



QM 2 Detailed Comments¹

Responses relating to potential changes in the proposed standard are addressed in the Comments column. Some responses in this analysis refer to the cooling-off period (generally because these references are at a high level and another section of the respondent’s letter addressed cooling-off in more specificity). Because the ASB addressed the issue of cooling-off at its October meeting, those comments are not addressed herein.

Row	CL #	Category	Coded Text	Task Force Comments
1	06	QM2 Overall\ 1 Strongly support	We strongly support the majority of the new SQMs	Noted
2	65	QM2 Overall\ 1 Strongly support	X I strongly support the proposed SQMS No. 2.	Noted
3	77	QM2 Overall\ 1 Strongly support	<p>We recognize the significant role an engagement quality review has within the system of quality management. We concur that a firm should set forth its requirements for when an engagement quality review is required and that criteria should be established regarding who can appoint reviewers and who can be appointed as reviewers. The requirements for engagement quality reviewers to comply with ethical requirements, including addressing threats to objectivity like not allowing previous engagement partners to become engagement quality reviewers without a cooling off period, are all reasonable.</p> <p>We concur with engagement quality reviewers focusing on significant judgments and significant matters, with the engagement partner continuing to be responsible for the matters described in proposed QM SAS (see response to Request for comment 4). As with all engagement procedures, including engagement quality reviews, the timeliness of the procedures and the documentation assembled lead to improved quality.</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>)

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
4	81	QM2 Overall\ 1 Strongly support	We support the proposed QM SAS and believe the requirements regarding engagement partner responsibilities are generally clear and understandable and that the application material is helpful in supporting the implementation of the requirements.	Noted
5	92	QM2 Overall\ 1 Strongly support	We strongly support the proposed QM SAS.	Noted
6	92	QM2 Overall\ 1 Strongly support	We strongly support the proposed SQMS No. 2.	Noted
7	102	QM2 Overall\ 1 Strongly support	The Committee has no issues with QM SAS. The proposal strengthens engagement performance which the Committee believes is a positive approach. The Committee recommends that QM SAS be accepted as presented.	Noted
8	143	QM2 Overall\ 1 Strongly support	D&T is supportive of a separate standard for engagement quality reviews and believes that such an approach appropriately emphasizes the important role of engagement quality reviews as part of a firm’s SOQM. As an engagement quality review is a response to assessed quality risks, D&T agrees that proposed SQMS No. 1 should identify the engagements for which an engagement quality review is to be performed, with proposed SQMS No. 2 containing the requirements and related guidance for performance of an engagement quality review. In addition, a separate standard provides an appropriate mechanism for enhancing the requirements and application material for the appointment and eligibility of the engagement quality reviewer and the performance and documentation of the review while increasing the scalability of proposed SQMS No. 1.	Noted
9	143	QM2 Overall\ 1 Strongly support	D&T is supportive of enhancing the extant requirements and related application material regarding the nature, timing, and extent of the procedures performed by the engagement quality reviewer. In addition, we believe the responsibilities of the engagement quality reviewer are appropriate considering the engagement partner’s revised responsibilities in proposed QM SAS. D&T is supportive of the focus on documentation of the engagement quality review, including the new requirement that such documentation be included with the engagement documentation. Further, from a scalability perspective, we support the application material, which recognizes that the engagement quality review may be documented in a number of ways and that the form, content, and extent of such documentation may vary according to the nature and complexity of the engagement, the entity, and matters subject to review, as well as the extent of engagement documentation reviewed.	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			D&T believes the requirements are clear and understandable and the application material is helpful.	
10	158	QM2 Overall\ 1 Strongly support	We strongly support the proposed SQMS No. 2 and its requirements are clear and understandable. The application material in the proposed SQMS No. 2 is helpful in supporting the requirements.	Noted
11	159	QM2 Overall\ 1 Strongly support	I strongly support the proposed SQMS No. 2.	Noted
12	161	QM2 Overall\ 1 Strongly support	We support a separate standard for engagement quality reviews (EQRs). We believe that it is useful to bring together the requirements for the firm and the reviewer into a single standard, and more clearly articulate the nature and extent of work expected of an engagement quality reviewer.	Noted
13	55	QM2 Overall\ 2 Somewhat support	The Committee somewhat supports the proposed SQMS No. 2. The Committee believes the Engagement Quality Reviews (EQR) requirements are clear and understandable in their content. There is significantly better clarity. For instance, an EQR can be a response to quality risks for any type of engagement, not only an audit engagement. Moreover, the guidance is more robust in the proposed standard. We appreciate the ASB's guidance related to the performance of the EQR requiring the reviewer to focus his/her attention on the engagement's significant judgments and significant matters, and also on getting the EQR completed throughout the engagement at different points in time. This will result in potential engagement issues being detected more timely and the review can be more effective. In addition, the requirement for the reviewer to take responsibility for the review and to file the documentation of the review along with the engagement documentation would also help to enhance engagement quality. However, some of the Committee members expressed concerns about a potential adverse effect from the EQR requirements about the appointment and eligibility of reviewers. The limitations in the eligibility of the reviewers seem to be very restrictive, and, especially in combination with the 2-year cooling-off period, smaller firms may look to circumvent the use of EQR to avoid the issue of engagement partner rotation or having to hire a reviewer outside of the firm. It would be preferable to utilize a risk-based approach and emphasize that firms meet the ethical requirements as contained in the proposed standard, rather than rely on a pre-determined cooling-off period.	Noted
14	61	QM2 Overall\ 1 Strongly support	CRI agrees that the proposed SQMS No. 2 has clarified the role and responsibilities of the engagement quality reviewer from the existing guidance in QC Section 10, A Firm's System of	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
		2 Somewhat support	Quality Control, and AU-C Section 2020, Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards; that the application material is helpful in supporting the application of those responsibilities; and with the changes outlined in proposed SQMS No. 2, with the exception of the following items: Cooling-off period as addressed in paragraph 19 – see response to question 8	
15	69	QM2 Overall\ 2 Somewhat support	We believe it is beneficial to have the Engagement Quality Review guidance in a separate standard. We believe the requirements are consistent with the existing literature and will provide appropriate guidance to firms in implementing this process. One could make the argument to make a more standard uniform across all firms, that every firm would need to seek an outside quality control reviewer to keep the impacts of the new standard fair across all firm types and sizes	Noted
16	81	QM2 Overall\ 2 Somewhat support	We somewhat support the proposed SQMS No. 2 and believe the requirements are generally clear and understandable and that the application material is helpful in supporting the implementation of the requirements.	Noted
17	100	QM2 Overall\ 2 Somewhat support	Consistent with our responses throughout this letter, TIC somewhat supports SQMS No. 2. TIC is concerned that the SQMS places too much emphasis on establishing rules for which individuals are eligible to serve as engagement quality reviewers (EQRs) with respect to the cooling-off period. By limiting which individuals may serve as an EQR, TIC believes that some firms may change their criteria for which engagements require an EQR. This scenario could result in less engagements being subject to EQR procedures. Alternatively, some firms may assign a reviewer who is not qualified to perform the EQR. Neither of these scenarios would enhance quality.	Noted
18	102	QM2 Overall\ 2 Somewhat support	Somewhat support the proposed SQMS No. 2.	Noted
19	134	QM2 Overall\ 2 Somewhat support	Separate standard We support creating a separate standard for engagement quality (EQ) reviews as well as retaining the requirement in SQMS 1 for the firm to develop policies or procedures for engagements involving an EQ review. We believe that this approach promotes the scalability of the standards, so that when a firm determines that no engagement meets the criteria to require an EQ review, it is not required to address the requirements in SQMS 2. We further support the proposed standard addressing the remaining aspects of the firm's	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			system of quality management related to EQ reviews. By accumulating all the requirements relating to EQ reviews in a single and separate location, there is less opportunity for a requirement to be overlooked. Additional explanation and guidance can be provided without affecting the length and complexity of SQMS 1 or distorting the balance of EQ reviews relative to the other aspects of SQMS 1.	
20	138	QM2 Overall\ 2 Somewhat support	Implementation of the proposed standard should achieve the objective of consistent performance of quality engagements. While the proposed standard is very comprehensive, we believe it can be implemented in a way that is scalable based on the characteristics of a firm’s assurance practice. We support the proposal, however, the change from QC Section 10 to require the engagement quality review to be completed prior to dating the report may result in added complexity to end of engagement coordination to obtain management representation letters and certain other documentation, without commensurate benefit. We suggest allowing the use of judgment by the engagement quality reviewer to consider the extent and significance of engagement quality review matters that remain open in determining when to provide the engagement partner with the approval to date the report.	Noted
21	138	QM2 Overall\ 2 Somewhat support	We somewhat support the proposed SQMS No. 2	Noted
22	139	QM2 Overall\ 2 Somewhat support	We support the notion of an Engagement Quality Review based on appropriate criteria established by the firm. However, there are certain aspects of the performance requirements that we believe need to be clarified.	Noted
23	144	QM2 Overall\ 2 Somewhat support	I somewhat support the proposed SQMS No. 2. This should not be a big change from current practice for my firm. However, I want to state that by mandating a cooling-off period, you are taking someone with great understanding of significant estimates on an engagement and removing them and their knowledge/experience from the equation. This seems contrary to quality and may put an undue hardship on firms to seek outside EQRs, which are more difficult to manage and are costlier to obtain. Similarly, by making the EQR eligibility requirements more robust, there may be fewer EQR options inside a firm, especially when eliminating a former engagement partner, which will lead to less use of the EQR as a tool in addressing firm quality.	Noted
24	156	QM2 Overall\ 2 Somewhat support	I support the proposed SQMS No. 2.	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
25	161	QM2 Overall\ 2 Somewhat support	Engagement quality reviews (EQRs) are an important response by a firm in managing and achieving quality. We support a separate standard for EQRs and the proposal to converge with ISQM 2. We believe that it is useful to bring together the requirements for the firm and the reviewer into a single standard, and more clearly articulate the nature and extent of work expected of an engagement quality reviewer. We support the majority of the proposed revised requirements, and note these revisions appear consistent with the intent of PCAOB AS 1220. In general, we believe the proposed requirements in proposed SQMS No. 2 are clear and understandable, and the application material is helpful in supporting the application of those requirements; however, we have some concerns about perceptions of what an EQR can realistically achieve, as well as the interaction with other standard-setting projects. See also our response to Questions 8 and 9.	Noted
26	162	QM2 Overall\ 2 Somewhat support	somewhat support the proposed SQMS No. 2.	Noted
27	163	QM2 Overall\ 2 Somewhat support	We believe it is beneficial to have the Engagement Quality Review guidance in a separate standard. We believe the proposed requirements may not be affordable or achievable by small firms. Small firms who are required to utilize the services of an outside review may be prohibited to continue their work due to time availability of resources long term and cost restraints.	Noted
28	164	QM2 Overall\ 2 Somewhat support	We somewhat support the proposed SQMS No. 2.	Noted
29	168	QM2 Overall\ 2 Somewhat support	I somewhat support the proposed SQMS No	Noted
30	130	QM2 Overall\ 3 Somewhat oppose	We are somewhat opposed to the proposed SQMS No. 2	Noted
31	132	QM2 Overall\ 3 Somewhat oppose	While it is definitely appropriate and necessary to stipulate the responsibilities of all parties in conjunction with the quality performance of the engagement in the public interest, the framework conveyed both devalues and borderline prohibits smaller CPA firms with regards to the providing attest engagements.	Noted

Agenda Item 4D – Detailed Comments QM 2

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			Accordingly, with regards to the eligibility or reviewers/ECRs/engagement inspectors, I am, at best, somewhat opposed as they are written.	
32	146	QM2 Overall\ 3 Somewhat oppose	We somewhat oppose the proposed SQMS No. 2.	Noted
33	167	QM2 Overall\ 3 Somewhat oppose	We agree with the nature of the changes outlined in this section. However, we do not believe that this is scalable, affordable, or practical for many smaller firms.	Noted
34	76	QM2 Overall\ 4 Strongly oppose	KI I strongly oppose the proposed SQMS No. 2.	Noted
35	79	QM2 Overall\ 4 Strongly oppose	I strongly oppose the proposed SQMS No. 2.	Noted
36	94	QM2 Overall\ 4 Strongly oppose	Proposed SQM No. 2: Similar challenges are inherent with the requirements for policies and procedures in SQM No. 2. Implementing processes to comply with the proposed standard will be costly in that firms may need to employ the services of an external engagement quality reviewer and may need to make an investment in systems and services in order to comply.	Noted
37	65	QM2 Overall\ Specific comments	An engagement quality review is a critical element in addressing quality risks by subjecting significant engagement matters and judgments to an independent critical review. My former firm has extensive policies and procedures in place for: (a) addressing the appointment, eligibility and rotation (i.e., limits on how long an individual can serve as a reviewer on an engagement) of engagement quality reviewers and (b) performing engagement quality reviews. Also, at my former firm an engagement quality review was performed for all audit and assurance engagements.	Noted
38	69	QM2 Overall\ Specific comments	We believe the proposed requirements may not be affordable or achievable by small firms. Typically, firms rely upon qualified professionals to perform EQCRs outside the firm. Firms currently utilize peer reviewers who are qualified to perform EQCRs. Because the peer reviewer pool is shrinking, it is challenging for a firm to locate a qualified individual to perform an EQCR. Small firms who are required to utilize the services of an outside review may be prohibited to continue their work due to cost restraints.	Noted
39	71	QM2 Overall\ Specific comments	The Group believes the scalability of proposed No. 1 would be increased - by not including requirements that would not be relevant in circumstances when a firm determines that	Noted

Agenda Item 4D – Detailed Comments QM 2

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		Specific comments	<p>there are no engagements for which an engagement quality review is an appropriate response to address the quality risks is appropriate (Proposed Standard – page 18). The Group is not clear on how SFSPs are going to satisfy No. 2 when there are limitations on the eligibility of an individual to be an engagement quality reviewer.</p> <p>The Group appreciates the clarification of the qualifications of an engagement quality reviewer, and the specified responsibilities of both the engagement partner and the engagement quality reviewer, and believes that for larger firms the proposed standard is appropriate.</p>	
40	92	QM2 Overall\ Specific comments	We believe the appropriate use of engagement quality reviews can be an effective response to quality risks and that the objectivity of an engagement quality reviewer increases as the cooling- off period increases. The length of an appropriate cooling-off period can vary based on the complexity of the engagement.	Noted
41	93	QM2 Overall\ Specific comments	<p>We believe it is beneficial to have the Engagement Quality Review guidance in a separate standard. We believe the requirements are consistent with the existing literature and will provide appropriate guidance to firms in implementing this process. One could make the argument to make a more standard uniform across all firms, that every firm would need to seek an outside quality control reviewer to keep the impacts of the new standard fair across all firm types and sizes</p> <p>We believe the proposed requirements may not be affordable or achievable by small firms. Typically, firms rely upon qualified professionals to perform EQCRs outside the firm. Firms currently utilize peer reviewers who are qualified to perform EQCRs. Because the peer reviewer pool is shrinking, it is challenging for a firm to locate a qualified individual to perform an EQCR. Small firms who are required to utilize the services of an outside review may be prohibited to continue their work due to cost restraints. Our firm will and does need an outside EQCR on a rare occasion if we do take an engagement outside the scope of our main practice areas.</p>	Noted
42	97	QM2 Overall\ Specific comments	<p>how does this change what is now in place with EQCR? It makes it more difficult in the inuendo that firms that don't have enough internal partners need to go outside to get an external person to do the review work. The proposed standard does not help the situation; it makes it more cumbersome.</p> <p>Again, a lack of understanding of the resources available to small firms. Most small firms do</p>	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			not have the luxury of appointing a partner as the quality control reviewer who has not worked on the engagement in the current or preceding years. The caveat of having an external reviewer further displays a lack of understanding of the resources available and the growing costs of implementation.	
43	98	QM2 Overall\ Specific comments	<p>We believe it is beneficial to have the Engagement Quality Review guidance in a separate standard. We believe the requirements are consistent with the existing literature and will provide appropriate guidance to firms in implementing this process. One could make the argument to make a more standard uniform across all firms, that every firm would need to seek an outside quality control reviewer to keep the impacts of the new standard fair across all firm types and sizes</p> <p>We believe the proposed requirements may not be achievable for small firms. Under extant standards, firms rely on peer reviewers to perform EQCRs. The new standards appear to increase the need for small firms to seek this outside assistance with EQRs and internal inspections due to the cooling off period requirement. Because the peer reviewer pool is shrinking and the increased need for these types of individuals, it will be even more challenging for a firm to locate a qualified individuals to perform an EQR. Small firms who are required to utilize the services of an outside reviewer may be inhibited in performing their services timely due to availability.</p>	Noted
44	102	QM2 Overall\ Specific comments	<p>The majority of the Committee members from the standpoint of small and medium sized firms are in agreement with the Engagement Quality Review Standard. It is the belief that Firms could assess an engagement at a lower risk and thus perform a lesser review of that engagement such as a technical review of that engagement. The majority believe this will be of benefit to the small and medium firms when performing less complex audits and other engagements.</p> <p>The downside is that the small firm may be forced out of performing complex audits if it does not have non-engagement members with expertise to perform the review. The majority of the Committee contend this engagement quality review requirement will require that a Firm reflect on its ability to properly perform that audit and take appropriate step to insure compliance.</p>	Noted
45	103	QM2 Overall\ Specific comments	We support having clear requirements for policies and procedures addressing the appointment and eligibility of engagement quality reviewers and performance of	Noted

Agenda Item 4D – Detailed Comments QM 2

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		Specific comments	<p>engagement quality reviews. The requirements in proposed SQMS No. 2 are clear and understandable and the application materials are helpful in supporting the application of those requirements. However, there are some areas of the standards that we believe need additional clarification or consideration.</p> <p>In instances where the firm determines that an engagement quality review is required, the appointment and eligibility of reviewers may be difficult or costly for sole practitioners and small firms with limited personnel as they would be required to contract with individuals external to the firm to perform the engagement quality review, in addition to the cost of their peer reviewer. Guidance on vetting and retaining the services of qualified individuals and resources to assist firms with finding suitable reviewers should be made available.</p> <p>Proposed SQMS No. 2 identifies threats to objectivity of the engagement quality reviewer and specifies a minimum cooling-off period of two years before the individual can be appointed to the role of engagement quality reviewer. This requirement could have an impact on sole practitioners, smaller firms, and even local offices of larger firms with specialty niche areas. The standards should allow for alternatives to the minimum cooling-off periods, in certain instances, while lowering the self-review threat to an acceptable level.</p>	
46	109	QM2 Overall\ Specific comments	<p>Why a Separate Standard? The Committee agrees with having a separate standard on choosing an engagement quality reviewer and the performance of an engagement quality review. The separation provides clarity and distinction of the process from the design and operation of a quality management system.</p> <p>Appointment and Eligibility of Reviewers The Committee feels that there should be specific guidance on who is eligible to perform an engagement quality review; however, we have several concerns that some requirements will make meeting these requirements difficult. We are also concerned that the Cooling- off period (Par. 19, A16-A17) is not necessary. This concern is also related to the ability of the firm to find enough eligible reviewers inside the firm. These restrictions combined with other independence requirements and the difficulty in finding external resources could force firms to incorrectly conclude an engagement is outside engagement quality review requirements to avoid violating eligibility guidelines.</p>	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			<p>Performance and Documentation of the EQ Review</p> <p>The Committee agrees with the different aspects of the performance and documentation of the EQ review (Significant Judgments and Significant Matters, Time of the Review, and Documentation).</p> <p>The Committee feels the requirements in proposed SQMS No. 2 are clear and understandable. The application material is helpful; however, we believe significant implementation guidance will need to be provided, especially to smaller firms.</p>	
47	139	QM2 Overall\ Specific comments	The engagement quality reviewer is required to take overall responsibility for the performance of the engagement quality review and for documenting the engagement quality review. The documentation of the engagement quality review is required to be included with the engagement working papers of the engagement on which the engagement quality review was performed. Has the ASB considered to what extent a contracted engagement quality reviewer has exposed themselves to litigation since they could be perceived as being part of the quality control of the firm to which they were contracted?	Not a change from extant.
48	146	QM2 Overall\ Specific comments	As noted above in 2a, the standards are written in such a way that they would require a firm with fewer than two or three audit partners to obtain additional resources to comply. This outcome will either increase costs for smaller firms to look for outside resources to fulfill the engagement quality review (EQR) and/or quality review roles or cause smaller firms to cease providing auditing services. Additionally, cost is not the only issue. There just are not enough “good” A&A individuals, and many (including peer reviewers) might be able to help firms with inspections but not with EQR or anything requiring pre-issuance. Our fear is that the smaller firms will find a similar small firm and trade services, and neither firm will be technically proficient enough to do a good job. They will catch typos and missing “sign offs” but miss the technical issues. These firms will have “technically” met the requirement, but quality will not be improved in any substantial way.	Noted
49	148	QM2 Overall\ Specific comments	The requirements proposed in SQMS No.2 are clear and understandable however, the requirements may pose a financial and accessibility barrier for sole practitioners and smaller firms. Viable options for sole practitioners and smaller firms will need to be identified prior to the implementation actions or dates for these standards.	Noted
50	150	QM2 Overall\ Specific comments	Our view on the preceding changes are we agree with the change to the approach that emphasizes the responsibility of firm leadership for proactively managing the quality of their	Noted

Agenda Item 4D – Detailed Comments QM 2

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			respective engagements. We also agree with the concept of scalability as stated above. The application material is helpful in supporting the application of those requirements.	
51	151	QM2 Overall\ Specific comments	For our firm the existing requirements for policies and procedures addressing the appointment and eligibility of engagement quality reviewers and performance of engagement quality reviewers is adequate under SQMS No. 8. Through the peer review process our firm has observed whenever it has been detected through our peer review, these policies need to be modified, we have appropriately done so through either our inspection/monitoring or through the peer review process. However, for those firms that would be affected by this proposed SQMS, the requirements in proposed SQMS No. 2 are clear and understandable, and the application materials would be helpful.	Noted
52	155	QM2 Overall\ Specific comments	Generally, the preceding changes discussed in the proposed SQMS No. 2 were clear and understandable. The application material is helpful and supports the application of the requirements.	Noted
53	40	QM2 requirements	We believe that the requirements in SQMS No. 2 are clear and understandable and that the application material is helpful. We provide suggestions to clarify the application guidance.	Noted
54	121	QM2 requirements	Yes, the requirements in proposed SQMS No.2 are clear and understandable.	Noted
55	65	QM2 requirements\ Additional comments	The ED is consistent with my former firm’s system and supporting policies and procedures.	Noted
56	130	QM2 requirements\ Additional comments	It is not entirely clear what the required firm policies or procedures should be that will include limitations on the eligibility of an individual to be appointed and serve as an engagement reviewer where the individual previously served as engagement partner.	Noted
57	143	QM2 requirements\ Additional comments	D&T does not believe that it is appropriate to only use the plural form of “individuals” and recommends that all instances of the use of “individuals” be aligned with international QM standards (i.e., “individual(s)”). See further discussion above in response to Question 1 (SQMS No. 1, paragraph 10).	Agreed; revised
58	55	QM2 requirements\ No	However, some of the Committee members expressed concerns about a potential adverse effect from the EQR requirements about the appointment and eligibility of reviewers. The limitations in the eligibility of the reviewers seem to be very restrictive, and, especially in combination with the 2-year cooling-off period, smaller firms may look to circumvent the use of EQR to avoid the issue of engagement partner rotation or having to hire a reviewer	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			outside of the firm. It would be preferable to utilize a risk-based approach and emphasize that firms meet the ethical requirements as contained in the proposed standard, rather than rely on a pre-determined cooling-off period.	
59	100	QM2 requirements\ Other	The requirements in SQMS No. 2 are clear and understandable; however, TIC believes that they may be difficult for some firms to implement.	Noted
60	134	QM2 Requirements\ Paragraph 12	Objective of the standard As proposed, the standard’s objective is unclear, particularly in light of our prior comment about EQ reviews no longer being part of US GAAS. We believe this standard essentially contains two objectives and, as drafted, does not sufficiently capture the two aspects of EQ review requirements contained within the proposed standard. There are requirements specific to the firm establishing its EQ review process, and there are differing requirements for EQ reviewers and for the actual execution and documentation of an EQ review. We believe separating the objectives into bullets would enhance the clarity of such objectives and better enable firms to ensure they have captured all aspects of the requirements in their systems of quality management. In addition, a separate objective for the EQ reviewer would further clarify the EQ reviewer’s responsibility to comply with the proposed standard.	No other comments on objective. Introduction provides clarifying information. No change proposed.
61	109	QM2 requirements\ Paragraph 18a	With the current shortage of accounting professionals, finding a reviewer outside the firm may be challenging with sufficient time (Par. 18a) to perform the review.	If the firm has qualified people not on the engagement team, the firm is not required to find review outside the firm. No change
62	134	QM2 requirements\ Paragraph 18	Appointment and eligibility of reviewers We are generally supportive of the proposed requirements regarding the eligibility of individuals to be appointed as an EQ reviewer or as an assistant to an EQ reviewer. While we appreciate that the standard deals with the authority, or perceived authority, of the EQ reviewer through the requirement in paragraph 18(a) and the related application material, experience indicates that difficulties can still arise when the EQ reviewer is of a grade lower than that of the engagement partner (or leader). We would therefore recommend that the application material provide further guidance on policies and procedures related to the notion of “sufficient authority,” considering scalability for smaller firms. In addition, we note that the application material, specifically paragraph A10, indicates that the authority of the EQ reviewer becomes diminished where the EQ reviewer has a reporting	To be addressed thru implementation guidance.

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			line to the engagement leader. This may not always be possible, and we recommend that the proposed standard include guidance that provides examples of the safeguards that a firm could put in place where it is not practical.	
63	134	QM2 requirements\ Paragraph 20 and par. A17	Paragraph 20 of proposed SQMS 2 allows for individuals to assist the EQ reviewer in the performance of the review. Firms might interpret the related example in the application material to mean that using assistants in the performance of an EQ review would be appropriate only in circumstances where specialized knowledge, skills, or expertise is needed in the execution of the review. We do not believe that this was the intention of the requirement and recommend that the Board revisit the guidance in this regard. Further, we note that one of the factors to consider in the appointment of an EQ reviewer is whether the reviewer would have sufficient time to fulfill the role. The appointment of assistants to help the EQ reviewer in the performance of the review might be helpful in circumstances where there is a limited pool of available EQ reviewers from which to draw.	Revised application guidance.
64	147	QM2 requirements\ Paragraph 18	Paragraph 18a requires the firm to establish policies and procedures to select a qualified engagement quality reviewer. We suggest some consideration of documenting the selection and qualification of the reviewer would further enhance this process, particularly in cases where the engagement quality reviewer may be from another firm.	No change; documentation requirements are principles-based.
65	61	QM2 requirements\ Paragraph 24	SQMS No. 2, paragraphs 24b, A24, and A25, describe engagement partner responsibilities in relation to the engagement quality review as provided in the auditing standards. We believe this section should discuss all levels of services, including those not currently having specific requirements related to EQR under the respective standards. SQMS No. 2 contains various other paragraphs in the Application and Other Explanatory Material that reference auditing standards, and do not address other levels of service. We believe the concepts apply to all levels of service; highlighting and referencing only auditing standards could be misconstrued. Further, guidance is needed on how to apply the quality management standards when the respective standards for the relevant level of services do not address that element; the quality management standards do not need to replicate extant guidance. We further believe that conforming amendments to the relevant Statements on Standards for Accounting and Review Services (SSARS) or the Statements on Standards for Attestation Engagements (SSAEs) may be needed to address this concern.	<ul style="list-style-type: none"> • Nothing exists to refer to in SSARS yet. • Conforming amendments to SSARS will be exposed by ARSC; conforming amendments to SSAEs included in ED.
66	47	QM2 requirements\ Paragraph 24	Our understanding is that the intent of paragraph 24.a. allows the firm to set policy and procedures so that, for example, the engagement quality review could be performed at the end of the engagement. However, as currently written, Paragraph 24.a. appears to require	Implementation guidance to explain that <i>appropriate</i> points in time

Agenda Item 4D – Detailed Comments QM 2

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			engagement quality review at various points in time. We recommend clarification to the requirement.	during the engagement may be at the end of the engagement, for smaller engagements.
67	76	QM2 requirements\ Paragraph 24	As noted above, the timing of review as proposed would require identification of the EQ review up front on every engagement in theory as significant judgments/matters may arise at any point during an engagement. This is impractical at a small firm and would be virtually impossible to implement. Additionally, in a small firm environment, audit partners are much more involved during the course of the entire audit process and therefore any significant judgments /matters are being addressed by partner level personnel. An EQR at the end of the engagement prior to report issuance is 100% adequate in these situations.	Implementation guidance to explain that <i>appropriate</i> points in time during the engagement may be at the end of the engagement, for smaller engagements.
68	103	QM2 requirements\ Paragraph 24	We support the requirement for the engagement quality review to be performed at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon. However, this requirement could be difficult to implement in a cost-effective manner when there is an external engagement quality reviewer involved. Some sole practitioners and smaller firms still manually prepare their audit documentation or may need information technology upgrades to allow for timely access to the data throughout the engagement.	Implementation guidance to explain that <i>appropriate</i> points in time during the engagement may be at the end of the engagement, for smaller engagements.
69	130	QM2 requirements\ Paragraph 24	The requirement that the engagement quality review perform the procedures at certain points in time during the engagement is generally more important when audit engagements have thousands or tens of thousands of hours during the period of professional engagement. For smaller firms that perform audits that have hundreds of hours, this requirement appears less necessary and becomes burdensome and overly restrictive. Audits that have several hundred hours are performed more fluidly and the benefit of coordinating and documenting the performance of certain aspects of the quality review is not cost effective by starting, stopping, performing certain procedures and ensuring the documentation and sign-off before other procedures can be performed. We do however support the requirement that the documentation of the engagement quality review be filed with the engagement documentation and that it be in sufficient detail to allow an experienced practitioner to understand the nature timing and extent of procedures performed.	Implementation guidance to explain that <i>appropriate</i> points in time during the engagement may be at the end of the engagement, for smaller engagements.
70	139	QM2 requirements\ Paragraph 24	The engagement quality reviewer is responsible to perform procedures at appropriate times during the engagement. This requirement does not seem practicable for small firms and sole proprietors who will more likely than not have to find an engagement quality reviewer from	Implementation guidance to explain that <i>appropriate</i> points in time

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			outside of their firm. There is a variation in practice of how working papers are maintained so does the ASB anticipate the engagement quality reviewer making multiple visits to the firm to complete the engagement quality review?	during the engagement may be at the end of the engagement, for smaller engagements.
71	144	QM2 requirements\ Paragraph 24	Related to the “appropriate points in time” requirement, what about situations where it is only decided later in an engagement that an EQR should be performed? Would that be allowed under the proposed standard?	Implementation guidance to explain that <i>appropriate</i> points in time during the engagement may be at the end of the engagement, for smaller engagements.
72	146	QM2 requirements\ Paragraph 24	We also feel that requirements for timing of an EQR be revisited to take into consideration smaller firms performing smaller engagements. It may be difficult to have the involvement of the EQR done in intervals.	Implementation guidance to explain that <i>appropriate</i> points in time during the engagement may be at the end of the engagement, for smaller engagements.
73	166	QM2 requirements\ Paragraph 24	<p>Requiring the engagement quality reviewer to be a partner not involved in the engagement seems like it might be an impossible task for a lot of small practices. I can imagine a scenario where the engagement quality reviewer could be engaged from an outside firm, but the requirement that they should be involved throughout different points in the audit would likely be very difficult. I’m trying to imagine how this would be economically feasible for many audits and I’m trying to imagine who we would be able to contract with for this kind of service. In my practice I could see where a manager not involved in the audit could fill this role effectively, but I’m not clear that this meets the criteria called for in the proposed standard.</p> <p>From the point of view of a professional being hired to fill this role for another audit firm, I would need more clarification on what that engagement should look like, and what kind of risk I am assuming by taking on that role.</p>	Implementation guidance to explain that <i>appropriate</i> points in time during the engagement may be at the end of the engagement, for smaller engagements.

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
74	134	QM2 requirements\ Paragraph 24	<p>Performance and documentation of the EQ review</p> <p>In principle, we agree that the EQ reviewer’s evaluation of significant judgments includes evaluating the engagement team’s exercise of professional skepticism, required by proposed paragraph 22(c)(i). However, professional skepticism is a state of mind and may not be evidenced by specific documentation, which in turn would make it difficult for the EQ reviewer to evaluate and demonstrate the evaluation performed as part of the EQ review. We urge the Board to consider further guidance in the standards in this area, both on how engagement teams evidence their exercise of professional skepticism (likely in proposed QM SAS) and how the EQ reviewer evidences the evaluation of the engagement team’s exercise of professional skepticism.</p> <p>As an aside, we note that this proposed standard refers to “exercising” professional skepticism while GAAS refers to “maintaining” or “applying” professional skepticism. Consideration may need to be given as to the consistency of these phrases across standards issued by the ASB and ARSC.</p> <p>Timing of the review</p> <p>We support the proposed requirement for the EQ reviewer to perform EQ review procedures at appropriate points in time during the audit. This would allow for a more thorough review by the EQ reviewer and would afford the engagement team adequate time to respond appropriately to the EQ reviewer’s questions and comments. Please also refer to our response to Question 9 below, which provides additional feedback with regard to the timing of EQ reviews.</p>	<ul style="list-style-type: none"> • For consideration in implementation material. • Agree; this is a change between IAASB and ASB style, as demonstrated in SAS No. 145 vs ISA 315 (Revised 2019)
75	61	QM2 requirements\ Paragraph 25	<p>Review of financial statements and the engagement report thereon as referenced in paragraphs 25.g.ii and .A47:</p> <p>Should the reference to “engagement report” in these two paragraphs be replaced with “review report”?</p>	<ul style="list-style-type: none"> • Agree
76	161	QM2 requirements\ Paragraph 25	<p>Paragraphs 25(b) and 25(c) of proposed SQMS No. 2 explain that the engagement quality reviewer should discuss significant matters and significant judgments made in planning, performing, and reporting on the engagement. Paragraph A35 of proposed SQMS No. 2 simply refers to paragraph A92 of proposed AU-C 220, which provides examples of matters that may be significant judgments requiring engagement partner review. We believe that, without further context, this could potentially be interpreted as a requirement that the engagement quality reviewer evaluate all significant judgments and related documentation and conclusions reached by the engagement partner, effectively expanding the scope of EQR</p>	<p>Deleted “the” from “the significant judgments” in 25(c) to be consistent with par. 25(b).</p> <p>Considered adding “ The firm’s policies or procedures may specify</p>

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			<p>review requirements without allowing for judgment in the identification of review areas for the EQR. This limits flexibility in the application of the standard and would likely result in significantly more time spent on the EQR that may be practicable.</p> <p>We believe the ASB should consider reorganizing and enhancing the application material to first explain that AU-C section 220 includes examples of significant judgments that may be reviewed by the engagement partner (paragraph A35) and provide additional context about the role of the engagement quality review with respect to those judgments (new application material), then clearly explain that the firm’s policies and procedures are expected to set out what the engagement quality reviewer is required to review (enhanced paragraph A39), and that the discussion contemplated by paragraph 25(b) may identify other areas that warrant review by the engagement quality reviewer in the context of the nature and circumstances of the engagement (new application material).</p>	<p>certain matters that are commonly expected to be significant judgments” as the last sentence in par. A35; TF did not think this change was necessary.</p>
77	161	QM2 requirements\ Paragraph 25	<p>Finally, as described in our response to Question 4, we are concerned with the new requirement in paragraph 31 of the proposed QM SAS, in particular what evidence would need to be documented to support the engagement partner’s determination in accordance with paragraph 40 that the engagement partner’s involvement has been sufficient and appropriate throughout the audit engagement and comply with the requirements of the SAS. While we understand the basis for this “stand back” in the proposed QM SAS, we do not believe it is appropriate to mirror this requirement in the context of an EQR (paragraph 25(f) of proposed SQMS No. 2). In our view, requiring the engagement quality reviewer to evaluate the basis for the engagement partner’s determination that the engagement partner’s involvement has been sufficient and appropriate goes beyond the objective of an EQR.</p> <p>That being said, we acknowledge that it would be appropriate for the engagement quality reviewer to take action should concerns arise that the engagement partner was not sufficiently and appropriately involved during the audit and therefore did not have an appropriate basis for the conclusions reached. The requirement in paragraph 26 of proposed SQMS No. 2 requires the engagement quality reviewer to notify the engagement partner (and potentially appropriate individuals in the firm) if the engagement quality reviewer has concerns that the significant judgments made by the engagement team, or the conclusions reached thereon, are not appropriate. We believe paragraph 25(f) could be deleted and its intent more clearly articulated in the context of paragraph 26. We note that paragraph A49 acknowledges that the firm’s policies and procedures may specify the individuals in the firm</p>	<p>No change; this would be a significant departure from ISQM 2</p>

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			to be notified if the engagement quality reviewer has unresolved concerns, which we believe could be expanded upon to specifically highlight concerns about the extent of the engagement partner’s involvement.	
78	161	QM2 requirements\ Paragraph 25	<p>While we support clarifying the nature and extent of work expected of an engagement quality reviewer, it is important to recognize the respective roles of the engagement partner and engagement quality reviewer. The role of an engagement quality reviewer is not to repeat all of the same responsibilities as the engagement partner to act as a “check” on all of the judgments made. The engagement quality reviewer supports quality on the engagement by bringing an objective perspective to the significant judgments made by the engagement team. However, the engagement quality reviewer is not able to make an independent assessment as to whether the significant judgments identified by the engagement team represent a complete population, as this would effectively mean reviewing all areas of the engagement and related audit documentation. As acknowledged in paragraph A39, the firm’s policies and procedures will likely describe a baseline of significant judgments that need to be reviewed by the engagement partner and evaluated by the engagement quality reviewer.</p> <p>To the extent there are significant judgments that the ASB believes should always be evaluated by the engagement quality reviewer, we support including those as direct requirements; for example, those contemplated by paragraph 10 of PCAOB AS 1220.</p>	No change; existing AM is sufficient and adding direct requirements like those in AS 1220 would not be appropriate for principles-based standards for non-issuers.

Commented [AG1]: Okay to say?

Commented [JH2R1]: I think for the first paragraph and last, that this is correct. The middle paragraph seems to focus on some of the stuff in line 76 above. See my suggestions in the marked version of 4c.

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
79	143	QM2 requirements\ paragraph 26	<p>Although we agree “a lack of appropriate level of professional skepticism by the engagement team” is an area of concern that may be raised by the engagement quality reviewer, we do not believe it is necessary to diverge from the wording of a requirement in ISQM 2 to reiterate this concept, as it is already addressed in paragraphs 25, A28, A40, A41, and A42 of proposed SQMS No. 2. A change to the wording of a requirement as compared to the International QM standards is a signal that the ASB thinks different or additional procedures should be performed, and we do not believe this is the case.</p> <p>In the event that the ASB decides to retain the additional phrase (as compared to ISQM 2) in paragraph 26 of proposed SQMS No. 2, we have a recommended revision. We do not believe the phrase “when applicable” is clear as written, as it may be misinterpreted to imply there are circumstances when an engagement team is not expected to maintain professional skepticism. For clarity, we recommend the phrase “to the type of engagement” be added, as this is the same construct used in paragraph 25 of proposed SQMS No. 2.</p> <p>We also recommend additional edits as indicated below as conforming changes (moving from “exercise of professional skepticism” to “maintenance of professional skepticism”) both in this paragraph and throughout the proposed QM standards.</p> <p>26. The engagement quality reviewer should notify the engagement partner if the engagement quality reviewer has concerns that the significant judgments made by the engagement team, including the appropriate exercise maintenance of professional skepticism by the engagement team when applicable to the type of engagement, or the conclusions reached thereon, are not appropriate. If such concerns are not resolved to the engagement quality reviewer’s satisfaction, the engagement quality reviewer should notify appropriate individuals in the firm that the engagement quality review cannot be completed. (Ref: par. A49)</p>	<p>Revised to include “type of engagement”</p> <p>Agree; this is a change between IAASB and ASB style, as demonstrated in SAS No. 145 vs ISA 315 (Revised 2019)</p>
80	162	QM2 requirements\ Paragraph 30b	<p>Yes, we believe the requirements in SQMS No. 2 are clear and understandable. However, we have concerns on the expectations regarding proposed SQMS No. 2, paragraph 30b, and the requirement to identify the engagement documentation the EQR reviewed. We feel such a requirement may be interpreted in an overly prescriptive manner and may impede audit quality by encouraging certain EQRs to take an “all or nothing” approach to reviewing documentation and not even look at certain documentation, even in a high-level manner, for concern of being associated as a reviewer of the specific documentation. We recommend additional application guidance be provided or that paragraph 30b be removed.</p>	<p>Consider for implantation guidance to clarify that for example, one tab of a worksheet may be reviewed but not the other tabs.</p>

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
81	47	QM2 requirements\ Paragraphs 28-30	Paragraphs 28 through 30 detail the documentation requirements for the engagement quality review. NASBA is concerned that the standard’s documentation requirement may be more onerous than is needed for smaller, less complicated audits. We recommend the ASB consider whether the documentation requirement can be made more scalable for these engagements.	No change: All that’s asked is: <ul style="list-style-type: none"> • Who reviewed • What was reviewed • That they “approved” it • And when they finished.
82	134	QM2 requirements\ Paragraphs 28-30	Documentation We agree with the enhanced documentation requirements and believe that these enhanced requirements reflect what many firms currently require engagement teams to include in the engagement file as evidence of the EQ review. Paragraph-level observations and recommendations We identified the following paragraph-level observations and recommendations for the Board’s consideration: We recommend the Board revise paragraph 25(f) to refer to “audit engagements” as opposed to “audits of financial statements.” The more general term would then encompass audits of internal control that are integrated with audits of financial statements and compliance audits. We do not believe it is the Board’s intention to exclude these audits from the requirements. In the third bullet of paragraph A6, we ask the Board to clarify the language so that it more closely aligns with how specialists are defined in US GAAS.	Agree, revised QM2 uses the word “expertise” which is used in AU-C 620.
83	147	QM2 requirements\ Paragraphs 28-30	The proposed SQMS requires that documentation of the engagement quality review be maintained with the audit documentation (paragraphs 29 – 30). Although we believe that including documentation showing evidence that the quality review was performed is warranted, we believe that overly detailed documentation in the audit file, including findings and conclusions reached could impair objectivity in performing the next engagement and potentially expose the firm to risk. We believe more clarification is warranted as to what quality review documentation should be kept with audit files.	For consideration as implementation guidance. No change from current practice intended.
84	089	30	Application guidance should be more clear on what is expected for documentation to be “sufficient to enable an experienced practitioner, having no previous connection to the	No change from current practice; adapt AU-C 230.

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			engagement, to understand the nature, timing, and extent of the EQR procedures performed”. While the documentation should be detailed enough to understand who performed the review and the scope of their review, a level of documentation that seems to indicate “reperformance” would be a bit too stringent. Also see response to question 8.	
85	65	QM2 requirements\Y	Yes	Noted
86	102	QM2 requirements\Y	The requirements are clear and understandable.	Noted
87	138	QM2 requirements\Y	Yes	Noted
88	156	QM2 requirements\Y	Yes, based on our initial reading of SQMS No. 2, although our review has not been extensive.	Noted
89	159	QM2 requirements\Y	Yes	Noted
90	164	QM2 requirements\Y	Yes, the requirements are clear and understandable.	Noted
91	168	QM2 requirements\Y	The requirements are clear and understandable.	Noted
92	121	QM2 AM	Yes, the application material in proposed SQMS No. 2 is helpful in supporting the application of the requirements. Implementation materials and other nonauthoritative guidance would be beneficial particularly as it relates to the requirement for the engagement quality reviewer in an audit to evaluate the basis for the engagement partner’s determination of their sufficient and appropriate involvement throughout the audit (proposed SQMS No. 2 para. 25.f.) the factors that should be considered in determining if the performance requirement of the engagement quality review has been achieved (proposed SQMS No. 2 para. 27.) examples of documentation recommended for the engagement quality reviewer depending on the size and complexity of the engagement.	Noted
93	65	QM2 AM\ Additional comments	My former firm has extensive policies and procedures in place for addressing the management of quality at the engagement level, emphasizing the importance of the exercise of professional skepticism, enhancing the documentation of the auditor’s judgments, and robust communications during the engagement.	Noted
94	65	QM2 AM\ 	The ED is consistent with my former firm’s system and supporting policies and procedures.	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
		Additional comments		
95	76	QM2 AM\No	NO [AM is not clear]	Noted
96	143	QM2 AM\ paragraph A3	Paragraph A3 D&T believes adding “attestation examination engagements” is unnecessary and recommends simply referring to “other engagements.” A3. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm’s policies or procedures may specify a different process for appointing engagement quality reviewers for audits of financial statements than for attestation examination engagements or other engagements, with different individuals responsible for each process.	Added because attestation examinations are also reasonable assurance engagements. No change.
97	143	QM2 AM\ Paragraph A11	D&T believes the requirements are clear and understandable and the application material is helpful. However, D&T believes the proposed example added to paragraph A11 in proposed SQMS No. 2 to demonstrate a scenario when “compliance with independence requirements may not apply” could have significant unintended consequences and therefore should be removed. As currently written, the example does not address the fact that the firm may still need to be independent of the entity for a reason other than the fact that an individual within that firm has performed an engagement quality review related to that entity. If the example is not removed, at a minimum the edits shown below should be made to provide clarity and indicate the example relates to a scenario that may exist for a smaller firm. We also believe the other proposed differences from ISQM 2 are unnecessary modifications, and we recommend converging. A11. The relevant ethical requirements that are applicable when undertaking an engagement quality review may vary, depending on the nature and circumstances of the engagement or the entity. Various provisions of relevant ethical requirements may include various provisions, such as specific independence requirements, that apply only to an individual, such as an engagement quality reviewer, and not the firm itself. For example, if a smaller firm uses an external provider to perform an engagement quality review, that individual may be subject to independence requirements, but the entire firm for whom the individual works may not need to comply with independence requirements related to the entity however, the independence requirements	Agree with proposed revisions

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			<p><u>imposed on that individual, because that individual is performing the engagement quality review on a specific entity, may not necessarily extend to the entire firm for which the individual works.</u></p>	
98	40	QM2 AM\ A13	<p>Application Guidance: SQMS No. 2 Define close personal relationship as used in paragraph A13. The AICPA Code of Professional Conduct provides a definition of close relative in paragraph .08, Close relative: A parent, sibling, or nondependent child. [Prior reference: paragraph .04 of ET section 92.] Add language to the examples in paragraph A13 to explain why a threat to the engagement quality reviewer’s objectivity may be affected similar to those in the AICPA Code of Professional Conduct’s Topic 1.210 – Conceptual Framework Approach. We also suggest adding the language underlined below to paragraph A13. Paragraph A13: Threats to the engagement quality reviewer’s objectivity may be created by a broad range of facts and circumstances. Examples follow:</p> <p>A self-review threat may be created when the engagement quality reviewer previously was involved with significant judgments made by the engagement team, in particular, the engagement partner or other engagement team member. <u>There is the likelihood that the engagement quality reviewer will not apply the appropriate level of due diligence or may overlook an error or other discrepancy to preserve the reputation of the engagement team, partner, other engagement team member or their previous involvement in the engagement.</u></p> <p>A familiarity or self-interest threat may arise when the engagement quality reviewer is an immediate family member of the engagement partner or another member of the engagement team, or through close personal relationships with members of the engagement team. <u>There is the likelihood that the engagement quality reviewer will not apply the appropriate level of due diligence or may overlook an error or other discrepancy to preserve the reputation of the engagement team, partner, other engagement team member or their previous involvement in the engagement. Such a relationship may make the engagement quality reviewer sympathetic to the engagement partner or another member of the engagement team. With a self-interest threat, there is the likelihood that the engagement quality reviewer will not apply the appropriate level of due diligence or may overlook an error or other discrepancy to obtain a financial or nonfinancial benefit from the engagement partner or other members of the engagement team.</u></p>	<p>One comment to strengthen guidance in A13; two comments that A13 over-emphasizes the self-review threat. Accordingly, no change proposed.</p>

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			An intimidation threat may be created when actual or perceived pressure is exerted on the engagement quality reviewer (for example, when the engagement partner is an aggressive or dominant individual, or the engagement quality reviewer has a reporting line to the engagement partner). <u>With an intimidation threat, there is the likelihood that the engagement quality reviewer will not apply the appropriate level of due diligence or may overlook an error or other discrepancy to preserve the reputation of the engagement team, partner, other engagement team member due to intimidation from members of the engagement team, engagement partner, or others.</u>	
99	81	QM2 AM\ Paragraph A13	However, we do not support paragraph A13 regarding the familiarity or self-interest threat to objectivity that may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team or has a close personal relationship with members of the engagement team. This requirement disadvantages small firms, such as ours, as many small firms may consist of close or immediate family members working together or partners that have worked closely together for many years. The ASB should remain confident that practitioners will exercise and maintain objectivity under relevant ethical standards.	One comment to strengthen guidance in A13; two comments that A13 over-emphasizes the self-review threat. Accordingly, no change proposed.
100	109	QM2 AM\ Paragraph A13	We feel there may be too much emphasis placed on the self-review threat (Par. A13).	See row above.
101	143	QM2 AM\ Paragraph A23	The guidance relates to policies and procedures that a firm may have in place when an engagement quality reviewer, who becomes aware of circumstances that would impair their eligibility, is replaced. Because D&T believes the last bullet is an action to be performed by the engagement team rather than the engagement quality reviewer who is replacing the impaired engagement quality reviewer, the bullet should be removed from the list. If the intent is that the new engagement quality reviewer or the engagement partner be required to document the circumstances necessitating a change in the engagement quality reviewer, the bullet should be clarified. In addition, D&T believes the description of the procedures performed by the engagement quality reviewer described in the first bullet should be clarified. A23. In circumstances in which the engagement quality reviewer’s eligibility to perform the engagement quality review becomes impaired, the firm’s policies or procedures may set out a process by which alternative eligible individuals are identified. The firm’s policies or procedures may also address the responsibility of the individual appointed to replace the	Standard doesn’t prescribe who needs to document, just that it is. “Who” and “how” should be left to the firm and team. No change Revised first bullet; retained last bullet.

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			<p>engagement quality reviewer to perform procedures sufficient to fulfill the requirements of this proposed SQMS with respect to the performance of the engagement quality review. Such policies or procedures may further address the need for consultation in such circumstances and may include, for example, the following:</p> <ul style="list-style-type: none"> • Evaluation of whether any review work that has been <u>procedures</u> performed by the <u>previous</u> engagement quality reviewer could be relied upon by the newly assigned engagement quality reviewer or whether all work would need to be reperformed • Consideration of the effect of an engagement quality review assistant on the transition, when such assistant has been involved in the engagement quality review prior to transition • Procedures undertaken by the engagement team to inform the newly assigned engagement quality reviewer about planning meeting discussions that have already occurred and other matters in which the previous engagement quality reviewer had been involved • Documentation of the circumstances necessitating the change 	
102	61	QM2 requirements\ Paragraph A47	The last sentence in paragraph .A47 indicates that the guidance in this paragraph also applies to review engagements and the related engagement report. Is this sentence necessary as any such non-audit engagements would be covered by paragraph A48?	<ul style="list-style-type: none"> • Added “or reviews” to par. A48
103	143	QM2 AM\ Paragraphs A47-A48	<p>Paragraphs A47 and A48</p> <p>D&T believes it is unclear which professional standards are applicable in each application paragraph and recommends the guidance include reference to the relevant professional standards (i.e., SAS, SSAE, SSARS). For example, the last statement in paragraph A47 of proposed SQMS No. 2 refers to “review engagements,” but it is unclear whether this phrase is referring to reviews within the SASs or SSARSs.</p> <p>The lead-in to paragraph A48 of proposed SQMS No. 2, which was modified from ISQMS No. 2, states that this paragraph applies to “engagements other than audits of financial statements,” implying paragraph A47 of proposed SQMS No. 2 relates only to “audits of financial statements.” However, the last statement in paragraph A47 states the guidance also applies to review engagements. Therefore, the statement in paragraph A48 to exclude audits of financial statements should include “or reviews.”</p> <p>Review by Engagement Quality Reviewer of Financial Statements and Engagement Reports (Ref: par. 25g)</p>	<p>Agree, revised; footnotes not added.</p>

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
			<p>A47. For audits of financial statements, the engagement quality reviewer’s review of the financial statements and auditor’s report thereon is consistent with the engagement quality reviewer’s understanding of those matters based on the review of selected engagement documentation and discussions with the engagement team. In reviewing the financial statements, the engagement quality reviewer may also become aware of other areas where significant judgments would have been expected to be made by the engagement team for which further information may be needed about the engagement team’s procedures or conclusions. The guidance in this paragraph also applies to reviews <u>of financial statements</u> and the related engagement report. (Footnote 1)</p> <p>A48. For engagements other than audits <u>or reviews</u> of financial statements, the engagement quality reviewer’s review of the engagement report and, when applicable, the subject matter information may include considerations similar to those described in paragraph A46 (for example, whether the presentation or description of matters relating to the significant judgments made by the engagement team are consistent with the engagement quality reviewer’s understanding based on the procedures performed in connection with the review). (Footnote 2)</p> <p>Footnote 1: Applicable Statements on Auditing Standards, including AU-C 930, Review of interim financial information.</p> <p>Footnote 2: Applicable Statements on Standards for Attestation Engagements, Statements on Standards for Accounting and Review Services.</p>	
104	65	QM2 AM\Yes	Yes	Noted
105	76	QM2 AM\Yes	Yes	Noted
106	102	QM2 AM\Yes	The application material in QM SAS is helpful. .	Noted
107	138	QM2 AM\Yes	Yes	Noted
108	156	QM2 AM\Yes	Yes, based on our initial reading of SQMS No. 2.	Noted
109	159	QM2 AM\Yes	Yes	Noted
110	162	QM2 AM\Yes	Yes, we believe the application material in SQMS No. 2 is clear and understandable.	Noted
111	164	QM2 AM\Yes	Yes, the application material is helpful.	Noted
112	168	QM2 AM\Yes	Yes, the application materials are helpful.	Noted

Agenda Item 4D – Detailed Comments QM 2

Row	CL #	Category	Coded Text	Task Force Comments
113	65	QM2 Other	With respect to threats to the objectivity of the engagement quality reviewer, there was nothing in the ED about “rotation”-i.e., limits on how long the same individual can serve as a reviewer on a particular engagement). My former firm has a rotation policy, longer for non-filers than for filers. The ASB should consider adding guidance concerning rotation to SQMS No. 2.	No change; no guidance around engagement partner rotation either.
114	134	QM2 Other	Separate standard Nevertheless, we do have some concerns with the geography of this proposed standard and the implications for firms’ implementation and subsequent evaluations, including conclusions related to deficiencies. We note that this proposed standard would no longer be part of US GAAS, which would be inconsistent with the PCAOB’s equivalent standard that currently resides in auditing standards, not in quality control standards. This may create implementation challenges for firms with regard to how EQ reviews fall into, and interact with, a firm’s overall system of quality management. In particular, guidance may be needed as to whether a departure from SQMS 2 might lead to a noncompliant engagement or to an issue with the firm’s system of quality management. It is currently unclear because EQ reviews are engagement-specific, but the proposed standard governing them resides within the standards on quality management. We believe this is another point of possible coordination with the PRB.	No change to standards. Agree that this is a point of coordination with the PRB.
115	146	QM2 Other	Yes, the materials are clear and understandable to us, but we have a concern that they will not be clear to smaller firms. We see many design deficiencies where firms do not understand engagement quality control review requirements as they are currently written. Additionally, firms that do not understand the requirements write their policies and procedures in such a way that none of their engagements ever meet the criteria.	No change to standard; address thru implementation guidance.