information and Communications section addresses external communications. Firms may use results to include data in their “transparency reports” or other marketing material, provide information to potential and existing clients, or provide information to other regulators.</p> <p>See our comments in the Governance and Leadership section regarding monitoring by the leaders of the firm.</p> <p>Overall, the proposed requirements are very conceptually driven, with little guidance on practical implementation. As noted above, we think that practice aids or similar tools would be extremely beneficial. Since this proposed standard is working toward converging with the IAASB standard, we recommend issuing implementation guides that build on those published by the IAASB. The ASB can use research performed by the IAASB to potentially incorporate additional improvements into this guidance.</p>	
105	134	42a	<ul style="list-style-type: none"> • Monitoring and remediation We believe that the proposed standard would improve firms’ monitoring of their system of quality management as a whole and would promote more proactive and effective monitoring activities. We agree with the incorporation of a new requirement to investigate the root cause of identified deficiencies and believe that the guidance allows for sufficient flexibility. We further support the inclusion of guidance that explains that the procedures undertaken to understand the root cause of an identified deficiency may be simple, considering the term “root cause analysis” is often associated with a complex, in-depth process. Further, we believe the application guidance added from International Standard on Quality Management (ISQM) 1 would be 	<ul style="list-style-type: none"> • Noted

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			<p>useful for firms in determining when they have performed sufficient analyses of the cause of the deficiency.</p> <p>We note, however, that even firms that perform effective root cause analyses are unlikely to drive 100% quality firmwide. In other words, root cause analysis is good for identifying and addressing systemic quality issues across a firm, but it will not eliminate those “one off” deficiencies that result from human error. A firm’s system of quality management provides reasonable, not absolute, assurance.</p> <ul style="list-style-type: none"> In addition, it is unclear to us when the evaluation of identified deficiencies is intended to occur. We question whether the Board intends for a deficiency to be evaluated once it is identified or if such evaluation is intended to coincide with the annual evaluation made by the individual at the firm who is ultimately responsible for the system of quality management. We ask the Board to consider adding application guidance to help clarify this timing question. 	<ul style="list-style-type: none"> If the timing is unspecified in the standard, the firm uses professional judgment to perform the evaluation, at least annually. For implementation guidance.
106	155	42a	<p>The exposure draft includes a new requirement to evaluate root causes of deficiencies. We believe that smaller firms may have some challenges with the identification of root causes. This is an area that can be expanded with additional illustrations and examples in the application material and/or developed implementation materials.</p>	Agree, noted
107	089	47-48	<p>Sections 47-48: The form of communication (written or verbal) and the retention of such communication (as part of the engagement file or as part of a monitoring file), and the period of retention should be specified; this information could be useful for peer reviewers evaluating the operation of the monitoring and remediation program of the firm.</p>	Noted for implementation guidance; too prescriptive for requirement.
108	089	58-61	<p>Sections 58-61: The proposed standard should be more specific in the type of documentation that satisfies this requirement. Is a written Quality Management document required for all firms, regardless of size? For any firm? Are written monitoring reports required? Clarity and specificity here will avoid creating significant problems for peer reviewers attempting to identify and evaluate the requirements of and compliance with the firm’s Quality Management policies and procedures.</p>	Noted for implementation guidance; too prescriptive for requirement.
109	092	57	<p>Evaluating the System of Quality Management</p> <p>Clarification of the requirements in paragraph .57 and related application guidance regarding the periodic performance evaluations of those assigned the operational responsibility for the system of quality management. As written, the requirements infer that failures detected in monitoring would be due to negative performance when other root causes could exist.</p>	Hence the requirement to perform a root cause analysis of the deficiencies.

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110	081	40	However, we strongly believe paragraphs 40b, A168, and A169 prevent the scalability of the standards to sole proprietors and small firms and would require them to outsource monitoring activities to external service providers.	Agree, revisions proposed.
111	134	48	We believe further guidance is necessary for the appropriate application of paragraph 48 of the proposed standard. Due to the operational challenges created by the proposed definition of “engagement team,” it is unclear to what extent the matters are communicated to component auditors (or other auditors) who are either network firms or other firms. A literal application of this requirement could divulge sensitive, confidential, or privileged information to third parties that do not have a need to know such information. A firm’s system of quality management addresses the use of network firms and services providers; network firms and services providers themselves are not part of a firm’s system of quality management. We recommend adding language to this paragraph such as “to the extent relevant to their responsibilities” to avoid onerous and unnecessary communication expectations.	Paragraph already says “in accordance with their responsibilities”; no change. Principles-based standards require professional judgment, which should exclude communicating confidential information to those with no need to know it.
112	077	49	The inclusion of Network considerations is an important aspect of SQMS 1. This will add an additional element to the system of quality management which may have not been considered under previous standards.	Supportive
113	109	49	The Committee feels there will be difficulty with implementation around networks. As noted in Par. 49-50, the firm will need to wait on their network to determine the quality risks and responses that the network feels all their network firms should address, then each firm will need to evaluate the information provided by the network to determine if and how much modification will be required to meet the firm's specific quality risk areas. We feel creating a risk-based quality management system to address each firm's individual situation could significantly reduce the value of network resources provided in this area. The requirement in Par. 52a to "understand the overall scope of the monitoring activities undertaken by the network across the network firms, including monitoring activities to determine those network requirements are appropriately implemented across the network firms, and how the network will communicate the results of its monitoring activities to the firm," puts a significant burden on small firms to oversee the network and other network firms. Many small firms join networks specifically to reduce their need to "recreate the wheel" on firm administration and practice. Many of these small firms may leave these networks to avoid having to perform this process.	Noted. The belief is that networks will provide this information to avoid having firms leave. Post-implementation review of IAASB standards will show whether this belief is correct, and the ASB will consider those results.
114	168	49	Network Requirements or Network Services – The committee feels that this places a large burden on firms that belong to a network where the lead firm in the network is	See comment above. Implementation guidance will

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			significantly larger, has much more well-established policies and procedures than the smaller member firms. We think the quality management decisions of member firms in an association should be left as a practice decision of the association since they bear the ultimate risk to the result of firms using their network resources. In addition, smaller firms may not have the resources to fulfill the responsibilities required.	address the difference between networks that affect SoQM and/or engagement performance and those that don't.
115	134	49	<p>Networks</p> <p>We understand the rationale for including requirements for using network firms and their services, and we agree that it is important not to place undue reliance on services and resources provided by the network in order to achieve quality. We are concerned, however, by the focus and the extent of the proposed guidance on networks.</p> <p>We agree that the individual firm should be responsible for its own system of quality management, and we support the proposed standard addressing service providers. However, we do not agree with treating the network the same as a service provider. Unlike a service provider, a network shares the same reputation as the firms within the network and has a vested interest in promoting quality within the individual member firms. Arguably, the risks to quality are more extensive at firms that do not have access to the extensive resources a network can provide, yet the standard appears to be placing more of a burden on firms that participate in network resources.</p> <p>The proposals require firms to understand the network requirements, network services and resources, and any responsibilities that the firm itself may have to implement when using those services and resources. The related application material provides examples of the types of inquiries and documentation that the firm may consider in performing its assessment, but it provides little or no guidance on the extent of that assessment or on the extent of the documentation required as evidence that the firm has performed the assessment. We recommend that such guidance be incorporated into the proposed standard to guide firms in determining what systems or protocol they need to have in place to fulfill the requirements of the standard.</p>	<ul style="list-style-type: none"> • Noted for implementation guidance
116	160	49	<p>This document devotes much discussion to the concept of networks and network firms. This is an isolated topic and does not apply to most firms. I suggest this should be covered in a separate standard similar to SQMS No. 2 so as not to dilute the standard. Firms will tend to lose focus on the important elements when trying to absorb materials that are not relevant to them. The discussion for the Proposed SQMS No. 2 under “Why a Separate Standard?” includes a bullet point that is on point “Increasing the scalability of proposed SQMS No. 1 by not including requirements that would be irrelevant..” This same rationale should apply to the discussion of Networks.</p>	<p>Interesting idea, but no change. The network concepts are largely concentrated together and labeled so someone could skip past it if it wasn't applicable.</p>

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117	162	49	We agree overall with the proposed standard’s networks aspect and believe it appropriate to refocus firms on the importance of understanding networks. Also, some networks may find it appropriate to provide a package to member firms listing out how it complies with quality management standards in various areas to facilitate this understanding.	Noted.
118	086, 119	58	The documentation requirements included in proposed SQMS No. 1 will be an additional burden on firms with smaller practices; especially if the risks change throughout the course of the year, resulting in the need to review the related documentation multiple times a year. Supporting practice aids and examples of such documentation will be needed to ensure practitioners understand the expectations. Additionally, the use of the term “consistent” is not entirely clear in Paragraph 58 of SQMS No. 1: “Support a consistent understanding of the system of quality management by personnel, including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements.” “Support the consistent implementation and operation of the responses.”	Noted. No change.
119	089	59	Section 10: This should specifically state that such annual evaluation must be documented, to avoid uncertainty for peer reviewers trying to evaluate compliance with this requirement.	Agree, revision proposed
120	149	58	Lastly, your exposure draft communication letter specifically states that the proposed standards would include more robust performance and “documentation” requirements. There are already far to robust documentation requirements which result in me spending almost as much time documenting the engagement as actually performing the engagement. The paperwork aspect of auditing is in my opinion out of control. I feel like I have to document the fact that I am documenting a certain aspect of the engagement. Then I have to go back in somewhere else in the documentation and re-document that I documented the documentation. I actually used to enjoy most of the aspects of the auditing engagement but the documentation requirements are pretty quickly eliminating that.	Noted
121	155	58	We believe the proposed standard, particularly the application guidance acknowledges scalability and provides some guidance in those cases where scalability is helpful for smaller firms. However, there will be minimum documentation requirements regardless of firm size. Accordingly, more robust illustrations of sample policies and procedures would be helpful. For example, the definition of “Response” in paragraph .17 states that	Noted for implementation guidance

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			<p>policies “may be documented, explicitly, stated in communications, or implied through action and decisions.” There should be clear guidance on how actions and decisions could provide implied communication. It may be difficult to assess whether the requirements of the standards are met if too much is allowed to be implied when scaling for different sized firms. Furthermore, paragraph A53 discusses the need for more formality in larger firms, and paragraph A54 discusses “informal policies and procedures” in less complex firms. It may be difficult to assess whether a firm understands and has implemented the requirements in the standard if additional guidance regarding minimum documentation expectations are not provided.</p>	
122	163	58	<p>We are concerned with the level of effort necessary to comply with certain requirements, including documentation levels and depth of detail, and can foresee that it will be unclear to determine whether a requirement has been met, which can cause a problem for Peer Review and compliance. For example, the documentation requirements of the risk assessment process have the potential to be onerous for small firms without further clarity for small firm expectations. Again, how much documentation is enough? How deep of each category/step in process does the related documentation need to go? This is all unclear. Clear parameters, specific guides, practice aids considering the needs of smaller firms are a must. Quality Control systems in the US are Peer reviewed and if there is not clarity, the varying judgement of individual peer review firms will be unevenly applied in compliance assessments.</p> <p>Generally, the additional illustrations or practice aids are needed.</p> <p>Small firm examples and details on the extent of documentation for risk assessment</p> <p>Specifics about what conditions, events, circumstances, actions/inactions, if any, that should be assessed at high for quality risks, etc.</p>	Noted
123	160	61	<p>The proposed standard appears to have removed the requirement to retain documentation until after peer reviews or other external monitoring/oversight program activities (QC Section 10.63). I believe this element should be reinstated into the QM standard so that it is clear to practitioners this documentation should be retained, rather than through a reference to another standard. Paragraph A222 addresses certain documentation requirements and could easily be expanded to include this element. Paragraph 61 could add the period should include not only for the firm’s use, but for the use of outside regulatory parties, such as peer reviews, PCAOB, or other.</p>	Added “peer reviewer”
124	010	A14	<p>A14 Quality risks and responses to risks relevant to group audit engagements</p> <p>Paragraph A14 states that quality risks and the responses to those risks relevant to group audit engagements may be different for engagement team members who are firm</p>	Noted for implementation material

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			<p>personnel than for engagement team members who are external to the firm. However, it is not clear what the different response at the firm level would be. If the intention of the Board is to highlight a different response at that level, additional examples and implementation guidance providing clarity as to how that response differs from the response at the individual engagement team level would be helpful. Alternatively, if the intention is that the different response is solely at the engagement team level, we believe this section could be clarified by referring to the guidance for engagement teams in the Proposed QM SAS.</p>	
125	143	A14	<p>Given the ongoing standard setting activities related to AU-C 600, D&T recommends that references to audits of group financial statements in proposed SQMS No. 1 be limited only to those that are necessary. If the ASB believes that further clarification or examples are needed with respect to these paragraphs, this should be done via conforming amendments as a result of the AU-C 600 standards setting project. The following edits are therefore recommended:</p> <p><i>A14. Proposed SAS Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards provides guidance in applying the definition of engagement team in the context of an audit of financial statements. AU-C section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors), expands on how proposed SAS Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards is to be applied in relation to an audit of group financial statements. The quality risks and responses to those risks relevant to group audit engagements may be different for engagement team members who are firm personnel than for engagement team members who are external to the firm (for example, engagement team members who are from network firms or are service providers, such as component auditors from firms not within the firm's network).</i></p>	No change
126	143	A29	<p>Paragraph A29 D&T recommends that a footnote reference be added pertaining to the second bullet relating the professional standards that are applicable when performing a preparation of financial statements engagement. Footnote 1: Engagements to prepare financial statements are conducted in accordance</p>	Added language in paragraph.

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			with AR-C section 70, Preparation of Financial Statements, of the Statements on Standards for Accounting and Review Services.	
127	143	A42	D&T believes that both internal and external sources of information may be relevant (i.e., we do not believe it is appropriate to always identify only one relevant source (for example, an internal source) and in doing so always exclude other information merely because it is obtained from another source (for example, an external source)). We recommend the following change to paragraph A42 of proposed SQMS No. 1: A42. ... Other information, either both internal or and external, may also be relevant to the firm’s risk assessment process, such as the following: ...	<ul style="list-style-type: none"> Revised to “whether”
128	156	A44	Paragraph A44: The nature and circumstances of the firm and its engagements may be such that the firm may not find it necessary to establish additional quality objectives. Given the comprehensive nature of the quality objectives established in SQMS No. 1, most firms would have reasonable assurance that any relevant quality objective is achieved if those in SQMS No. 1 are met. We understand there may be rare circumstances where additional objectives are warranted. Paragraph A44 provides guidance that additional quality objectives may not be necessary, but we would like this wording to be stronger to indicate that identifying additional objectives is likely the exception rather than the rule.	Agree. See QM 1 for options for revision
129	143	A51	D&T believes the nature, timing, and extent of the responses is not determined based on conclusions relating to the reasons for the assessment given to the quality risks; rather, it is considerations of the occurrence and effect of such reasons on the achievement of the quality objective(s) that do so. Further, paragraph A51 of proposed SQMS No. 1 addresses the effect on the achievement of one or more quality objectives but does not address the likelihood that the quality risk may actually occur. We recommend reverting to the wording as outlined in paragraph A49 of ISQM 1 as follows: A51. The nature, timing, and extent of the responses are based on the reasons for the assessment given to the quality risks, that is, the conclusions from the consideration of how, and the degree to which, conditions, events, circumstances, actions, or inaction may adversely affect which is the considered occurrence and effect on the achievement of one or more quality objectives.	Agree but used wording from par. A47 that is consistent with definition of quality risk.

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130	128	A51	In addition, we noted that paragraph A51 within SQMS 1 could replace the term “inaction” with the word “inactions” to be consistent with terminology used throughout SQMS 1.	Agree but moot given revision above.
131	162	A57	<p>On .A57, while we do agree that “The firm’s culture is an important factor in influencing the behavior of personnel,” we do recommend that on the list of “Professional values and attitudes” listed, that “Social responsibility” be removed, in part, for the following reasons:</p> <p>The concept of social responsibility has different definitions to different people and such definitions may be in conflict with one another. However strongly one feels for or against whatever definition of social responsibility is used, we feel such consideration is not relevant with quality management in the context of this proposed SQMS.</p> <p>By including social responsibility in .A57, even though it is application guidance, it may imply that social responsibility should be a part of quality management and that peer reviewers should include consideration of such in the peer reviewers’ inspections, which given the different definitions of social responsibility, could create issues that detract from audit quality.</p>	Disagree; deleting would send a message that ASB devalues social responsibility. Firms may use whatever definition they like; if definitions differ, well, so do firm cultures.
132	143	A68	<p>With respect to paragraph A68 of proposed SQMS No. 1 we also noted that: The phrase “component auditors are” is used, which is inconsistent with the singular form of the phrase in paragraph A46 of proposed SQMS No. 1. We recommend that the wording be aligned.</p> <p>Footnote 7 paraphrases ET section 0.200.020 of the AICPA code. We recommend that the footnote either cross-reference the AICPA code only (i.e., without further explanation) or that the footnote more closely restate the wording in the AICPA code as noted below.</p> <p>The following edits are therefore recommended: A68. AU-C section 600 states that when the component auditors are <u>is</u> not subject to the AICPA code, compliance with the ethics and independence requirements set forth in the International Federation of Accountants Code of Ethics for Professional Accountants is sufficient to fulfill the component auditor’s ethical responsibilities in the group audit (footnote 7). Procedures the firm may use regarding the fulfillment of relevant ethical requirements that apply to network firms, employees of network firms, or service providers may include confirmations, letters of representation, or other affirmations.</p>	<ul style="list-style-type: none"> • AU-C 600.A46, to which par. A68 refers, does use the singular – revised A68. • last sentence revised but not deleted • Agree, revised. <p>Note the use of “explains” denotes that what follows is not an exact quote. The exact</p>

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			<p>Footnote 7. The section, “Application of the AICPA Code” (ET section- 0.200.020), of the AICPA Code of Professional Conduct (AICPA code) explains that an AICPA member who is a the group engagement partner <u>will not be considered in violation of the AICPA code if a</u> of a U.S. consolidated entity should be considered to have performed an audit in accordance with generally accepted auditing standards, and in compliance with the AICPA code, provided that component auditors <u>practicing outside the United States departs from the AICPA code with respect to the audit or review of group financial statements as long as the component auditor’s conduct, at a minimum, is in accordance</u> that are not subject to the AICPA code are in compliance with the ethics and independence requirements set forth in the International Federation of Code of Ethics <u>for Professional Accountants, and the members of the group engagement team are in compliance with the AICPA code.</u></p>	<p>wording of the ET sec. is as follows: AICPA member who is a member of a group engagement team will not be considered in violation of the AICPA Code if a component auditor operating outside the United States departed from any of the rules stated herein with respect to the audit or review of <i>group financial statements</i> or other <i>attest engagement</i>, as long as the foreign component auditor’s conduct, at a minimum, is in accordance with the ethics and <i>independence</i> requirements set forth in the International Ethics Standards Board for Accountants’ (IESBA’s) Code of Ethics for Professional Accountants, and the members of the group engagement team are in compliance with the rules stated therein.</p>
133	143	A78	<p>D&T believes that it would add further clarity to include footnote references to the AICPA code that address fees and other types of remuneration, including the importance of entering into fee arrangements that are commensurate with quality services being performed, which is a matter of public interest. A78. ... The AICPA code addresses fees and other types remuneration (footnote 1). Footnote 1. ET section 0.300.030.04 of the AICPA code.</p>	<p>Agree, revised</p>

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134	061	A122	<p>The guidance on internal communication seems to codify existing practice of most firms. The guidance on external communications could be potentially problematic if it is in conflict with the AICPA Code of Professional Conduct or the requirements of individual State Boards. For example, paragraph A122 seems to assume that Non-Compliance with Laws and Regulations (“NOCLAR”) will be approved by the ASB, although that is not the case at this point.</p>	<p>Examples state that these may exist but not that they do. First example is unrelated to current NOCLAR ED.</p>
135	040	A124	<p>We suggest that the ASB modify paragraph A124 because the sentence that we underlined conveys a requirement.</p> <p>Paragraph A124: The specified responses may address multiple quality risks related to more than one quality objective across different components. For example, policies or procedures for complaints and allegations may address quality risks related to quality objectives in resources (for example, personnel’s commitment to quality), relevant ethical requirements, and governance and leadership. <u>The specified responses alone are not sufficient to achieve the objectives of the system of quality management.</u></p> <p>We suggest that the ASB either add a requirement to paragraph 27, such as “The firm should design and implement responses to address the quality risks in addition to those listed in paragraph 35,” or remove the requirement language in paragraph A124.</p>	<p>Paragraph 27 already requires this. Moved underlined sentence to paragraph 27 as essential guidance.</p>
136	143	A126	<p>We believe that certain text, which was not included in ISQM 1, in paragraph A126 of proposed SQMS No. 1 is superfluous and should be deleted as follows: A126. Relevant ethical requirements may specify how the firm is required to respond to a breach. For example, the “Breach of an Independence” interpretation (ET section. 1.298.010) of the “Independence Rule” (ET section. 1.200.001) contains guidance addressing a breach of an independence interpretation of the AICPA code, which also contains guidance addressing a breach of any other provision of the AICPA code.</p>	<p>Disagree, no change.</p>
137	010	A140	<p>A140 Communication about firm’s system of quality management to governmental organizations Paragraph A140 introduces the concept that the firm may take into account the size and complexity of a governmental organization, the range of its stakeholders, the nature of the services it provides, and the roles and responsibilities of those charged with governance when determining whether it is appropriate to communicate to those charged with governance of a governmental organization about the firm’s system of quality management. It is not clear how various organizational and operational aspects of</p>	<p>No change.</p> <p>GAO didn’t object. This may be referring to situations where TCWG of a governmental organization don’t select the firm, but the firm audits them as part of a group.</p>

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			the governmental organization subject to the services a firm provides influences whether it is appropriate to communicate information about the firm’s system of quality management. We also do not believe that the considerations for communicating to a governmental organization should be different than those for communicating to those charged with governance in paragraph A139. We suggest aligning the guidance for engagement of governmental organizations with that for other entities or clearly delineating why different considerations are necessary.	
138	040	A140	The heading between SQMS No. 1 paragraphs A140 and A141 should be in italics.	Fixed
139	128	A145	We noted the ASB has replaced the term “engagement quality control review” with “engagement quality review.” Thus, we recommend updating paragraph A145 in Proposed SQMS 1 to replace the use of the phrase “engagement quality control review” with “engagement quality review” to align with the convergence terminology.	Revised
140	161 PwC	145	<p>Determination of engagements subject to EQR requirements</p> <p>We agree with the decision to include the requirement to determine engagements to be subject to an EQR within proposed SQMS No. 1. We also support the premise of paragraphs A144 and A145 in proposed SQMS No. 1 that, in some cases, a firm’s response to addressing one or more quality risks may be achieved through an EQR. This guidance suggests the firm may wish to consider whether EQRs should be required for entities that may have public interest or public accountability characteristics. While we understand the intent of this guidance, we believe that the lack of a global definition of a PIE may cause difficulties for global firms looking to adopt a common framework across their networks. It remains necessary for firms to retain the ability to determine which engagements should be subject to EQRs beyond audits of listed entities.</p> <p>We believe the ongoing project by the International Ethics Standards Board for Accountants to broaden the definition of PIEs could also have unintended consequences in the US and encourage the ASB to liaise with the Professional Ethics Executive Committee to understand if additional clarification is needed in regard to the determination of engagements subject to EQRs.</p>	Noted
141	161 PwC	145	We agree with including how to determine engagements subject to an EQR within proposed SQMS No. 1. We also support the premise of paragraphs A144 and A145 in proposed SQMS No. 1 that, in some cases, a firm’s response to addressing one or more quality risks may be achieved through an EQR. This guidance suggests the firm may wish	Noted

			to consider whether EQRs should be required for entities that may have public interest or public accountability characteristics. While we understand the intent of this guidance, we believe it remains necessary for firms to retain the ability to determine which engagements should be subject to EQRs beyond audits of listed entities.	
142	040	150	<p>We suggest that the ASB delete paragraph A150</p> <p>Paragraph A150: Monitoring activities may include the inspection of in-process engagements. Inspections of engagements are designed to monitor whether an aspect of the system of quality management is designed, implemented, and operating in the manner intended. In some circumstances, the system of quality management may include responses that are designed to review engagements while they are in the process of being performed that appear similar in nature to an inspection of in-process engagements (for example, reviews that are designed to detect failures or shortcomings in the system of quality management so that they can prevent a quality risk from occurring). The purpose of the activity drives its design and implementation and where it fits within the system of quality management (that is, whether it is an inspection of an in-process engagement that is a monitoring activity or a review of an engagement that is a response to address a quality risk).</p> <p>We believe that it is inappropriate to have inspections of in-process engagements. We believe that in-process reviews should be considered part of the engagement quality management process, not a monitoring activity. Further, unless an audit organization’s quality management system is permitted to function through the completion of the engagement, the audit organization cannot determine whether a potential finding or deficiency would have been identified and rectified through the quality management process. An in-process inspection may interrupt the quality management process, thereby affecting the audit organization’s ability to rely on the system of quality management.</p> <p>It is also our view that inspecting in-process engagements could blur the distinction between quality management within individual engagements and the quality objective related to the monitoring and remediation process. As a result, permitting inspections of in-process engagements may cause additional difficulties in applying the quality management standards.</p>	<p>Disagree, no change.</p> <p>In-process inspections are permitted, not required. If they cause difficulty, firms need not do them.</p>

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143	109	A155	<p>The monitoring and remediation process requests that firms use a lot of judgment in determining what is a deficiency and the pervasiveness of that deficiency. The guidance states in Par. A155, "In a less complex firm, the monitoring activities may be simple because information about the monitoring and remediation process may be readily available in the form of leadership's knowledge, based on their frequent interaction with the system of quality management, of the nature, timing, and extent of the monitoring activities undertaken, the results of the monitoring activities, and the firm's actions to address the results." Given the standard of "if it is not documented, it did not happen," guidance should emphasize documenting the leadership's knowledge in a memo to allow others to access it without having to contact leadership repeatedly.</p> <p>The Committee does agree with a cyclical rotation of inspecting each partner's engagements. This rotation will help create a team atmosphere and prevent avoiding a bad partner to avoid conflict.</p>	Noted for implementation guidance.
144	156	A165	<p>Paragraph A165: Examples of policies and procedures that a firm may establish to apply a cyclical basis for the inspection of completed engagements for each engagement partner include the following policies or procedures that set forth the standard period of the inspection cycle, such as the inspection of a completed engagement for each engagement partner performing audits of financial statements once every three years, and for all other engagement partners, once every five years.</p> <p>Providing specific cycles for inspection (3 and 5 years) in the application guidance may have the effect of being presumptively mandatory. Firms should be permitted to set their own cycles. Thus, we suggest revising the guidance to address having different cycles based on the nature of the work engagement partners perform without specifying cycles (e.g., once every X and Y years).</p>	See proposed revision to emphasize this is an example.
145	143	A167	<p>When referencing paragraphs A148 through A186 of proposed SQMS No. 1 relating to the Monitoring and Remediation Process, D&T noted that the phrases "monitoring activities" and "an inspection" were used in the guidance rather than "monitoring procedures" and "inspection procedures." Further, throughout ISQM 1, "the firm" has been used rather than "a firm," in order to more specifically emphasize that the SOQM is applicable to an individual firm. Likewise, ISQM 1 also consistently references "policies or procedures." D&T recommends that the following edits be made for consistency:</p> <p>A167. A peer review is not a substitute for all monitoring activities <u>procedures</u>.</p>	Agree, revised

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			<p>However, because the objective of a peer review is similar to that of an inspection procedures, a the firm’s quality control management policies or and procedures may provide that a peer review conducted under standards established by the AICPA may be a substitute for the inspection of engagement documentation, reports, and clients’ financial statements for some or all engagements for the period covered by the peer review.</p>	
146	081	A168	<p>However, we strongly believe paragraphs 40b, A168, and A169 prevent the scalability of the standards to sole proprietors and small firms and would require them to outsource monitoring activities to external service providers.</p>	Revised
147	156	A168	<p>Paragraph A168 of SQMS No. 1 notes that a self-review threat may arise when an individual who performs another type of monitoring activity participated in designing, executing, or operating the response being monitored. Many mid to large size firms support national practice groups that perform administrative functions over audit practices such as developing quality management policies, designing audit methodologies, and creating tools and templates to promote understanding and consistency. It would seem that such functions then create a self-review threat if those involved then plan or coordinate an internal inspection, even if not performing inspections themselves. It would be very helpful to address this common scenario in terms of considerations when assessing the self-review threat and safeguards that could be employed.</p>	Clarified
148	163	A168	<p>We are concerned with aspects of the Responsibility for the SOQM and Monitoring and Remediation portions of SQMS 1. A) We are concerned with the possible implication that the person(s) who design the inspection system cannot also be responsible for monitoring/internal inspection. B) Also specifically related to the Prohibition of Self Inspection including EQR. A) At small firms such as ours an attest partner is responsible for overall quality and another attest partner is responsible for implementation. Both partners have commercial attest work and both partners perform EQR. This actually enhances quality as the buck stops at the top so to speak. For the EQR, small firms do not typically have the volume of qualified personnel necessary to meet these requirements. Our firms are already subject to Peer Review and compliance is monitored through that process. This requirement seems to presume lack of objectivity and bias. Suggestion: However, we strongly feel that this threat could be alleviated via the required use of a uniform, detailed checklist. Our US based system has a long history of self-regulation, and this is no exception. The use of checklist could overcome this concern in a far less</p>	Revised

			onerous way that would cure the issue without undue cost or burden on smaller firms unequally	
149	040	A168	<p>Paragraph 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</p> <ul style="list-style-type: none"> • an inspection of an engagement was <ul style="list-style-type: none"> — 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. • another type of monitoring activity participated in designing, executing, or operating the response being monitored. <p>Paragraph 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.</p> <p>We believe that paragraphs A168 and A169 imply that small governmental audit organizations that are required to follow the SQMS would have to contract with service providers to perform all monitoring activities. We acknowledge that there is a self-review threat when individuals monitor a response that they helped to design, execute, or operate. GAGAS paragraph 5.48 states, “Monitoring is most effective when performed by persons who do not have responsibility for the specific activity being monitored.” However, we believe that there are measures that could be implemented to mitigate this threat to objectivity. For example, third-party inspections would mitigate at least some of the self-review threat discussed in paragraph A168. As such, it is possible that individuals within small governmental audit organizations could perform certain monitoring activities.</p>	Revised

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150	102	A168	<p>The Committee under paragraph A168 sees the wording "A self-review threat may arise when an individual who performs another type of monitoring activity participated in designing, executing or operating the response being monitoring." The Committee is unclear what this means and asks for further clarification via examples and/or other explanatory material.</p> <p>The present interpretation of A168 is that the individual who designed, executed or operated the system is ineligible to be part of the inspection of the system. This will be a burden to the small and medium sized firm.</p>	Clarified
151	040	A168	<p>The underlined portions of paragraphs A168 and A169 could affect the scalability of the SQMS No. 1.</p>	Revised
152	143	A194	<p>D&T believes that the example related to “the use of individuals from other network firms as component auditors” as reflected in paragraph A179 of ISQM No. 1 should be reinstated in paragraph A194 of proposed SQMS No. 1 as it is helpful and reflects current circumstances that occur in practice. Further, this is an illustrative example rather than a requirement and should be viewed in that context.</p> <p>A194. ...</p> <p>Network requirement or network service How the firm adapts or supplements the network requirement or network service The firm uses individuals from other network firms as component auditors. Network requirements are in place that drive a high degree of commonality across the network firms’ systems of quality management. The network requirements include specific criteria that apply to individuals assigned to work on a component for a group audit. The firm establishes policies or procedures that require the engagement team to confirm with the component auditor (i.e., the other network firm) that the individuals assigned to the component meet the specific criteria set out in the network requirements.</p>	Added
153	040	A213	<p>We believe that additional clarification is needed in paragraph A213. It is unclear what the ASB means by an independent assurance report on its system of quality management:</p> <p>Paragraph A213: This proposed SQMS does not require the firm to obtain an independent assurance report on its system of quality management or preclude the firm from doing so.</p>	This means you don’t have to get a peer review report in the other two years. Added example

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154	162	A223	<p>Given the varying expectations that will likely exist among peer reviewers and other parties, we recommend .A223 be retained and considered to be elevated to a requirement.</p> <p>The firm is not required to document the consideration of every condition, event, circumstance, action, or inaction for each quality objective or each risk that may give rise to a quality risk. However, in documenting the quality risks and how the firm’s responses address the quality risks, the firm may document the reasons for the assessment given to the quality risks (that is, the considered occurrence and effect on the achievement of one or more quality objectives) to support the consistent implementation and operation of the responses.</p>	<p>Not sure what is meant by “retained”. Overly prescriptive to elevate to a requirement.</p>
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