



August 30, 2021

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AICPA Auditing Standards Board
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RE:

- Proposed Statements on Quality Management Standards (SQMS):
 - *Quality Management: A Firm's System of Quality Management (SQMS No. 1)*
 - *Quality Management: Engagement Quality Reviews (SQMS No. 2)*
- Proposed Statement on Auditing Standards: *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standard (QM SAS)*

Dear Committee Members:

The Illinois CPA Society (ICPAS) is a statewide membership organization, with over 22,000 members dedicated to enhancing the value of the CPA profession. Founded in 1903, ICPAS is one of the largest state CPA societies in the United States. ICPAS represents Illinois CPAs in public accounting and consulting, corporate accounting and finance, not-for-profit, government and education organizations as well as affiliate member groups for students, educators, international professionals, and related non-CPA finance professionals.

The ICPAS Audit and Assurance Services Committee (the "Committee" or "we") is pleased to comment on the proposed standards listed above. The organizational and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These comments and recommendations represent the positions of the Committee rather than any individual members of the Committee, the organizations with which such members are associated, or the ICPAS Board.

The Committee acknowledges that the following response may include divergent views. The intent in presenting these views is to ensure that the response adequately illustrates the Committee's support for and concerns with the proposed standard and provides suggested alternative approaches where disagreement may be present.

Proposed SQMS No. 1

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.

Overall, we agree with the general evolution of the current Statements on Quality Control Standards (SQCS) into the proposed Statements on Quality Management Standards (SQMS). The addition of the risk assessment process and information and communication components to the current six elements of quality control under SQCS along with the expansion of the human resources element to the more broadly-based resources component are positive changes. These changes emphasize the importance of



ILLINOIS CPA SOCIETY

integration amongst the components and should result in a more comprehensive quality management system for many firms.

The introduction of the firm's risk assessment process as a cornerstone of quality management should allow firms to tailor quality management systems more effectively. However, identifying, assessing, and responding to quality risks in an effective, efficient manner may be a challenge for many firms unaccustomed to assessing firm structures and operations. As such, we would request additional clarity and examples on several components of the risk assessment process that would be helpful for implementation.

Quality Objectives - Within standards paragraph 25 and application material paragraph A41, it is noted that a firm might determine that an additional quality objective needs to be established during the risk assessment process. While application material paragraphs A43-A45 provide some idea of other sources for these objectives, we feel discussion of how these sources of information coalesce into a quality objective would be helpful for the implementation process. For example, application paragraph A42 refers to results of external inspections as a possible source of information in establishing quality objectives. A discussion of the information this type of source might provide linked to the quality objective it helps establish would provide better clarity regarding the relationship between these information sources and resultant quality objectives.

Quality Risks - The next step in the risk assessment process is to identify and assess quality risks. The examples in application material paragraph A48 are helpful in relation to the types of risks that may arise from various conditions, events, circumstances, actions, or inactions. In addition, these provide clear linkage between the quality risk and impacted component of quality management (i.e., governance and leadership; resources). Further examples of quality risks, possibly at least one for each component, would be helpful.

Designing and Implementing Responses – Lastly, a firm must address quality risks through responses. There is one example of the design and implementation of responses to address quality risks in paragraph A52. Further examples of responses to address quality risks would be helpful.

The risk assessment process should result in well-scaled, better tailored systems of quality control. The application material specifically addresses scalability within the risk assessment process in paragraphs A40 (overall risk assessment), A53 (documentation of policies and procedures), and A54 (how policies or procedures may vary). However, firms may be concerned regarding the mechanics of how to scale their systems of quality control without missing anything significant. To that end, further guidance regarding how to effectively scale a system either within the application material or from other supplemental sources (i.e., education tailored for firms of various sizes, practice aids, and other guidance with further examples) would be helpful for firms that may have concerns about properly implementing the standard. Along with these more traditional tools, another very helpful resource would be a pool of well-trained subject matter experts that can either answer firm questions about the standard or assist firms with transitioning existing quality control system documents.

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



ILLINOIS CPA SOCIETY

SQMS No. 1 that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful.

The flexibility provided under the proposed quality management standard is critically important to its scalability, as a prescriptive uniform approach for all firms does not recognize the diversity in public accounting firms. The risk-based approach proposed by ASB includes quality objectives requiring firms to assess risks specific to each firm's circumstances, which allows firms to tailor appropriate responses. Adding additional requirements that are prescriptive in nature could negatively impact scalability and audit quality. For example, setting prescriptive requirements based on a firm's size, complexity or nature may result in QC processes that do not align with the quality risks of a firm.

As discussed in the response to the previous question, though the proposed standard aims to provide flexibility and scalability, the shift to a risk-based quality management system may initially make the standard more difficult for firms to absorb and implement. As such, implementing the standard may appear unintentionally daunting. Therefore, we suggest ensuring firms have access to the following resources:

- Practice aids, dealing specifically with the firm's quality objective and risk assessment process (especially those taking the needs of smaller firms into account).
- Adapted versions of existing peer review quality control checklists that a firm might use to assess the design of its new system.

Amongst the Committee concern was expressed regarding the scalability of one of the only prescribed risk responses. This concern is discussed in the response to #7 below.

Proposed SQMS No. 2

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.

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.

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.



ILLINOIS CPA SOCIETY

Proposed QM SAS

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 the proposed QM SAS are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.

Overall, we support the proposed QM SAS and believe the requirements are generally clear and understandable, effectively addressing the engagement partner's ultimate responsibility for ensuring the overall quality of the engagement. The proposed QM SAS appears consistent with and logically linked to the proposed SQMS standards.

However, the Committee does request clarification regarding the extent of the engagement partner's responsibility in relation to members of a component auditor's engagement team outside of the partner's own firm.

The QM SAS application material, specifically paragraphs A23 - 24, discuss considerations of the engagement partner in relation to members of an engagement team outside of the partner's firm.

In addition, the proposed amendment to AU-C section 600, Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors) adds language to AU-C 600.05 indicating that the audit engagement partner is responsible for "supervision of members of the group engagement team" to the extant language. Taken together, the application material and AU-C 600.05 revision could imply that an engagement partner may need to gain comfort with every member of a component auditor's engagement team – a possibly impractical and unnecessary step. The Committee requests ASB clarify the expectation of the extent of an engagement partner's supervision and comfort with a component auditor's engagement team members.

Effective Date

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

The effective dates as described are generally clear.

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.

We believe the proposed implementation period and associated effective dates should be lengthened by an additional 12 to 24 months given the following:

- Need for robust education regarding the standard, particularly considering the expectation that firms must digest and implement a set of standards requiring critical consideration of quality risks and responses.



ILLINOIS CPA SOCIETY

- Need for time to develop methods to accomplish mandated risk responses, specifically inspection by qualified individuals not involved with the engagement team. This will likely require a significant amount of inter-firm cooperation and consideration, including the cultivation of a level of connection amongst firms not currently available.
- Need for resource providers (including practice aid providers, education providers, and other organizations such as State CPA Societies) to develop programs and other methods of assisting with these risk responses.

In addition to the above, the disruption caused by the recent pandemic including related demands on the time of firm management and the necessary extension of the comment period means the originally proposed effective dates are not as feasible.

Unlike the implementation of other standards, the implementation of a new set of quality management standards may involve foundational shifts in how firms operate. Without sufficient time to educate firms and allow for adjustment, the proposed standards run the risk of having no actual impact on firm and engagement quality.

Issues for Consideration

Issue 1 – Self-Inspection

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.

The Committee held two diverging views on the issue of self-inspection both of which are presented below for ASB's consideration.

- *Support for Precluding Self-Inspection*
One segment of the Committee supports precluding self-inspection. A firm's inspection program will be more effective if qualified personnel who did not participate on the engagement team perform the inspection of a particular engagement. The non-participation in the performance of the original engagement makes these individuals better able to objectively assess the work product produced. Not only can these independent individuals more critically evaluate work, but they also provide a separate perspective and body of knowledge with which to identify potential problems and errors. To effectively overcome the threat of self-review, independent inspection procedures are essential.

Monitoring of the other components of a firm's quality management system may still be performed by the firm itself. Additionally, periodic inspections are meant to focus on a representative selection of a firm's engagements rather than every engagement performed by the firm. There may be multiple ways for firms to tailor its monitoring and inspection program to limit the time spent by outside individuals on inspection procedures.



ILLINOIS CPA SOCIETY.

For example, a firm might possess enough qualified personnel who did not work on various engagements to inspect a sample of its SSARS practice and only require an outside party to inspect one or two audits thus substantially limiting the amount of time spent by outside parties on its inspection.

Properly educating firms on how to design and tailor effective, yet *efficient* inspection programs is imperative to successful implementation of this concept. In addition, providing resource assistance in linking up firms that need to involve outside individuals in the inspection process with qualified parties is critical.

- *Support for Retaining Self-Inspection with Suggested Alternatives*

Another segment of the Committee supports retaining a practitioner's ability to perform self-inspection in cases where the practitioner has shown adequate compliance with professional standards in the past. This segment agreed with the ASB that inspections of completed engagements by personnel independent of the engagement are usually more effective, assuming the inspector has the necessary technical qualifications.

However, this segment noted that inspection effectiveness usually varies with the overall quality and tone of the firm rather than on whether or not self-inspection was utilized. Firms already committed to quality that have a thorough understanding of standards will tend to perform original engagements well and complete robust, effective inspections. While other firms with inadequate knowledge of the standards or otherwise poor documentation and secondary review practices will tend to produce either poor inspection results or have ineffective inspection programs that do not detect any engagement issues. This variation occurs regardless of whether those firms' inspection procedures involve any element of self-inspection. Essentially, even firms with the ability (i.e., enough qualified personnel) to prevent self-inspection still run a significant risk of producing fundamentally poor inspection results, if the quality issues discussed above are present within the firm. Even should the proposed standard preclude self-inspection these same firms may be unlikely to critically evaluate the qualification and ability of an outside inspector, running the risk of perpetuating poor inspection programs.

Given this variability of results, we do not believe it is necessary to force all firms, particularly sole practitioners and small firms, to incur the cost of employing a third-party reviewer in cases where the firm has demonstrated strong performance. Sole practitioners and small firms in some markets may also have difficulty locating a qualified inspector at a firm of comparable size. In addition, significant client relationship concerns exist with repercussions that are not fully foreseeable.

While we support the ASB's goal of strengthening the inspection process, here are some suggested alternatives and resources that could be considered:

- A firm that receives a pass with no deficiencies rating on its peer review report (or a pass rating with no findings) will be exempt from the requirement to use independent personnel on its inspection during the intervening two years between peer reviews.



ILLINOIS CPA SOCIETY

- The engagement quality reviewer (EQR) may be used as inspector, as this individual was independent of the engagement team as a precondition to act in that role. Alternatively, an engagement that was subjected to EQR in the year may count as an inspection selection based on the same consideration.
- Currently, other than an already limited peer reviewer pool, no network of qualified individuals who might perform inspections exists, meaning locating a qualified inspector may be problematic for firms. The AICPA could develop a database of qualified inspectors (apart from or as an extension of the existing peer review directory). Firms could search a directory of inspectors by firm size, industry, etc. This would increase the population of inspectors available for smaller firms.

Issue 2 – Cooling-Off Period for Engagement Quality Reviewers

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.

We do not believe a cooling-off period should be an absolute requirement for eligibility of an engagement quality reviewer.

One of the major strengths of the proposed standard is the supposed flexibility it offers in tailoring responses to quality risk. The concept of engagement quality review in the past has been to provide additional oversight on a firm's riskiest engagements. Although engagement quality reviews (EQRs) are not a mandated risk response under the proposed standard, EQRs do represent one of the few specifically discussed risk responses. The more constraints placed on this response the less likely some firms may be to incorporate a strong risk response such as EQR into its policies and procedures.

The Explanatory Memorandum discusses the International Auditing and Assurance Standards Board's (IAASB) thought process in developing its quality management standards with regards to this issue – much of which covered concern regarding perception of different levels of EQR. However, an extant requirement already exists that an engagement quality reviewer must be independent of the engagement team, providing a built-in safeguard to the self-review threat. Outside the public company arena, where mandatory engagement partner rotation is required, it would seem overly prescriptive to institute a mandatory cooling off period within a standard that already addresses the self-review threat in some manner.

We acknowledge that a firm may design a similar risk response that does not constitute an EQR thus avoiding the cooling-off period. However, we believe a better option would be to retain the flexibility of EQR as risk response by including the cooling off period as a recommendation rather than a requirement as considered by ASB in Option #1 of the Explanatory Memorandum.

Issue 3 – Completion of Engagement Quality Review and Dating of the Auditor's Report



ILLINOIS CPA SOCIETY

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.

We agree that for engagements in which an engagement quality review is performed, the engagement quality review (EQR) should be completed prior to dating the report. Considering the nature and objectives of an engagement quality review, this ensures the engagement partner and EQR reviewer address significant considerations prior to the report date. When applicable, we believe the review is an essential part of the engagement completion process and the report should not be dated any earlier than the date this review is completed.

The Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Genevra D. Knight, CPA
Chair, Audit and Assurance Services Committee

Michael Ploskonka, CPA
Vice Chair, Audit and Assurance Services Committee



ILLINOIS CPA SOCIETY

APPENDIX A

AUDIT AND ASSURANCE SERVICES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2021 – 2022

The Audit and Assurance Services Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. The Committee seeks representation from members within industry, education, and public practice. These members have Committee service ranging from newly appointed to almost 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of audit and attestation standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of audit and attestation standards. The Subcommittee develops a proposed response that is considered, discussed, and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Scott Cosentine, CPA
Timothy Delany, CPA
Jennifer E. Deloy, CPA
James J. Gerace, CPA
Michael R. Hartley, CPA
James R. Javorcic, CPA
Amber Sarb, CPA
Elizabeth J. Sloan, CPA
Richard D. Spiegel, CPA
Meredith Vogel, CPA

Ashland Partners & Company LLP
RSM US LLP
Marcum LLP
BDO USA, LLP
Crowe LLP
Mayer Hoffman McCann P.C.
RSM US LLP
Grant Thornton LLP
Wipfli LLP
Grant Thornton LLP

Regional:

Emily Hoaglund, CPA
Genevra D. Knight, CPA
Michael Ploskonka, CPA
Timothy Van Cott, CPA

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Porte Brown LLC
Selden Fox, Ltd.
Miller Cooper & Co., Ltd.

Local:

Arthur Gunn, CPA
Lorena C. Johnson, CPA
Mary Laidman, CPA
Carmen F. Mugnolo, CPA
Jodi Seelye, CPA

Arthur S. Gunn, Ltd.
CJBS LLC
DiGiovine, Hnilo, Jordan & Johnson, Ltd.
Mugnolo & Associates, Ltd.
Mueller & Company LLP

Industry/Consulting:

Sean Kruskol, CPA

Cornerstone Research

Educators:

Meghann Cefaratti, PhD

Northern Illinois University

Staff Representative:

Heather Lindquist, CPA

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