



National Association of State Boards of Accountancy

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July 29, 2021

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

Via email: CommentLetters@aicpa-cima.com

Re: *Proposed Statements on Quality Management Standards – Quality Management: A Firm’s System of Quality Management and Engagement Quality Reviews*

Proposed Statement on Auditing Standards – Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards

Dear Members of the AICPA Auditing Standards Board (ASB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the *Proposed Statements on Quality Management Standards (SQMS) – Quality Management: A Firm’s System of Quality Management and Engagement Quality Reviews* and the *Proposed Statement on Auditing Standards (SAS) – Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards* (collectively, the Exposure Draft). NASBA’s mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments on the requests for comment for consideration as presented in the explanatory memorandum to the Exposure Draft.

PART 1: SQMS No. 1 – A New Approach Focus on Quality Management and the Components of the System of Quality Management

Request for Comment 1:

Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents’ views on whether the requirements in proposed SQMS No. 1 are clear and understandable and whether the application material is helpful in supporting the application of those requirements.

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. However, we do have concerns about implementation. Our primary concern is that, without significant implementation guidance, firms may face significant challenges in applying these standards.

State Boards have the ultimate authority for regulating CPAs and their firms, and therefore need to ensure that firms of all sizes can implement the proposed quality management standards. In some cases, the cost of compliance may be prohibitive and force the smallest firms to exit the audit profession, which would not serve the public interest. In light of these concerns, we recommend the ASB consider whether it may be appropriate to modify certain elements of the proposed standards for the smallest firms.

PART 2: Scalability of SQMS No. 1

Request for Comment 2:

Respondents are asked to provide their views on the scalability of the new quality management approach. In addition, the ASB is seeking respondents' views on specific requirements in proposed SQMS No. 1 that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful.

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. We also suggest the implementation guidance address whether an engagement quality review is an appropriate response to an assessed quality risk recognizing that a built-in bias and hesitation to identifying engagements as high risk may be present.

Adequate guidance and resources will be critical, particularly for the smaller firms. Guidance should highlight the areas of opportunity for scalability and provide clear examples that illustrate the application of the standards.

PART 3: SQMS No. 2

Request for Comment 3:

Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 2 are clear and understandable, and whether the application material is helpful in supporting the application of those requirements?

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 engagement quality review at various points in time. We recommend clarification to the requirement.

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.

PART 4: QM SAS

Request for Comment 4:

Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed QM SAS are clear and understandable, and whether the application material is helpful in supporting the application of those requirements?

We understand that requirements in the proposed QM SAS represent a shift from a more standardize quality control approach to a risk-assessment approach at the firm level, which will require significant effort to implement. In concept, we agree that risk-assessment approach is in the public interest. In practice, many firms rely on templated resources to help consider and document quality management, therefore, the shift to a more "free form," risk-based approach will likely be a heavy burden. NASBA suggests robust implementation guidance be available to help guide firms through the process.

PART 5: Effective Dates and Implementation Period

Request for Comment 5:

Respondents are asked to provide their views on whether the effective dates are clear.

NASBA believes that the effective dates of SQMS No. 1, SQMS No. 2 and the QM SAS are clear.

Request for Comment 6:

Respondents are asked to provide their views on whether an 18-month implementation period is appropriate. If that period is not appropriate, please explain why and what implementation period would be appropriate.

NASBA believes that the 18-month implementation period is appropriate for larger firms. However, we recommend the ASB bifurcate the effective dates of the proposed quality management standards between the larger and smaller firms. We recommend an additional 6 – 12 months for the smaller firms to implement the standards, which would provide them the opportunity for education and guidance from the experience of the larger firms and more time to plan for implementation.

PART 6: Other Issues for Consideration

Request for Comment 7:

Respondents are asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. If not, please explain why and provide examples of safeguards that could lower the self-review threat to an acceptable level.

NASBA agrees that precluding engagement team members from inspecting completed engagements would enhance audit quality and be in the public interest.

Robust implementation guidance should help firms identify ways to comply with the requirement, for example, that an appropriately experienced individual (not necessarily a partner in the firm) may perform the review.

Request for Comment 8:

Respondents are asked for their views on whether a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement, and (a) if so, the appropriate length of the required cooling-off period, or (b) if not, please explain why and provide examples of safeguards that could lower the objectivity threat to an acceptable level.

NASBA believes that it is in the public interest to require a cooling-off period before a former engagement partner can perform an engagement quality review of that engagement. We believe that a two-year cooling off period, which is consistent with international standards, is a reasonable timeframe.

Request for Comment 9:

Respondents are asked for their views on whether the engagement quality review should be required to be completed before the report is dated, rather than before the report is released.

An engagement quality review could identify issues that might require additional audit procedures. Therefore, we believe that firms should complete the engagement quality review before the report is dated, rather than before the report is released, to allow the firm to complete those additional procedures prior to dating the report.

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We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

A handwritten signature in black ink, appearing to read "A. Carlos Barrera", with a long horizontal flourish extending to the right.

A. Carlos Barrera, CPA
NASBA Chair

A handwritten signature in black ink, appearing to read "Ken L. Bishop", with a long horizontal flourish extending to the right.

Ken L. Bishop
NASBA President and CEO