



Agenda Item 2

Quality Management

Objective

To vote to issue for exposure the following proposed standards:

- [Proposed] Statement on Quality Management Standards (SQMS) *A Firm's System of Quality Control* ("SQMS 1")
- [Proposed] SQMS *Engagement Quality Reviews*; and ("SQMS 2")
- [Proposed] Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, ("QM SAS") (collectively the "Proposed QM Standards").

Quality Management Task Forces

Following the model used by the International Auditing and Assurance Standards Board (IAASB), the Quality Standards Task Force has been divided into two groups:

QM1

Sara Lord, *Chair*
Sherry Chesser
Kathryn Fletcher
Kristen Kociolek
Alan Long
Tania Sergott
Kimberly Stazyk

QM2/220

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

Background

At its September 2020 meeting, the IAASB voted to issue the following as final standards:

- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1);
- ISQM 2, *Engagement Quality Reviews* (ISQM 2); and

- International Standard on Auditing (ISA) 220 (Revised), *Quality for an Audit of Financial Statements* (ISA 220 (Revised)).

The ASB discussed preliminary issues at its May and July 2020 meetings, and reviewed drafts of the Proposed QM Standards at its October and December meetings.

The most significant matter discussed by the ASB in December concerned the cooling-off period required by SQMS 2. The ASB directed that the requirement for a cooling-off period converge with the IAASB standard, with a robust discussion in the exposure draft explanatory memo. The ASB also directed that certain editorial changes be made, which are noted in agenda items 2A, 2B and 2C.

Amendments

Amendments to other AU-C sections resulting from the Proposed QM Standards are presented in agenda item 2D. To determine completeness of the proposed amendments, all AU-C sections were searched for the terms *section 220*, *QC section 10*, and *quality control*.

The IAASB conforming amendments are shown in agenda item 2E for reference. Note that, unlike the IAASB, the AICPA distinguishes between amendments and conforming changes. Conforming changes address changes to titles and paragraph numbering, do not require exposure, and are made by the Content Management Team. Amendments address changes to text, are made by the ASB and do require exposure.

Matters for ASB Consideration

1. *Timing of engagement partner review of auditor's report (QM SAS)*

Paragraph 33 of the proposed QM SAS states the following:

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

A member of the ASB expressed the concern that paragraph 33 creates an implicit requirement that the report has to be drafted or finalized before the report can be dated. Further, paragraph 33 creates an implicit requirement that, when applicable, key audit matters (KAMs) have to be drafted or finalized and documented before the report can be dated. This requirement doesn't exist in AU-C 700 or AU-C 701. To address this concern, the member suggested the revision shown below, on the basis that the engagement partner's review of the auditor's report, like an engagement quality review, is not a procedure that results in audit evidence. Accordingly, it should not be linked to the date of the report, which is the date on which

the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. Furthermore, KAMs are determined based on the matters communicated to those charged with governance; those communications may technically occur after the date of the auditor's report (for example, this might occur when the report date and report release date are not the same).

The ASB member proposed the following revision to paragraph 33:

33. To determine that the report to be issued will be appropriate in the circumstances, the engagement partner should review the financial statements **prior to dating the auditor's report**, and **review** the auditor's report, including, if applicable, the description of the key audit matters and related audit documentation, **before the report release date**.

The Task Force, after deliberation, believes that as a quality management procedure, unrelated to audit evidence, it is appropriate for the engagement partner to review the auditor's report prior to dating it. Furthermore, the Task Force believes that it is increasingly uncommon for there to be a significant gap between the report date and the report release date. Regarding KAMs, the Task Force believes that the engagement partner's review is an important quality management procedure addressing completeness and accuracy of the KAMs included in the report, and that review is appropriately performed before the engagement partner dates the report. The Task Force also believes that the proposed revision would be a divergence from ISA 220 (Revised) that would result in the proposed QM SAS being "ISA-minus".

Question for the ASB:

1. What are the ASB's views about the proposed revision?

2. Review of engagement control reviewer's assistant's work (SQMS 2)

Paragraph 21(b) requires the firm to establish policies and procedures that address the engagement quality reviewer's responsibility for determining the nature, timing and extent of the direction and supervision of the individuals assisting in the review, and the review of their work.

A member of the ASB questioned how the engagement quality reviewer would review the assistant's work on the engagement quality review. The Task Force considered the question and believes that the EQ reviewer's review of the assistant's work is no different from the review of the work of any engagement team member, including, for example, the engagement partner's review of a manager's review of a staff person's work.

The ASB member suggested revisions to the application material; the Task Force considered including the following revision to application material:

A21. With respect to the engagement quality reviewer's responsibility for determining the nature, timing and extent of the direction and supervision of the individual assisting in the review, and the

review of their work, tThe firm’s policies or procedures may include responsibilities of the engagement quality reviewer to:

- Consider whether assistants understand their instructions and whether the work is being carried out in accordance with the planned approach to the engagement quality review; and
- Address matters raised by assistants, considering their significance and modifying the planned approach appropriately.

Question for the ASB:

2. What are the ASB’s views about the proposed revision?

Agenda Items Presented:

- **2A** Proposed SQMS *A Firm’s System of Quality Control*, marked from December meeting
- **2B** Proposed SQMS *Engagement Quality Reviews*, marked from December meeting
- **2C** Proposed SAS *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, marked from December meeting
- **2D** Proposed amendments to GAAS resulting from the QM standards
- **2E** Proposed amendments to ISAs resulting from IAASB QM standards (for comparative purposes)
- **2F** Proposed exposure draft “wrap”
- **2G** Proposed SQMS *A Firm’s System of Quality Control*, marked against ISQM 1
- **2H** Proposed SQMS *Engagement Quality Reviews*, marked against ISQM 2
- **2I** Proposed SAS *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, marked against ISA 220 (Revised)

Ms. Lord and Mr. Heath will be using agenda items 2A, 2B, 2C, 2D and 2F in the discussion of the proposed standards.