



AUDITING STANDARDS BOARD MEETING AGENDA
October 12-14, 2021
VideoConference (Zoom)
(Times are EST)

Tuesday, October 12 11:00am –5:00pm	Wednesday, October 13 11:00am – 5:00pm	Thursday, October 14 11:00am – 3:30pm
11:00–11:30 Agenda Item 1 Chair/AICPA Update	11:00–1:00 Agenda Item 4 Quality Management Comment Letters	11:00–12:00 Agenda Item 3 NOCLAR Final standard
11:30–12:00 Agenda Item 2 IAASB Update		12:00–1:00 Agenda Item 5 Group Audits Discuss Issues/Draft Document
12:00–1:00 Agenda Item 3 NOCLAR Discuss Issues/Draft Document		
1:00–1:30 <i>Break</i>	1:00–1:30 <i>Break</i>	1:00–1:30 <i>Break</i>
1:30–2:30 Agenda Item 3 NOCLAR Discuss Issues/Draft Document	1:30–2:30 Agenda Item 4 Quality Management Comment Letters	1:30–2:00 Agenda Item 6 Audits of LCEs Update
	2:30–3:00 Agenda Item 5 Group Audits Discuss Issues/Draft Document	2:00–3:30 Agenda Item 7 ASB Strategic Planning Executive Session
2:30–3:00 <i>Break</i>	3:00–3:30 <i>Break</i>	
3:00–5:00 Agenda Item 4 Quality Management Comment Letters	3:30–5:00 Agenda Item 5 Group Audits Discuss Issues/Draft Document	



IAASB Update

Wendy Stevens, Mazars
IAASB Member

Presentation at the October 2021 ASB Meeting

Key Recent News/Releases – 3rd quarter 2021

- Quality Management
 - Implementation Guides and Webinars
 - ISA for Audits of LCEs
 - Mapping documents
 - Outreach plan
 - LinkedIn Live Series
-

IAASB Significant Projects

Topic	Status	Main Objective
Audits of Less Complex Entities (LCE)*	Issued for exposure until January 2022	Develop a separate standard for financial statement audits of LCEs to address issues and challenges related to complexity, understandability, scalability and proportionality
Group Audits	Discussing responses to ED. Final Approval expected December 2021	Revise Extant ISA 600 to: <ol style="list-style-type: none"> 1) strengthen approach to planning and performance of a group audit 2) clarify interaction with other ISAs 3) propose conforming amendments 4) issue non authority guidance
Audit Evidence	Working toward ED in March of 2022	Revise Extant ISA 500 to: <ol style="list-style-type: none"> 1) modernize standards to recognize IT, 2) address the sufficiency appropriateness of audit evidence, and address professional skepticism
CUSP	Information Gathering Activities	Address the complexity, understandability, scalability, and proportionality of the ISAs by developing drafting principles and guidelines
Fraud	Information Gathering Activities	To address expectation gap
Going Concern	Information Gathering Activities	To address expectation gap

Audits of Less Complex Entities

- Issued July 23, 2021
 - Comment period ends January 31, 2022
 - Mapping document issued September 3, 2021
 - Outreach planned:
 - Survey
 - Presentations to various groups
 - Webinars
 - Roundtables
 - LinkedIn Live Discussion
-

Group Audits

- Major topics discussed
 - Documentation
 - Professional Skepticism
 - Consistent use of certain terminology
 - Effective date
 - Final standard expected December 2021
-

Audit Evidence

- Major topics discussed (in July)
 - Relevance and reliability of information
 - Professional skepticism with respect to audit evidence
 - The purpose and scope of ISA 500, and the requirements that the standard should address
 - The concept of detection risk in the requirements of ISA 500
 - Proposed approach in presenting examples
 - Full draft to be next discussed in March 2022
-

CUSP

- Conducting outreach
 - Survey
 - Roundtables
 - Discussion of non-authoritative support material on Documentation on October 19-20 call
 - Recommendations to be brought to IAASB in March 2022
-

Fraud

- Major Topics Discussed
 - More transparency in the auditor's report
 - Making the engagement team discussion more robust
 - Clarifying the relationship between ISA 240 and ISA 250
 - Addressing instances when fraud or suspected fraud is identified during an audit
 - Project proposal to be brought to IAASB in December 2021
-

Going Concern

- Major Topics Discussed
 - Collaboration with others
 - Enhanced transparency
 - Fostering an appropriately independent, challenging, and skeptical mindset of the auditor
 - Keeping ISAs fit for purpose
 - Project proposal to be brought to IAASB in March 2022
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Other Activities

- Definition of Listed Entity and Public Interest Entities (PIE)
 - Major issues discussed
 - Using a case-by-case approach in determining whether requirements for listed entities in the IAASB's International Standards should be expanded to all PIEs
 - Disclosure within the auditor's report that the firm has treated the entity as a PIE
 - Further discussion on October 19-20 call
 - Conforming Amendments to QM Standards
 - To be approved on October 19-20 call
-

Other Activities

- Monitoring Group
 - Professional Skepticism
 - Technology
 - Post Implementation Review, Auditor Reporting
 - Handbook Changes (2020 published) and Digitization
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NOCLAR

I. Objective of Agenda Item

To consider the draft proposed SAS, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations* and discuss any remaining significant issues with respect to the proposed SAS.

The proposed SAS has been revised pursuant to comment letters received in response to the exposure draft of the proposed SAS and feedback provided by the ASB at its meeting in September 2021.

The ASB will be asked to vote to issue the proposed SAS at a meeting after the Professional Ethics Executive Committee (PEEC) votes to approve proposed revisions to the Code of Professional Conduct regarding responding to noncompliance with laws and regulations (NOCLAR). The PEEC currently anticipates finalizing the proposed Code revisions at its meeting in February 2022. A final SAS, if approved, would be issued in conjunction with final revisions to the Code of Professional Conduct.

II. NOCLAR Task Force

Harry Cohen – Task Force Chair and current ASB Member

Dan Dustin – National Association of State Boards of Accountancy (NASBA)

Lawrence Gill – Former ASB Member

Gaylen Hansen – Former ASB Member

Bill Mann – Past member of the PEEC; current member of the PEEC’s NOCLAR Task Force; and General Counsel and National Director of Independence at Mayer Hoffman McCann, PC

The Task Force is staffed by Mike Glynn.

III. Issues Discussed at the September 2021 ASB Meeting

At the September ASB 2021 meeting:

- The Task Force presented its consideration of the comment letters received on the exposure draft of the proposed SAS and suggested changes to the proposed revisions to AU-C section 210, *Terms of Engagement*.
- The ASB members provided feedback to the Task Force. As part of the discussion, certain ASB members expressed fundamental concerns and objections to the proposed revisions to AU-C section 210. Those concerns and objections can be described as follows:
 - 1) **Issue #1:** Preference for a requirement to require predecessor auditors to seek out successor auditors, regardless of management authorization, when:
 - a. the predecessor auditor has identified or suspected fraud or matters involving NOCLAR or suspected NOCLAR came to the predecessor’s attention during their audit, and
 - b. the successor auditor has not initiated contact with the predecessor.
 - 2) **Issue #2:** Objection to the introduction of requirements for predecessor auditors in generally accepted auditing standards (GAAS).
 - 3) **Issue #3:** Objection to any revision to GAAS regarding communication of confidential client information.

Each of these issues are discussed below.

Issue #1 – Preference for a requirement to require predecessor auditors to seek out successor auditors, regardless of management authorization, when a) the predecessor auditor has identified or suspected fraud or matters involving NOCLAR or suspected NOCLAR came to the predecessor's attention during their audit and b) the successor auditor has not initiated contact with the predecessor.

The ASB discussed the issue at length. The stated concern is summarized as follows:

- The knowledge transfer between the predecessor and successor auditor was dependent on the successor auditor requesting management to authorize the predecessor to respond to the successor's inquiries.
- There may be instances in which a predecessor has identified or suspects fraud or matters involving NOCLAR or suspected NOCLAR came to the predecessor's attention during their audit and the predecessor was not contacted by the successor and, therefore, was not provided an opportunity to communicate the matters to the successor.

In cases where a predecessor is not contacted, one of the following would have to occur:

- 1) **First scenario:** Management refuses to provide the successor auditor with the authorization for the predecessor to respond to the successor's inquiries or
- 2) **Second scenario:** The successor failed to comply with extant paragraph .11 of AU-C section 210 by not requesting management to authorize the predecessor to respond to the successor's inquiries

In the first scenario, the Task Force believes that the absence of authorization by management for the successor to make inquiries of a predecessor should alert the successor to carefully consider engagement acceptance, irrespective of the basis for the lack of authorization. Many of the ASB members stated that it would be unlikely that their firm would accept an engagement in such a scenario.

However, when management refuses to authorize the predecessor to respond to the successor's inquiries and the successor determines to accept the engagement anyway:

- A) The predecessor would be precluded from disclosing confidential client information to the successor.
 - a. The task force believes this is appropriate for the following reasons:
 - i. While a knowledge transfer is in the public interest, client confidentiality is equally in the public interest and it is an invaluable component of an effective audit.
 1. If a client was hesitant to share information with their auditor for fear that the auditor would eventually share such information with an outside party, the auditor may not obtain the most complete and relevant information thereby impacting the effectiveness of the audit – which is most definitely not in the public interest.
 - ii. If the ASB were to facilitate (via a change in auditing standards) a communication between predecessor and successor auditors absent management authorization within the auditing standards, the standards would have to require the predecessor to seek out and communicate with the successor.
 1. Such a requirement would be very difficult to operationalize in the nonissuer environment as it would place the predecessor in the impractical position of identifying the successor auditor prior to the issuance of the successor auditor's report.

2. Further, the Task Force discussed the fact that the predecessor is not engaged as the auditor any longer and subjecting the predecessor to requirements under AU-C section 210 is inconsistent with the intent and applicability of the auditing standards.
 - iii. Any revisions to auditing standards regarding predecessor communications that were structured as “the predecessor should/may consider...” or “the predecessor may but is not required to...” would not result in the predecessor being able to communicate confidential client information to a successor auditor absent management authorization, because of the Code of Professional Conduct, which is not under the remit of the ASB.
 1. An introduction of a requirement for the predecessor to seek out the successor would also add to the concerns expressed by certain ASB members described in issue #2.
- B. There are other actions the predecessor can take if the predecessor is concerned that professional standards have not been met or that laws or regulations have been broken. See second scenario below.

In the second scenario, if the predecessor believes that the successor has failed to comply with AU-C section 210, there are actions that the predecessor can take including, but not limited to, initiating a complaint with the applicable state board of accountancy, applicable state CPA society, or the AICPA Professional Ethics Division. In this way, the predecessor would not violate section 1.700.001, *Confidential Client Information Rule* of the Code of Professional Conduct.¹

Issue #2 - Objection to the introduction of requirements for predecessor auditors in GAAS.

Extant AU-C section 210 includes application guidance stating that, in accordance with the Code of Professional Conduct, members have a responsibility to cooperate with each other², the predecessor is expected to respond to the auditor’s inquiries promptly and, in the absence of unusual circumstances, fully. However, extant GAAS is structured to provide auditor requirements from the commencement of an audit engagement (including acceptance/continuance of the engagement) through report issuance (and any subsequent issues that may impact the issued report). Certain ASB members believe that the introduction of requirements that run to a predecessor auditor’s responsibilities is an inappropriate extension of GAAS.

The proposed standard has been structured so that it is not introducing any new requirements on the predecessor auditor. The Task Force believes that the proposed standard, as drafted, will result in more robust communication between predecessor and successor auditors and is, therefore, in the public interest.

Issue #3 - Objection to any revision to GAAS regarding communication of confidential client information.

Certain ASB members believe that, while the ASB may be well intended, any change in requirements with respect to communication of confidential client information should be provided via revisions to section 1.700.001, *Confidential Client Information Rule* of the Code of Professional Conduct.

The ASB Task Force believes that the proposed revisions to AU-C section 210 amount to clarification of existing explicit and implied requirements for the successor auditor. The Task Force is not proposing any revisions to GAAS that would require predecessor auditors to report fraud or NOCLAR to other outside parties, such as the appropriate authorities. However, such options exist (i.e., a predecessor auditor can report concerns to various whistleblower hotlines without violating the Code of Professional Conduct.)

¹ Section 1.700 of the Code of Professional Conduct is presented in the Exhibit to this discussion memorandum.

² See 0.300.020.02 of the Code of Professional Conduct.

IV. Task Force Views

The majority of the Task Force believes, depending upon the final changes approved by PEEC to the Code of Professional Conduct, at a meeting after PEEC approval, the ASB should consider issuing the changes as presented in Agenda item 3A (marked) and 3B (clean) as a final SAS.

V. Agenda Items Presented:

Agenda item 3A Draft proposed revisions to AU-C section 210, *Terms of Engagement* - redline to show changes to the draft presented at the September ASB meeting

Agenda item 3B Draft proposed revisions to AU-C section 210, *Terms of Engagement* - clean

Mr. Cohen will use Agenda item 3A in leading the discussion.

Excerpts of the Code of Professional Conduct included as an Exhibit for convenience.

Exhibit – Excerpts of the AICPA Code of Professional Conduct

1.700 Confidential Information

1.700.001 Confidential Client Information Rule

.01 A member in public practice shall not disclose any confidential client information without the specific consent of the client.

.02 This rule shall not be construed (1) to relieve a member of his or her professional obligations of the “Compliance With Standards Rule” [1.310.001] or the “Accounting Principles Rule” [1.320.001], (2) to affect in any way the member’s obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member’s compliance with applicable laws and government regulations, (3) to prohibit review of a member’s professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy. Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member’s confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members’ exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above. [Prior reference: paragraph .01 of ET section 301]

...

1.310 Compliance With Standards

1.310.001 Compliance With Standards Rule

.01 A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.

.02 See Appendix A “Council Resolution Designating Bodies to Promulgate Technical Standards.” [Prior reference: paragraph .01 of ET section 202]

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Appendix A

Council Resolution Designating Bodies to Promulgate Technical Standards

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Auditing Standards Board

RESOLVED: That, with respect to standards relating to the preparation and issuance of audit reports not included within the resolution on the Public Company Accounting Oversight Board, the AICPA auditing standards board is hereby designated as the body authorized under the “General Standards Rule” (AICPA, Professional Standards, ET sec. 1.300.001) and the “Compliance With Standards Rule” (AICPA, Professional Standards, ET sec. 1.310.001) of the Code of Professional Conduct to promulgate auditing, attestation, and quality control standards and procedures.

RESOLVED: That the auditing standards board shall establish under statements on auditing standards, the responsibilities of members with respect to standards for disclosure of financial information outside of the financial statements in published financial reports containing financial statements.



Proposed Amendment to SAS No. 122, as amended, section 210, Terms of Engagement (AICPA, Professional Standards, AU-C sec. 210)

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2022.

(Boldface italics denotes new language. Deleted text is shown in ~~strikethrough~~.)

[No proposed amendment to paragraphs .01–.10. Paragraph .12 is renumbered to paragraph .14 but is otherwise unchanged and is included for contextual purposes.]

Initial Audits, Including Reaudit Engagements — *Communications With the Predecessor Auditor*

- .11 Before accepting an engagement for an initial audit, including a reaudit engagement, **when a predecessor auditor exists**, the auditor should request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement **and (Ref: par. .A29 and .A37)**
 - **if management authorizes the predecessor auditor to respond to the auditor's inquiries, perform the procedures required in paragraph .12**
 - ~~if~~ management refuses to authorize the predecessor auditor to respond, or limits the response, the auditor should inquire about the reasons and consider the implications of that refusal **or limitation** in deciding whether to accept the engagement.
- .12 **If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, the auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including (Ref: par. .A30–.A32)**
 - a. **identified or suspected fraud involving**
 - i. **management,**
 - ii. **employees who have significant roles in internal control, or**
 - iii. **others, when the fraud resulted in a material misstatement in the financial statements.**
 - b. **matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor auditor's attention during the audit, other than when matters are clearly inconsequential.**
 - ~~c. Other communications, during or subsequent to the audit, to those charged with governance with respect to identified or suspected fraud or noncompliance or suspected noncompliance with laws and regulations.~~
- .13 **If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in**

determining whether to accept the engagement, in accordance with the AICPA Code of Professional Conduct statement that members have a responsibility to cooperate with each other, the predecessor auditor should respond to the auditor's inquiries on a timely basis and, on the basis of known facts, unless prohibited by applicable law. However, if the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the auditor's inquiries, the predecessor auditor should clearly state that the response is limited. Such unusual circumstances are expected to be rare. (Ref: par. .A33-.A35A34)

.4214 The auditor should evaluate the predecessor auditor's response, or consider the implications if the predecessor auditor provides no response or a limited response, in determining whether to accept the engagement. (Ref: par. .A29-.A34.~~A36~~A35)

.15 *The auditor should document the inquiries and the results of those inquiries with the predecessor auditor and include as part of the audit documentation if the engagement is accepted.*

[Former paragraphs .13-.18 are renumbered as paragraphs .16-.21. The content is unchanged.]

Application and Other Explanatory Material

[No amendment to paragraphs .A1-.A29.]

Initial Audits, Including Reaudit Engagements — Communications With the Predecessor Auditor (Ref: par. .11-.14)

.A31A30 Relevant ethical and professional requirements guide the auditor's communications with the predecessor auditor and management, as well as the predecessor auditor's response. Such requirements provide that, except as permitted by the rules of the AICPA Code of Professional Conduct, an auditor is precluded from disclosing confidential information obtained in the course of an engagement unless management specifically consents. ~~Such~~ **Relevant ethical and professional** requirements also provide that both the auditor and the predecessor auditor hold in confidence information obtained from each other. This obligation applies regardless of whether the auditor accepts the engagement.

.A31 *The inquiries specified in paragraph .12a-b are consistent with items that the predecessor auditor communicated with those charged with governance as required by paragraph .40 of AU-C section 240, Consideration of Fraud in a Financial Statement Audit, and paragraph .21 of AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements, respectively.*

.A33A32 The communication with the predecessor auditor may be either written or oral. **In addition to the inquiries specified in paragraph .12a-b**, matters subject to the auditor's inquiry of the predecessor auditor may include the following:

- Information that might bear on the integrity of management
- Disagreements with management about accounting policies, auditing procedures, or other similarly significant matters
- ~~Communications to those charged with governance regarding fraud and noncompliance with laws or regulations by the entity~~
- Communications to management and those charged with governance regarding significant deficiencies and material weaknesses in internal control

- The predecessor auditor's understanding about the reasons for the change of auditors

~~.A32.A33~~ In accordance with ~~17~~ the AICPA Code of Professional Conduct, which states that members have a responsibility to cooperate with each other, the predecessor auditor is expected to respond to the auditor's inquiries promptly in the absence of unusual circumstances, fully, on the basis of known facts. If, due to unusual circumstances, such as pending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, the predecessor auditor decides not to respond fully to the inquiries, the predecessor auditor is expected to clearly state that the response is limited.

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~~.A34–A33~~ Before responding to the auditor's inquiries made pursuant to paragraph .12, the predecessor auditor may consider it appropriate to obtain legal advice to determine whether any professional or legal requirements or unusual circumstances may limit the predecessor auditor's ability to respond.

~~.A30.A35.A30.A34~~ When more than one auditor is considering accepting an engagement, the predecessor auditor is not expected to be available to respond to inquiries until an auditor has been selected by the entity and has accepted the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph .12.

Considerations Specific to Governmental Entities

[Former paragraph .A34 is renumbered to paragraph ~~.A36.A35~~. The content is unchanged.]

~~.A37–A36~~ In accordance with generally accepted governmental auditing standards, the governmental environment if the law or regulation requiring an audit specifically identifies the entities to be audited, auditors may find it is necessary to obtain authorization from parties in addition to management, the auditor may find it necessary to obtain authorization from those individuals contracting for or requesting the audit and from those legislative committees, if any that have ongoing oversight responsibilities for the audited entity, for inquiries to predecessor auditors about suspected fraud and noncompliance with laws and regulations. Such parties may include those charged with governance or those contracting for or requesting the audit.

[Former paragraphs .A35–.A44 are renumbered to paragraphs ~~.A38.A37–.A47.A46~~. The content is unchanged. No further amendment to AU-C section 210.]

Proposed Amendment to SAS No. 122, as amended, section 210, Terms of Engagement (AICPA, Professional Standards, AU-C sec. 210)

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2022.

(Boldface italics denotes new language. Deleted text is shown in ~~strike~~through.)

[No proposed amendment to paragraphs .01–.10. Paragraph .12 is renumbered to paragraph .14 but is otherwise unchanged and is included for contextual purposes.]

Initial Audits, Including Reaudit Engagements — *Communications With the Predecessor Auditor*

- .11** Before accepting an engagement for an initial audit, including a reaudit engagement, ***when a predecessor auditor exists***, the auditor should request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement ***and (Ref: par. .A29 and .A37)***
- ***if management authorizes the predecessor auditor to respond to the auditor's inquiries, perform the procedures required in paragraph .12***
 - ~~if~~ management refuses to authorize the predecessor auditor to respond, or limits the response, the auditor should inquire about the reasons and consider the implications of that refusal ***or limitation*** in deciding whether to accept the engagement.
- .12** ***If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, the auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including (Ref: par. .A30–.A32)***
- a. identified or suspected fraud involving***
 - i. management,***
 - ii. employees who have significant roles in internal control, or***
 - iii. others, when the fraud resulted in a material misstatement in the financial statements.***
 - b. matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor auditor's attention during the audit, other than when matters are clearly inconsequential.***
- .13** ***If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, in accordance with the AICPA Code of Professional Conduct statement that members have a responsibility to cooperate with each other, the predecessor auditor should respond to the auditor's inquiries on a timely basis and, on the basis of known facts, unless prohibited by applicable law. However, if***

the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the auditor's inquiries, the predecessor auditor should clearly state that the response is limited. Such unusual circumstances are expected to be rare. (Ref: par. .A33–.A34)

- ~~.A214~~ The auditor should evaluate the predecessor auditor's response, or consider the implications if the predecessor auditor provides no response or a limited response, in determining whether to accept the engagement. (Ref: par. ~~.A29–.A34~~.A35)
- ~~.15~~ ***The auditor should document the inquiries and the results of those inquiries with the predecessor auditor and include as part of the audit documentation if the engagement is accepted.***

[Former paragraphs .13–.18 are renumbered as paragraphs .16–.21. The content is unchanged.]

Application and Other Explanatory Material

[No amendment to paragraphs .A1–.A29.]

Initial Audits, Including Reaudit Engagements — Communications With the Predecessor Auditor (Ref: par. .11–.14)

- ~~.A34~~A30 Relevant ethical and professional requirements guide the auditor's communications with the predecessor auditor and management, as well as the predecessor auditor's response. Such requirements provide that, except as permitted by the rules of the AICPA Code of Professional Conduct, an auditor is precluded from disclosing confidential information obtained in the course of an engagement unless management specifically consents. ~~Such~~ ***Relevant ethical and professional*** requirements also provide that both the auditor and the predecessor auditor hold in confidence information obtained from each other. This obligation applies regardless of whether the auditor accepts the engagement.
- ~~.A31~~ ***The inquiries specified in paragraph .12a–b are consistent with items that the predecessor auditor communicated with those charged with governance as required by paragraph .40 of AU-C section 240, Consideration of Fraud in a Financial Statement Audit, and paragraph .21 of AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements, respectively.***
- ~~.A33~~A32 The communication with the predecessor auditor may be either written or oral. ***In addition to the inquiries specified in paragraph .12a–b, matters*** subject to the auditor's inquiry of the predecessor auditor may include the following:
- Information that might bear on the integrity of management
 - Disagreements with management about accounting policies, auditing procedures, or other similarly significant matters
 - ~~Communications to those charged with governance regarding fraud and noncompliance with laws or regulations by the entity~~
 - Communications to management and those charged with governance regarding significant deficiencies and material weaknesses in internal control
 - The predecessor auditor's understanding about the reasons for the change of auditors

- ~~.A32~~ In accordance with the AICPA Code of Professional Conduct, which states that members have a responsibility to cooperate with each other, the predecessor auditor is expected to respond to the auditor's inquiries promptly in the absence of unusual circumstances, fully, on the basis of known facts. If, due to unusual circumstances, such as pending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, the predecessor auditor decides not to respond fully to the inquiries, the predecessor auditor is expected to clearly state that the response is limited.
- .A33 ***Before responding to the auditor's inquiries made pursuant to paragraph .12, the predecessor auditor may consider it appropriate to obtain legal advice to determine whether any professional or legal requirements or unusual circumstances may limit the predecessor auditor's ability to respond.***
- ~~.A30~~.A34 When more than one auditor is considering accepting an engagement, the predecessor auditor is not expected to be available to respond to inquiries until an auditor has been selected by the entity and has accepted the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph .12.

Considerations Specific to Governmental Entities

[Former paragraph .A34 is renumbered to paragraph .A35. The content is unchanged.]

- .A36 ***In accordance with generally accepted governmental auditing standards, if the law or regulation requiring an audit specifically identifies the entities to be audited, in addition to management, the auditor may find it necessary to obtain authorization from those individuals contracting for or requesting the audit and from those legislative committees, if any that have ongoing oversight responsibilities for the audited entity.***

[Former paragraphs .A35–.A44 are renumbered to paragraphs .A37–.A46. The content is unchanged. No further amendment to AU-C section 210.]



Proposed Amendment to SAS No. 122, as amended, section 210, *Terms of Engagement* (AICPA, Professional Standards, AU-C sec. 210)

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2022.

(***Boldface italics*** denotes new language. Deleted text is shown in ~~strikethrough~~.)

[No proposed amendment to paragraphs .01–.10. Paragraph .12 is renumbered to paragraph .14 but is otherwise unchanged and is included for contextual purposes.]

Initial Audits, Including Reaudit Engagements — *Communications With the Predecessor Auditor*

- .11 Before accepting an engagement for an initial audit, including a reaudit engagement, ***when a predecessor auditor exists***, the auditor should request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement ***and (Ref: par. .A29 and .A37)***

- ***if management authorizes the predecessor auditor to respond to the auditor's inquiries, perform the procedures required in paragraph .12***
- ~~if~~ ***if*** management refuses to authorize the predecessor auditor to respond, or limits the response, the auditor should inquire about the reasons and consider the implications of that refusal ***or limitation*** in deciding whether to accept the engagement.

- .12 ~~If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, the auditor should inquire of the predecessor auditor about matters that will assist the auditor in determining whether to accept the engagement, including~~ ***(Ref: par. .A30–.A32)***

- a. ***identified or suspected fraud involving***
 - i. ***management,***
 - ii. ***employees who have significant roles in internal control, or***
 - iii. ***others, when the fraud resulted in a material misstatement in the financial statements.***
- b. ***matters involving noncompliance or suspected noncompliance with laws and regulations that came to the predecessor auditor's attention during the audit, other than when matters are clearly inconsequential.***

- .13 ~~If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, in accordance with~~ ***the AICPA Code of Professional Conduct statement states that members have a responsibility to cooperate***

Commented [MG1]: For readability (phrase is repeated at the end of the sentence).

Commented [MG2]: Revisions made to redraft as essential guidance.

*with each other.*² Accordingly, if pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, the predecessor auditor ~~should~~ has a responsibility to respond to the auditor's inquiries on a timely basis and, on the basis of known facts, ~~absent unusual circumstances and~~ unless prohibited by applicable law. However, if the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the auditor's inquiries, the predecessor auditor should clearly state that the response is limited. Such unusual circumstances are expected to be rare. (Ref: par. .A33–.A34)

.A214 The auditor should evaluate the predecessor auditor's response, or consider the implications if the predecessor auditor provides no response or a limited response, in determining whether to accept the engagement. (Ref: par. .A29–.A34–.A35)

.15 When the engagement is accepted, the auditor should document the inquiries and the results of those inquiries with the predecessor auditor and include as part of the audit documentation if the engagement is accepted.

Commented [MG3]: To streamline.

[Former paragraphs .13–.18 are renumbered as paragraphs .16–.21. The content is unchanged.]

Application and Other Explanatory Material

[No amendment to paragraphs .A1–.A29.]

Initial Audits, Including Reaudit Engagements — *Communications With the Predecessor Auditor* (Ref: par. .11–.14)

.A31A30 Relevant ethical and professional requirements guide the auditor's communications with the predecessor auditor and management, as well as the predecessor auditor's response. Such requirements provide that, except as permitted by the rules of the AICPA Code of Professional Conduct, an auditor is precluded from disclosing confidential information obtained in the course of an engagement unless management specifically consents. ~~Such~~ **Relevant ethical and professional** requirements also provide that both the auditor and the predecessor auditor hold in confidence information obtained from each other. This obligation applies regardless of whether the auditor accepts the engagement.

.A31 *The inquiries specified in paragraph .12a–b are consistent with items that the predecessor auditor communicated with those charged with governance as required by paragraph .40 of AU-C section 240, Consideration of Fraud in a Financial Statement Audit, and paragraph .21 of AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements, respectively.*

.A33A32 The communication with the predecessor auditor may be either written or oral. **In addition to the inquiries specified in paragraph .12a–b,** matters subject to the auditor's inquiry of the predecessor auditor may include the following:

- Information that might bear on the integrity of management
- Disagreements with management about accounting policies, auditing procedures, or other similarly significant matters

² ET section 0.300.020.02 of the Code of Professional Conduct

- ~~Communications to those charged with governance regarding fraud and noncompliance with laws or regulations by the entity~~
- Communications to management and those charged with governance regarding significant deficiencies and material weaknesses in internal control
- The predecessor auditor's understanding about the reasons for the change of auditors

.A32 ~~In accordance with the AICPA Code of Professional Conduct, which states that members have a responsibility to cooperate with each other,, the predecessor auditor is expected to respond to the auditor's inquiries promptly in the absence of unusual circumstances, fully, on the basis of known facts. If, due to unusual circumstances, such as pending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, the predecessor auditor decides not to respond fully to the inquiries, the predecessor auditor is expected to clearly state that the response is limited.~~

.A33 ***Before responding to the auditor's inquiries made pursuant to paragraph .12, the predecessor auditor may consider it appropriate to obtain legal advice to determine whether any professional or legal requirements or unusual circumstances may limit the predecessor auditor's ability to respond.***

.A30A34 When more than one auditor is considering accepting an engagement, the predecessor auditor is not expected to be available to respond to inquiries until an auditor has been selected by the entity and has accepted the engagement, subject to the evaluation of the communications with the predecessor auditor as provided in paragraph .12.

Considerations Specific to Governmental Entities

[Former paragraph .A34 is renumbered to paragraph .A35. The content is unchanged.]

.A36 ***In accordance with generally accepted governmental auditing standards, if the law or regulation requiring an audit specifically identifies the entities to be audited, in addition to management, the auditor may find it necessary to obtain authorization from those individuals contracting for or requesting the audit and from those legislative committees, if any that have ongoing oversight responsibilities for the audited entity.***

[Former paragraphs .A35–.A44 are renumbered to paragraphs .A37–.A46. The content is unchanged. No further amendment to AU-C section 210.]

The table below is intended to illustrate how the essential guidance included as paragraph .13 in the October 12, 2021 draft of the proposed revisions to AU-C section 210 compares to the application guidance included in extant paragraph .A32 as well as the presumptively mandatory requirement paragraph included in the draft included in the agenda material for the October 2021 meeting.

Extant Application Paragraph	Restated as a Requirement (From Draft Discussed by ASB on October 12, 2021)	Restated as Essential Guidance	Notes
<p>.A32 In accordance with the AICPA Code of Professional Conduct, which states that members have a responsibility to cooperate with each other, the predecessor auditor is expected to respond to the auditor’s inquiries promptly and, in the absence of unusual circumstances, fully, on the basis of known facts. If, due to unusual circumstances, such as pending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, the predecessor auditor decides not to respond fully to the inquiries, the predecessor auditor is expected to clearly state that the response is limited.</p>	<p>.13 If, pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor’s inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, in accordance with the AICPA Code of Professional Conduct statement that members have a responsibility to cooperate with each other, the predecessor auditor should respond to the auditor’s inquiries on a timely basis and, on the basis of known facts, unless prohibited by applicable law. However, if the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the auditor’s inquiries, the predecessor auditor should clearly state that the response is limited. Such unusual circumstances are expected to be rare. (Ref: par. .A33–.A34)</p>	<p>.13 The AICPA Code of Professional Conduct states that members have a responsibility to cooperate with each other. Accordingly, if pursuant to paragraph .11, management authorizes the predecessor auditor to respond to the auditor’s inquiries regarding matters that will assist the auditor in determining whether to accept the engagement, the predecessor auditor has a responsibility to respond to the auditor’s inquiries on a timely basis and, on the basis of known facts, absent unusual circumstances and unless prohibited by applicable law. However, if the predecessor auditor decides, due to impending, threatened, or potential litigation; disciplinary proceedings; or other unusual circumstances, not to fully respond to the auditor’s inquiries, the predecessor auditor should clearly state that the response is limited. Such unusual circumstances are expected to be rare. (Ref: par. .A33–.A34)</p>	<p>Statement of fact.</p> <p>Uses phrase “has a responsibility to” instead of “is expected to” to more closely mirror the Code requirement.</p>

Quality Management

I. Objective

To provide the ASB with preliminary feedback regarding select issues from the comment letters received on the exposure draft of the following proposed standards, and to obtain direction from the ASB on those select issues.

- [Proposed] Statement on Quality Management Standards (SQMS) *A Firm’s System of Quality Control (QM 1)*
- [Proposed] SQMS *Engagement Quality Reviews (QM 2)*; and
- [Proposed] Statement on Auditing Standards (SAS) *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards (220)*, (collectively the “Proposed QM Standards”).

II. Quality Management Task Forces

The Quality Standards Task Force has been divided into two groups:

QM1

Sara Lord, *Chair*
Sherry Chesser
Kathryn Fletcher
Phyllis Anderson
Alan Long
Tania Sergott
Kimberly Stazyk

QM2/220

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

The QM1 Task Force acknowledges and thanks Kristen Kociolek for her previous participation on the Task Force.

III. Background

In February 2021, the ASB issued the Proposed QM Standards for public comment. The comment period, extended from its original end date of June 11, ended on August 31. During the exposure period, the Task Forces held 15 roundtables with a total of 424 participants, excluding TF members and AICPA staff. The roundtables were publicized by state societies and included practitioners from firms of all sizes. Many participants were also peer reviewers.

IV. Comment Letters

171 comment letters were received. The comment letters can be viewed on the AICPA website by clicking [here](#). The breakdown of the comment letters by respondent is shown below. See Agenda Item 4A: Exhibit A, Respondents by Type, for a list of respondents.

Type	#	Firm size criteria
Firm: Big 4	4	Big 4 firms

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Type	#	Firm size criteria
Firm: MFG	12	More than 75 professionals
Firm: G400	10	21-75 professionals
Firm: Medium	6	11-20 professionals
Firm: Small	50	As indicated by respondent
Firm: Smaller	5	6-10 professionals
Firm: Very small	7	2-5 professionals
Firm: Sole Practitioner	41	1 professional
➤ Firm: Subtotal	135	
State Societies	25	Includes firm alliances and AICPA Technical Issues Committee
Regulators and State Auditors	7	Includes NASBA and GAO
Individuals	4	Retired CPAs (3); 1 CPA with a firm speaking as an individual
➤ Grand Total	171	

Note that 19 of the respondents indicated that they performed peer reviews (this includes responses from State Societies).

This is the largest number of comment letters received on an exposure draft in at least the last 15 years (narrowly edging out what became SSARS 21). This is a testament to the awareness efforts by the Task Force and AICPA staff (at all levels). This is also a testament to the extreme unpopularity of the proposed standards with smaller firms, particularly with regard to the issues of self-inspection and a cooling-off period.

Cost-benefit concerns:

69 letters, from a variety of respondents, expressed the concern that the standards were not scalable and would be so costly to implement that the small firms would choose to stop performing assurance engagements. (See table below and Agenda Item 4B, Exhibit B: Cost-Benefit Concerns). Roundtable participants generally supported scalability. However, as in the comment letters, significant concerns were expressed at each of the 15 roundtables about the cost to smaller firms, particularly in light of the cumulative impact of adopting the various and recent auditing and accounting standards. Many respondents noted concerns about resources, including the difficulty of finding peer reviewers and then finding other objective, competent people to perform inspections.

Cost-benefit concerns		# of firms with concerns/ # of that size firms responding
Type	#	
Firm: Big 4	0	
Firm: MFG	1	1/12
Firm: G400	4	4/10
Firm: Medium	2	2/6
Firm: Small	23	23/50
Firm: Smaller	3	3/5
Firm: Very small	3	3/7
Firm: Sole Practitioner	16	16/41
➤ Firm: Subtotal	52	46/135
State Societies	15	15/25
Regulators and State Auditors	0	
Individuals	2	2/4
➤ Grand Total	69	69/171

These cost-benefit concerns related to the quality management standards appear to arise primarily from the prohibition of self-inspection and the requirement for a two-year cooling-off period for engagement quality review (EQR) reviewers, which were proposed as new requirements in the United States.

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Many respondents seemed to tie (and in some instances conflate) the Quality Management Exposure Drafts to Peer Review. This is somewhat natural. Two salient and relatively consistent points were made:

- Some of the respondents believe smaller firms should be exempt from the proposed standards. However, one of the main drivers of the Enhancing Audit Quality Initiative (EAQ) was that various external reviewers (e.g. DOL, PCAOB) each found significant and concerning deficiency rates in their independent reviews of audits.¹
- Another point brought forth by some respondents is that the AICPA is making it harder for firms to pass peer review.² The AICPA 2020 Peer Review Board’s Annual Report on Oversight, explains that in 2019 and 2020 there was an increased focus on compliance with risk assessment standards, which led to an increase in non-conforming engagements. However, actual peer review “Pass” statistics have been flat for past 3 years; this is true for both system reviews (firms that perform audits) as well as for engagement reviews (firms that perform reviews or compilations as their highest level of service).³

The cost-benefit concerns provide background helpful to the issues highlighted in section V. below.

V. Issues for ASB Consideration

The following is a list of the issues included in this discussion memorandum for discussion with the ASB. (See agenda item 4H, *Additional background information*, slides 1-2)

Issue #	Title
Issue 1	Self-inspection (SQMS 1)
Issue 2	Cooling-off period (SQMS 2)
Issue 3	Effective date (all proposed QM standards)
Issue 4	Dating of the report when EQR is performed (SQMS 2)

Comments received on all other aspects of the proposed QM standards will be brought to the ASB for consideration at future meetings.

Issue #1: Self-inspection

A. Background:

Monitoring procedures include, but are not limited to, inspection. Inspection includes, but is not limited to, review of engagement documentation, reports, and client’s financial statements (engagement review).

¹ For example, in 2014, the combined deficiency rate identified by PCAOB inspections for all sized firms was 39%, in 2017 it was 30%, and in 2019 the deficiency rate for the big four firms was 22% and non-big four firms was 31%. [\[Source\]](#) In May 2015, the DOL issued a [study](#) in relation to employee benefit plan audits that found 39% of the audits (nearly 4 out of 10) contained major deficiencies with respect to one or more relevant GAAS requirements.

² The [AICPA 2020 Peer Review Board Report on Oversight](#) explains that “The increase in non-conforming audit engagements in 2019 and 2020 was caused by an increased focus on compliance with risk assessment standards. The PRB issued guidance enhancing the evaluation of non-compliance with the risk assessment standards effective for peer reviews commencing on or after October 1, 2018. This led to an increase in the number of nonconforming audit engagements identified in 2019 and 2020.”

³ See the AICPA 2020 Peer Review Board Report on Oversight

Under extant QC section 10, engagement review is a required element of annual inspection and inspection is a required element of annual monitoring. (See agenda item 4H, *Additional background information*, slide 3.)

Self-inspection

Extant QC Section 10⁴, unlike ISQC 1, does not preclude firms from inspection of a completed engagement by an individual who served as an engagement team member or engagement quality reviewer on that engagement (referred to as “*self-inspection*”). The proposed QM standards, however, state that engagement team members or the engagement quality reviewer should be prohibited from performing the inspection of the completed engagement.

When the QC standards were last updated (in 2012), the ASB had concluded that it was not necessary to change existing practice to converge QC Section 10 with ISQC 1 because in the United States, the peer review process provides a safeguard via an independent review mechanism of a firm’s monitoring procedures, which may include self-inspection. However, in deliberating the current exposure drafts, the ASB decided to expose the proposed standards as converged with IQSM 1 in order to obtain feedback on self-inspection.

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

Other Country Exemptions

Staff reached out to colleagues in Canada, South Africa, the Netherlands and Germany about self-inspection in their countries.

Neither Canada nor South Africa permit self-inspection and both have no national exemption for small firms. The Netherlands also does not permit self-inspection but exempts very small firms from having a full scope quality system based on the idea that it is not necessary for very small firms, such as a sole practitioner, to have such a system to achieve the objective of ISQM1.

Germany is in the process of considering ISQM 1; however, its extant ISQC 1 permits self-inspection for small practices that do not have sufficient suitably qualified staff:

The personnel entrusted with the performance of an engagement review as part of inspections for monitoring purposes shall not have been involved in the performance of the audit engagement or in the engagement quality control review accompanying the engagement. If suitably qualified staff are not available within a small practice, the engagement review may also be carried out in the sense of a “self-verification” in the case of entities that are not public interest entities (Section 49 (4) WP/vBP professional statutes). In this case, it is permissible for the review to be carried out by persons who may be involved in the performance of the audit engagement or, if applicable, in the engagement quality review. The performance of the review by way of self-verification requires an appropriate time interval between the completion of the audit engagement included in the inspections. The reasons for conducting the review by way of self-verification shall be documented for evidence purposes. If the audit is also conducted in accordance with the ISAs, it should be noted that ISQC 1 does not permit self-verification (ISQC 1. A68). In this case, an external auditor should be engaged to perform the review. (*translation provided by IDW staff*).

⁴ Paragraph 52c of QC section 10.

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B. Feedback from Roundtables and Comment Letters

Roundtable Poll Results

Question: Please indicate your level of agreement that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality.		
	#	%
a-Strongly agree	68	21
b-Agree	102	32
c-Neutral	50	16
d-Disagree	45	14
e-Strongly disagree	57	18
	322	

Comment Letter Responses (Agenda item 4C – Exhibit C, Self-inspection)

Self-inspection	Support Precluding Self- Inspection	Oppose	Exemption
Type	#	#	#
Firm: Big 4	3		1
Firm: MFG	7	3	2
Firm: G400	3	3	2
Firm: Medium		5	
Firm: Small	5	29	4
Firm: Smaller		5	
Firm: Very small		3	
Firm: Sole Practitioner		30	1
➤ Firm: Subtotal	18	78	10
State Societies	1	20	5
Regulators and State Auditors	2	1	
Individuals	2	1	
➤ Grand Total	23	100	15

C. Options

The Task Force considered three options regarding self-inspection:

- (1) Make no changes to the standard as proposed (that is, prohibit self-inspection)

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The majority of roundtable participants (53%), when polled, supported the prohibition of self-inspection. Generally speaking, participants agreed that from a purely theoretical basis, self-inspection should be precluded

However, the majority of comment letter respondents (67% or 115/171) either opposed the self-inspection preclusion or supported an exemption for small firms.

(2) *Retain the extant requirements (that is, do not prohibit self-inspection of completed engagements) with a requirement that firm responses (safeguards) to the risk of self-inspection be documented*

Many respondents argued that safeguards exist to lower the self-review threat to an acceptable level, and that by precluding self-inspection for all firms the ASB is requiring, in effect, that small firms hire a peer reviewer every year. Many firms believe that the cost of this would be onerous, or as number of comment letters said “will put small firms out of the assurance business”. Even larger firms expressed concern about this, on their own behalf and on behalf of smaller firms. Many firms stated that it can be difficult to find sufficiently experienced and knowledgeable external people, particularly for specialized industries or areas, and needing to hire three separate people to perform an engagement quality review, an inspection, and a peer review exacerbates that problem and is cost prohibitive.

Strong feelings have been expressed that for firms that do not have sufficient qualified internal staff to perform inspections (if self-inspection is prohibited), the costs outweigh the benefits and there will be unintended negative consequences of firms either avoiding EQR under all circumstances (so that, for example, the EQR reviewer could perform inspections) or ending their assurance practice.

The arguments cited for retaining the extant lack of prohibition of self-inspection are as follows:

- The prohibition of self-inspection is not consistent with a risk-based approach to quality management.
- Self-inspection currently appears to be operating effectively, in that AICPA Peer Review statistics indicate that many firms that use self-inspection are passing peer review.
- The peer review system that is in place already provides the safeguard for the public if a firm doesn't perform in accordance with professional standards. A common corrective action imposed on firms is having their inspections done by third parties acceptable to the peer reviewing administering entity.
- The perspective that “you don't know what you don't know” assumes that an independent reviewer is always more knowledgeable than the engagement team.
- Additional safeguards have been identified by respondents to address audit quality such that an additional independent review isn't necessary (that is, the risk of audit quality has been addressed through other responses). These include:
 - Strong client acceptance and engagement continuance policies that provide reasonable assurance that the firm doesn't accept or retain engagements it doesn't have the competency and resources to perform, mentioned by many roundtable participants as a safeguard they use
 - Effective training programs and a commitment to continuing professional education to stay current on accounting and auditing standards
 - Consultation policies that provide reasonable assurance the firm will consult when they encounter technical difficulties
 - Corrective action taken by the firm when indicated by the firm's most recent peer review results or those of other external inspections, for example, inspections by DOL, GAO, or HUD
- For firms that use self-inspection, often the following are in place:
 - Training on how to perform self-inspections

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- Policies that require the passage of time after the engagement is completed before performing self-inspections
- Use of peer review checklists in performing inspections

(3) Add an exception to the prohibition on self-inspection based on size

The SEC and PCAOB⁵ offer exemptions to certain requirements, such as partner rotation⁶ and “cooling-off” (or “time-out”) periods for EQR reviewers, based on firm size and number of issuer audit clients, in recognition of the difficulty of compliance with such requirements for smaller firms with fewer personnel.

As noted in the roundtable results in option (1) above, the consensus opinion is when the firm has sufficient qualified internal people, inspection of the engagement by someone who was not involved in the engagement is preferable. Based on feedback, *sufficient* means four or more, because often three qualified people are involved in the engagement: the engagement partner, the pre-issuance reviewer, and if relevant, the engagement quality reviewer.

However, there would be benefits to consistency in the approach for exemptions. Therefore, the following options could be considered:

- Exempt firms with fewer than four qualified internal personnel. Using the total number of partners may scope in partners who are not qualified to perform inspections, such as tax partners who do not perform assurance engagements or partners who lack the necessary specialized expertise.
- Exempt firms with fewer than five assurance clients and fewer than ten partners, to be consistent with similar SEC rules. [Note, these firms and their audit engagements would be subject to peer review at least once every three years].

D. Task Force recommendation

The Task Force considered the significant volume and quality of comment letters provided that identified the prohibition on self-inspection as a significant barrier to entry or retention in the profession by smaller firms. The Task Force also considered the intention of this standard to be scalable for all firms based on the performance of risk assessment tailored to their circumstances. Additionally, consideration was given to the history of the rationale for the disparity on this requirement between the US and international extant QC standards.

The Task Force believes that the risk assessment approach is an underlying foundation of the quality management standards. Additionally, as previously vetted, the US Peer Review system provides an independent review mechanism with appropriate follow-up responses should a firm’s current system of quality management not be operating effectively. The Task Force agreed that avoiding self-inspection leads to highest levels of objectivity and is best practice. However, competent inspectors who were not involved in the engagement may not be available or the cost may be higher than the benefit; this is true in all firms, but most especially in smaller firms and when firms are expanding into new services or industries. Some Task Force members preferred that self-inspection be prohibited; however, as a whole, the Task Force acknowledges that providing a risk-based safeguards approach to permit firms to design their monitoring systems, including their responses to the review of completed engagements, is aligned with the overall intent of the standard to be risk based and scalable. The Task Force also carries forward the extant view

⁵ See Section 10A(j) of the Exchange Act; Exchange Act Rule 10A-2; PCAOB Rule 3520, Auditor Independence; and AS 1005, Independence (formerly AU 220).

⁶ SEC rules state that “in order for audit firms with fewer than five audit clients that are issuers and fewer than ten partners to qualify for the exemption from partner rotation, the [PCAOB] must conduct a review of all of the firm’s engagements subject to the rule at least once every three years.”

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that the Peer Review program in the US provides independent monitoring that is relevant to this consideration.

As such, the Task Force recommends that the prohibition on self-inspection not be retained in the final standard.

The Task Force liked the approach taken by Germany, which prohibits self-inspection when firms have a viable alternative but leaves it up to firms to determine that threshold. The Task Force debated a specified-exemption requirement and considered that it may be challenging for the board to develop appropriate guidance for the implementation of a specific quantity of personnel, engagements, or other threshold that is relevant for all situations. It also appears counter to the risk assessment approach to take a purely quantitative approach to permitting an exception.

Accordingly, the following revisions to QM 1 are proposed:

40. The firm should establish policies and procedures that
- a. require the individuals performing the monitoring activities to have the competence and capabilities, including sufficient time, to perform the monitoring activities effectively.
 - b. address the objectivity of the individuals performing the monitoring activities. Such policies or procedures should prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement *when practicable. If suitably qualified individuals who are not associated with the engagement are not available within a practice, the firm is permitted to perform “self-inspection” by a qualified engagement team member or the engagement quality reviewer of that engagement.* (Ref: par. A168–A169A)

Paragraphs A168-A169

Four respondents raised a concern (see agenda item 4D) that paragraph A168 implicitly prohibits any individual who designed, executed or operated the system from being part of the inspection of the system. This concern is indirectly reflected in other comment letters, mostly from small practitioners. The last sentence in paragraph A168 was revised to address this concern. Other revisions to paragraph A169 and the addition of two paragraphs are proposed to address safeguards against the self-review threat.

Individuals Performing the Monitoring Activities (Ref: par. 40b)

A168. The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs an inspection of an engagement was in the case of an audit of financial statements, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period, or

— for all other engagements, an engagement team member or the engagement quality reviewer of that engagement.

The self-review threat may also arise when an individual who performs another type of monitoring activity participated in ~~designing, executing, or operating~~ the response being monitored.

A169. In some circumstances, for example, in the case of a less complex firm, there may not be personnel who have the competence, capabilities, time, or objectivity to perform the monitoring activities. In these circumstances, the firm ***When practicable, a firm with a limited number of persons with sufficient and appropriate experience and authority in the firm*** may use network services or a service provider to perform ***engagement inspections and other*** the monitoring activities. ***However, the cost or lack of availability of suitably qualified external service providers may be such that the firm may determine that it is not practicable to do so.***

A169A. ***Having an individual inspect his or her own compliance with a quality management system may be less effective than having such compliance inspected by another qualified individual. When one individual inspects his or her own compliance, the firm has a higher risk that noncompliance with policies and procedures will not be detected. The firm is required, as part of the risk assessment process, to determine responses (also referred to as “safeguards”) to such risk.***

A169B. ***To effectively monitor one’s own compliance with the firm’s policies and procedures, it is necessary that an individual be able to critically review his or her own performance, assess his or her own strengths and weaknesses, and maintain an attitude of continual improvement. Safeguards against the self-review threat include the following:***

- ***Strong client acceptance and engagement continuance policies that provide reasonable assurance that the firm doesn’t accept or retain engagements it doesn’t have the competency and resources to perform***
- ***Effective training programs and a commitment to continuing professional education to stay current on accounting, auditing, and quality management standards***
- ***Consultation policies that provide reasonable assurance engagement teams will consult when they encounter technical accounting and auditing difficulties***
- ***Triennial peer review and consideration of the results thereof and their effect on the design of inspection procedures, including the decision to self-inspect***
- ***Corrective action taken by the firm after consideration of deficiencies identified by the firm’s internal monitoring, peer review results or other external inspections, for example, inspections by DOL, GAO, or HUD***
- ***Training on how to perform monitoring inspections***
- ***The use of peer review or other inspection checklists***
- ***Policies that require the passage of time after the completion of an engagement before performing monitoring inspections***
- ***Policies that require the use of an external service provider to perform either engagement quality reviews or monitoring procedures when changes in conditions and the environment within the firm (such as obtaining clients in an industry not previously serviced or significantly changing the size of the firm) occur***

E. Annual Inspections of Completed Engagements

A few respondents questioned whether the requirement to inspect completed engagements of each engagement partner on a cyclical basis could be combined with the ability to allow Peer Review to substitute for inspection in the year of peer review. Accordingly, a firm with one or two partners would put the partners on a three-year cycle and only inspect completed engagements once every three years.

The Task Force believes paragraph 39 requires the inspection of completed engagements annually as part of the monitoring procedures. Because the Task Force is recommending not precluding self-inspection, the Task Force believes that it is not overly prescriptive for monitoring to include annual inspections of completed engagements.

Proposed revision to clarify this are as follows:

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39. The firm should include the inspection of completed engagements in its **annual** monitoring activities and should determine which engagements and engagement partners to select. In doing so, the firm should:
- a. take into account the matters in paragraph 38;
 - b. consider the nature, timing, and extent of other monitoring activities undertaken by the firm and the engagements and engagement partners subject to such monitoring activities; (Ref: par. A167) and
 - c. select at least one completed engagement for each engagement partner on a cyclical basis determined by the firm.

The above language requires inspection of at least one completed engagement annually, but not for each engagement partner each year. Paragraph A165 provides examples of policies and procedures that a firm may establish to apply a cyclical basis for the inspection of completed engagements for each engagement partner.

Question for the ASB:

1. Does the ASB agree with the recommendation of the Task Force to not preclude self-inspection and to strengthen the emphasis on safeguards?
2. Does the ASB agree with the recommendation of the Task Force about requiring annual inspections of completed engagements based on the parameters described above?

Issue #2: Cooling-Off Period for Engagement Quality Reviewers

A. Background: A cooling-off period is one safeguard against the self-review threat to objectivity. Under the AICPA’s code of professional conduct all members are required to maintain objectivity in discharging their professional responsibilities. Firms often utilize multiple methods to maintain objectivity – for example, one method is by requiring personnel to attest to compliance with firm policies and procedures regarding objectivity and independence. (See agenda item 4H, *Additional background information*, slides 4-5.)

B. Feedback from Roundtables and Comment Letters

Roundtable Poll Results

Should a cooling-off period be required before a former engagement partner can serve as an engagement quality reviewer on that engagement?	#	%
Yes	97	32
No	208	68
	305	

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Comment Letter Responses (Agenda item 4E: Exhibit E, Cooling-Off)

	Oppose	Support	Exemption
Type	#	#	
Firm: Big 4	1	1	1
Firm: MFG	5	6	1
Firm: G400	5	4	
Firm: Medium	4		
Firm: Smaller	5		
Firm: Very small	2		1
Firm: Sole Practitioner	8		2
Firm: Small	17	2	1
➤ Firm: Subtotal	47	13	6
State Societies	18	3	1
Regulators and State Auditors	1	3	
Individuals		1	
➤ Grand Total	66	27	7

Note the above numbers do not include 36 respondents who did not support the standard without mentioning cooling-off specifically. See Agenda item 4B, “Cost-Benefit”. 7 respondents supported a cooling-off period but believed that an exemption should be provided for smaller firms because of the cost burden and the difficulty in obtaining qualified external people to serve as EQR reviewers.

Some larger firms that supported the requirement were concerned about the effects on smaller firms. Many respondents, both during the roundtables and in letters, expressed concern about the available, competent resources to perform the reviews if, in order to effectuate this requirement, they had to go outside of their firm. Some respondents also indicated that while using external resources effectively guarantees a higher level of objectivity, no similar guarantee exists that the external resource will have a similar or higher level of competency. Several respondents indicated that having a new engagement partner provides the appropriate level of objectivity, such that allowing the former partner to serve in the role of EQR would be appropriate.

The majority of respondents did not support a cooling-off period. Reasons included the following:

- It can be difficult to find sufficiently experienced and knowledgeable external people, particularly for specialized industries or areas, and needing to hire three separate people to perform an engagement quality review, an inspection, and a peer review exacerbates that problem as well as being cost-prohibitive. Given limited resources, for an engagement risk in which an engagement quality review is the appropriate response, an experienced person who recently served as the engagement partner could be a more effective engagement quality reviewer than someone else with less experience or competency related to that engagement risk.
- Firms transitioning clients to a new engagement partner often use the past engagement partner as the EQR reviewer as a quality response. They believe that the cooling-off period prioritizes objectivity at the expense of competence and that it will have the unintended negative consequence of lowering audit quality in the U.S.
- To avoid the cooling-off period, firms may change their criteria so that fewer engagements would be subject to EQR; again, an unintended negative consequence that would not improve audit quality.
- To avoid the cooling-off period, firms that rotate engagement partner and engagement quality reviewer roles within a group of partners may choose not to rotate engagement leadership (if not otherwise required to do so), which would be an unintended negative consequence
- A prescribed cooling-off period is inconsistent with a risk-based approach to quality management and inconsistent with a lack of required engagement partner rotation. Allowing firms to apply

safeguards against the familiarity threat using a risk-based approach for engagement partners but not for EQR reviewers is not consistent.

C. Options

The Task Force considered three options with regard to the cooling-off period:

1. *Make no changes to the standard as proposed (that is, require a two-year cooling off-period)*

Firms that currently use the role of an EQR to transition engagement partners, would not be prohibited from using the “rotating-off” audit partner as an advisory partner or other audit partner on the engagement; however, when the criteria the firm has established for requiring an EQR are met, the firm would utilize a different person in the EQR role.

Those who favored a cooling-off period were slightly more supportive of two years, although several favored a one-year period for smaller firms.

2. *Do not require a cooling-off period and add application material addressing threats to objectivity.*

Another option considered is to not require a cooling-off period, but to provide application guidance that a cooling-off period may be one safeguard against self-review threat. Note that this was the position taken by the ASB in its comment letter on the exposure draft of the IAASB QM standards. It would also be most consistent with objective of developing a principles-based standard focused on a risk-based approach (i.e. it wouldn't be prescriptive in nature).

3. *Require a cooling off period and add an exemption for certain firms based on size*

The Task Force considered adding an exemption for firms based on size. However, many firms believe that using the former engagement partner as EQR reviewer when transitioning to a new engagement partner is an appropriate quality risk response. In this regard, requiring a cooling-off period is different from precluding self-inspection. Even those who believe self-inspection is acceptable would agree it is not optimal, whereas a required cooling-off period was cited by many firms as harmful to audit quality. An exemption based on size would thus preclude larger firms from performing a quality risk response that they believe is appropriate, while permitting smaller firms to do so.

D. Task Force recommendation

Given the opposition expressed by the majority of respondents, the reasons therefor, including the belief that using the former engagement partner enhances quality, and the potential for the unintended negative consequences to audit quality, including fewer firms performing audits or firms performing fewer engagement quality reviews, as well as other mechanisms in place that support the performance of an objective audit, the consensus of the Task Force is that it would not be appropriate to implement the requirement for a cooling-off period of any length for audits of non-issuers in the U.S. When determining whether to provide for a principles-based solution or an exemption (rules) based solution, similar to the considerations above for self-inspection, the Task Force recommends safeguards approach rather than an exemption-based approach. They also recommend that application guidance be updated to reflect that a cooling-off period may be a response to the self-review threat.

The following revisions could be made if a cooling-off period is not required. These revisions are consistent with those suggested in the ASB comment letter on the IAASB QM standards ED.

19. The firm's policies or procedures established in accordance with paragraph 18(b) should also address threats to objectivity created by an individual being appointed as the engagement quality reviewer after previously serving as the engagement partner. ~~Such policies or procedures should specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before the engagement partner can assume the role of engagement quality reviewer.~~ (Ref: par. A16–A17)

~~A16. On recurring engagements, the matters on which significant judgments are made often do not vary. Therefore, significant judgments made in prior periods may continue to affect judgments of the engagement team in subsequent periods. Therefore, the ability of an engagement quality reviewer to perform an objective evaluation of significant judgments is affected when the individual was previously involved with those judgments as the engagement partner. In such circumstances, it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular, the self-review threat, to an acceptable level. Accordingly, this proposed SQMS requires the firm to establish policies or procedures that specify a cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer.~~ ***Policies and procedures designed to maintain the objectivity of an engagement quality reviewer who served as the engagement partner on the previous year's engagement may address the following areas:***

- ***The extent of changes in the matters on which significant judgments are made and the facts and circumstances around those significant judgments compared to the period(s) in which the individual was the engagement partner. For example, if a new accounting pronouncement has been implemented, the significant judgments made in the current period may vary from those of the prior period to such an extent that an objective evaluation of those judgments could be made by the individual who served as the engagement partner in the previous period.***
- ***The procedures and incentives placed by the firm's system of quality management on objective reviews (for example, the engagement quality reviewer would not be penalized for identifying a misstatement related to a year in which the reviewer was the engagement partner)***

A17. A firm may establish policies or procedures that limit the eligibility of individuals to be appointed as engagement quality reviewers who previously served as the engagement partner, for example, by establishing a specified cooling-off period during which the engagement partner is precluded from being appointed as the engagement quality reviewer. Determining a suitable cooling-off period depends upon the facts and circumstances of the engagement. The firm's policies or procedures also may address whether a cooling-off period is appropriate for an individual other than the engagement partner before becoming eligible to be appointed as the engagement quality reviewer on that engagement. In this regard, the firm may consider the nature of that individual's role and previous involvement with the significant judgments made on the engagement. For example, the firm may determine that an engagement partner responsible for the performance of audit procedures on the financial information of a component in a group audit engagement may not be eligible to be appointed as the group engagement quality reviewer because of that audit partner's involvement in the significant judgments affecting the group audit engagement.

Question for the ASB:

2. Does the ASB support the recommendation of the Task Force to remove the required cooling-off period and updates shown above to related application guidance?

Issue #3: Effective Date of the Proposed Standards

A. Background

There are two aspects of the effective date that need consideration: one is the implementation period (how long after issuance the standards become effective) and the other is the effective date itself.

- **Implementation period (between issuance and the effective date)**

Assuming the standards are finalized in the second quarter of 2022, the effective date proposed in the exposure draft proposed “as of”⁷ December 15, 2023, for QM 1 results in an 18-month implementation period. Many respondents expressed the belief that 24-30 months would be more appropriate. One respondent noted that the ASB’s comment letter on the IAASB QM Standards exposure draft recommended a 24-month implementation period. Delaying the effective date by one year (i.e., as of December 31, 2024) would result in a 30-month implementation period. This would also provide time for service providers and other regulators to develop implementation material or update their guidance.

- **Effective Date: Month and day of the effective date**

Auditing standards are generally effective for audits of financial statements for periods ending on or after December 15 [year]. December 15 is used to accommodate for the possibility of 52/53-week fiscal years. That reason is not relevant to the SQMSs. More relevant is a firm’s peer review year-end date. Depending on their practice, firms generally have a 12/31, 3/31, 6/30 or 9/30 year end, with December 31 being probably the most popular. Both SQCS No. 7 and No. 8 were effective as of January 1 (2009 and 2012, respectively).

B. Feedback from Roundtables and Comment Letters

Roundtable feedback

The implementation period was not the subject of a poll at the roundtables.

Comment Letter Responses (Agenda item 4F: Implementation period)

Comments by respondents indicated concern about most firm’s ability to implement the proposed effective date and the need for implementation guidance to be available as soon as possible after the standards are issued.

	18 mos. ok	18 mos. Only w/ guidance	Delay	Never/ Wait for PCAOB
Type	#	#	#	#
Firm: Big 4				1
Firm: MFG	3	2	7	

⁷ An “as of” effective date means that early *implementation* is necessary for the standard to have been adopted by the effective date.

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Firm: G400	1	1	5	
Firm: Medium			1	
Firm: Smaller	1		2	
Firm: Very small			3	
Firm: Sole Practitioner	1		5	
Firm: Small		2	4	
➤ Firm: Subtotal	6	5	27	1
State Societies	3	2	13	1
Regulators and State Auditors	2		2	
Individuals	1			1
➤ Grand Total	12	7	42	3

C. Options

The Task Force considered the following options (For simplicity's sake, these are presented in terms of QM 1), which are explained in further detail below:

Potential Option	Potential Implementation Date
1. Tie effective date to a date that allows each firm to have a peer review performed between the issuance of the proposed standards and their effective date	The first day of a firm's peer review year beginning after December 31, 2024 such that firms would implement the standard on a rolling basis, over a three-year period
2. Tie effective date to the firm's peer-review year-end (not year of peer review)	The first day after a firm's peer review year-end beginning after December 31, 2024. (i.e., for firms with a peer review year-end of December 31, 2024, the standards would be effective January 1, 2025. For firms with a peer review year-end of June 30, 2025, the standards would be effective July 1, 2025).
3. Date certain	As of January 1, 2025

1. *An effective date that allows a firm to undergo one peer review between the issuance of the standards and their implementation.*

Respondents noted that firms could benefit from undergoing peer review before the effective date, so as to obtain feedback on changes being made in advance of the effective date. Accordingly, the effective date could be linked to the year in which firms have their peer review, with having firms adopt the proposed standard as of the first day of the year after their first peer review after January 1, 2024. This would result in some firms having to implement the standard two or three years before other firms do, based on where they were in the peer review cycle when the standard was issued.

Alternatively, firms that had not undergone peer review in the 30 months between the issuance of the standards and January 1, 2025 (that is, firms with peer review years ending in 2024) could be given a one-year extension to the first day of their peer review year after December 31, 2025. That would allow every firm the chance to have had at least one peer review between the time the standards are issued and the effective date, and at least one year between that peer review and the effective date.

The Task Force considered this approach and concluded that it was too complex, and would result in too much inconsistency in when the standards were effective for various firms.

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2. *An effective date that is tied to a firm’s peer-review year-end date.*

A few respondents expressed concern about implementation of the proposed standards in the middle of a peer review year. One respondent expressed concern as follows: if the ASB retains a fixed effective date, how will peer reviewers evaluate a firm’s system of quality when no single system of quality will have been in effect for the entirety of the year under review?

One firm suggested a rolling implementation date. Under this scheme, a firm would adopt the proposed standards as of the first day of their peer review year after December 15, 2024. (Note, this is not the same as the year in which peer review takes place). For example, the effective date for a firm whose peer review year ends on December 31 would adopt January 1, 2025, and a firm whose peer review year ends on September 30 would adopt the QCM standards on October 1, 2025. All firms would be required to have designed and implemented the system of quality management required by QM 1 within calendar 2025.

3. *An effective date of January 1, 2025.*

A “date certain” is consistent with the effective date of previous quality control standards. It is also straightforward and the same for every firm. This would allow an implementation period of 30 or 42 months.

The effective dates of SQMS 2 and the QM SAS, which apply to engagements, would be changed accordingly, such that calendar-year 2025 engagements would be the first for which they would be effective.

If QM 1 has an effective date of January 1, 2025, then

- Proposed SQMS No. 2 would be effective for
 - a. audits or reviews of financial statements for periods ~~beginning~~ **ending** on or after December 15, ~~2023~~**2025**, and
 - b. other engagements in the firm’s accounting and auditing practice beginning on or after ~~December 15, 2023,~~ **January 1, 2025**. An engagement in the firm’s accounting and auditing practice begins when an engagement letter or other agreement to perform attest services is signed, or when the firm begins to perform the engagement, whichever is earlier.⁸
- The proposed QM SAS would be effective for engagements conducted in accordance with generally accepted auditing standards for periods ~~beginning~~ **ending** on or after December 15, ~~2023~~**2025**.

Although the majority of respondents who responded to the question indicated that the effective dates were clear, there is enough confusion to indicate the need to address the effective dates in implementation guidance and awareness efforts after the standards are issues.

If QM 1 has a “rolling” effective date during 2025 based on a firm’s peer-review year-end, then

- Proposed SQMS No. 2 would be effective for
 - a. audits or reviews of financial statements for periods ~~beginning~~ **ending** on or after December 15, ~~2023~~**2025**, and

⁸ See ET section 0.400.39 of the AICPA Code of Professional Conduct. All ET sections can be found in AICPA *Professional Standards*.

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- b. other engagements in the firm’s accounting and auditing practice beginning on or after ~~December 15, 2023~~, **the first day after a firm’s peer review year-end beginning after December 31, 2024**. An engagement in the firm’s accounting and auditing practice begins when an engagement letter or other agreement to perform attest services is signed, or when the firm begins to perform the engagement, whichever is earlier.⁹
- The proposed QM SAS would be effective for engagements conducted in accordance with generally accepted auditing standards for periods ~~beginning~~ **ending** on or after December 15, ~~2023~~**2025**.

D. Task Force recommendation

The Task Force recommends that the effective date be pushed back one year and be tied to a firm’s peer-review year-end date (option 2 above).

Question for the ASB:

3. Does the ASB agree with the Task Force recommendation regarding the effective date of the Proposed Standards?

Issue #4: Dating of the report when EQR is performed

A. Background

Paragraph .41 of QC section 10, and paragraph .21 of AU-C section 220, require that when an engagement quality control review is performed, the engagement quality control review is completed before the report is released. The exhibit to QC section 10 and AU-C Appendix B, “Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards,” both state that “... an engagement quality control review is an independent review of the engagement team’s significant judgments, including the date selected by the engagement team to date the report. As noted in the application material to QC section 10, when the engagement quality control review results in additional procedures having to be performed, the date of the report would be changed.”

Consistent with ISQM 2 and ISA 220 (Revised), paragraph 24b of proposed SQMS No. 2 and paragraph 36d of the proposed QM SAS require that the engagement quality review be completed before the report is dated.

B. Feedback from Roundtables and Comment Letters

Roundtable poll results

Does your firm currently require that the engagement quality review be completed before the report is dated or before the report is released?	#	%
a-Before the report is dated.	154	58
b-Before the report is released.	113	42
	267	

⁹ See ET section 0.400.39 of the AICPA Code of Professional Conduct. All ET sections can be found in AICPA *Professional Standards*.

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a-Changing would be very challenging for most engagements.	45	34
b-Changing would not be challenging	89	66
	134	

Comment letter responses: (Agenda item 4G: Dating of report when EQR performed)

	Before report is dated	Before report is released
Type	#	#
Firm: Big 4	4	
Firm: MFG	9	1
Firm: G400	2	4
Firm: Medium	1	1
Firm: Smaller	2	1
Firm: Very small	1	2
Firm: Sole Practitioner	1	
Firm: Small	3	1
➤ Firm: Subtotal	23	10
State Societies	8	5
Regulators and State Auditors	1	3
Individuals	1	
➤ Grand Total	33	18

The majority of respondents indicated support for the proposed requirement to complete the engagement quality review prior to dating the audit report. One respondent (an association of small firms) stated that they “considered this requirement and did not have any reason for opposition, but we were also unsure that this represents an issue. As a result, we are unsure why this change is recommended.”

Some who opposed the requirement did so for theoretical reasons:

No, it should not be a requirement that the engagement quality review be completed prior to dating the audit report. While our quality assurance monitoring process may perform both types of reviews (pre-dating and pre-issuance), depending on risk, we do not require the review to be completed before the report is dated. We understand having the review dated prior to the report date serves the outcome-based objectives of the proposed standards. It may also be more efficient in terms of finishing the audit and avoiding rework later, and in setting report delivery expectations with the client.

However, requiring the review to be complete before the report is dated embeds the quality monitoring process into the audit process, almost in an additional supervisory review form, and does not allow for a complete evaluation of the engagement partner’s judgment as it relates to taking responsibility for quality and significant decisions during and at the end of the audit (e.g. evaluating the sufficiency and appropriateness of audit evidence). The outcome-based objectives could still be attained by having the engagement quality review completed before report issuance, which would allow for a more complete assessment of audit quality and personnel.

Most of those who opposed the requirement did so for logistical reasons. Many of those who opposed, but not all, are small firms who expressed concern that the AICPA is trying to put them “out of business” and do not support convergence with IAASB standards because they have no engagements that require IAASB standards. From their perspective, imposing this requirement— which is an existing difference between QC

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section 10 and ISQC 1 — is placing convergence above scalable standards. This requirement won't make a meaningful difference in practice quality, because it is common practice, but it will make things harder for smaller firms who are trying to do the right thing by having an EQR in the first place.

A few respondents requested additional application material clarifying what is mean by "completion" of the EQR, specifically what is allowed for the file assembly guidelines in which some documentation can be completed after release of report.

C. Options

The Task Force discussed two options with regard to this requirement.

1. Keep the requirement as exposed

The majority of respondents, both from the roundtables and the comment letters, require that the EQR be completed before the report is dated, and changing to that policy would not be challenging for the majority of firms for which it is not current practice. This requirement illustrates the principle that "best practices become requirements".

2. Keep the extant requirement

18 (35%) of the 51 comment letter respondents who addressed this issue, and 42% of roundtable participants polled, did not support this requirement. Challenges for completing the engagement quality review prior to the dating of the report focused most commonly on situations when the engagement quality reviewer is external to the firm. These included challenges with coordination of the timing of the engagement quality reviewer's work in relation to dating and obtaining representation letters from management and those charged with governance and the timing of obtaining legal representation letters and updates thereto. The extant standard allows firms flexibility, and the effect on assurance quality of removing that flexibility is unlikely to be material.

D. Task Force Recommendation

When discussing the recommendation, one Task Force member expressed concern that there may be more pressure to issue the report if the report is dated before the EQR is complete, which supports retaining this requirement. Conversely, one Task Force member expressed concern that although requiring the EQR be completed before the report is dated is a best practice, not all best practices need to become requirements for the sake of convergence – especially if the effect is unlikely to materially change practice. The Task Force discussed whether creating this requirement would be a sufficient enhancement to audit quality to warrant change, given the feedback received related to the flexibility permitted in the extant standards. Upon consideration of the feedback of the majority of respondents that either already adopted this practice or determined it would not be challenging to adopt, the Task Force recommends retaining the requirement.

Question for the ASB:

4. Does the ASB agree with the Task Force recommendation regarding retaining the requirement to complete the engagement quality review prior to dating the audit report?

Additional Agenda Items Presented

- Item 4A, List of Respondents, by Comment Letter Number and by Type and Firm Size
- Item 4B, QM Comment Letter Analysis: Cost-Benefit and Lack of Scalability
- Item 4C, QM Comment Letter Analysis: Self-inspection
- Item 4D, QM Comment Letter Analysis: Paragraph A168
- Item 4E, QM Comment Letter Analysis: Cooling-off period
- Item 4F, QM Comment Letter Analysis: Implementation period
- Item 4G, QM Comment Letter Analysis: Dating the report when an EQR is performed
- Item 4H, Additional background information related to the Discussion Paper

Ms. Lord and Mr. Heath will use this issues paper for discussion purposes.

Exhibit A: Respondents

Contents:

[Table 1: Respondents in Comment Letter Order](#)
[Table 2: Respondents by Type and Firm Size](#)
Table 1: Respondents in Comment Letter Order

Number	Responders	Type	Firm Size
1	Burgess, Lowman & Lay	Firm	Small
2	Andrew K Collins CPA PLLC	Firm	Sole Practitioner
3	Hamilton, McKinney & Moss	Firm	Small
4	Hill & Jordan LLC CPA's	Firm	Sole Practitioner
5	Robert Goldstein, CPA	Firm	Sole Practitioner
6	Allen, Gibbs & Houlik, L.C.	Firm	G400
7	Apple Guerin Company, LLC	Firm	Medium
8	Harry J. Honan, CPA	Firm	Small
9	HMS Schafer Group, LLC	Firm	Small
10	KPMG LLP	Firm	Big 4
11	Phillip V. George, CPA	Firm	Sole Practitioner
12	Shaun Thayer, CPA	Firm	Sole Practitioner
13	Accountabilities Consulting Services, LLC	Firm	Small
14	Bayshore Reineck Stoller & Waterman Inc CPAs	Firm	Small
15	J. Bradley Kevil, CPA	Firm	Sole Practitioner
16	A.A. Branca & Co, LLC	Firm	Sole Practitioner
17	Shad J. Allen, CPA, PLLC	Firm	Sole Practitioner
18	Timothy R Mott, CPA	Firm	Sole Practitioner
19	Chase & Co.	Firm	Small
20	Slocum, DeAngelus & Associates, P.C.	Firm	Medium
21	Thomas M Kotulak, CPA	Firm	Small
22	Abraham A Fasten, CPA	Firm	Sole Practitioner
23	Murphy, Coe & Smith, PLLC	Firm	Medium
24	Dave Simmons, CPA, CIA, CISA	Firm	Small
25	Joseph Wollack, CPA	Firm	Small
26	QRGA, LLP CPAs	Firm	Small
27	One River CPAs	Firm	Small
28	Canny Accounting, LLC	Firm	Sole Practitioner
29	Pooler CPA Group, LLC	Firm	Small

Agenda Item 4A – List of Respondents, by Comment Letter Number and by Type and Firm Size

Number	Responders	Type	Firm Size
30	Russell D. Boerner, CPA, S.C.	Firm	Small
31	George W Ferenzi	Individual	Not Applicable
32	Alan Bahr CPA	Firm	Sole Practitioner
33	Reiser, Chinski & Co., LLP	Firm	Smaller
34	R. MacDonald & Associates, Ltd.	Firm	Sole Practitioner
35	Bachmeier CPAs, Inc.	Firm	Sole Practitioner
36	Welch & Company, CPAs, PSC	Firm	Very small
37	Fox CPA Group Ltd.	Firm	Sole Practitioner
38	Joseph Folsom, CPA	Firm	Sole Practitioner
39	David Enzastiga CPA	Firm	Small
40	U.S. Government Accountability Office	Regulator	Not Applicable
41	Wayne E Rabon, CPA	Firm	Sole Practitioner
42	Denise M. Keene, CPA	Firm	Sole Practitioner
43	Susan J. Lyons	Firm	Sole Practitioner
44	Kevin Hawk	Firm	Sole Practitioner
45	Terry R. Fyffe, CPA, ABV	Firm	Small
46	Lance, Scroll & Lunghard, LLP	Firm	Medium
47	National Association of State Boards of Accountancy (NASBA)	Regulator	Not Applicable
48	Dale Kubiesa	Firm	Sole Practitioner
49	Michael J. Kuefler, Certified Public Accountant	Firm	Sole Practitioner
50	James E. Driskell, CPA, PFS, Chfc	Firm	Smaller
51	Daniel Wagner, CPA	Firm	Very small
52	Evers Robinson Ltd.	Firm	Small
53	Marlett, Wheeler & Co. Ltd.	Firm	Small
54	Smith Patrucco, LLC	Firm	Sole Practitioner
55	Florida Institute of CPAs	State Society	Not Applicable
56	Timothy J. Otte, CPA, PC	Firm	Sole Practitioner
57	Wachsler CPA, LLC	Firm	Sole Practitioner
58	Rea CPA Group PC	Firm	Small
59	Hilarion V. Cann, CPA	Firm	Small
60	Weinshel, Wynnicks & Associates, LLC	Firm	Small
61	Carr, Riggs & Ingram, LLC	Firm	MFG
62	Roger Harrelson CPA	Firm	Sole Practitioner
63	Blumenthal Squire & Blanck	Firm	Small
64	Norris Taylor & Co. CPAs	Firm	Small
65	James Laures	Individual	Not Applicable
66	Necaise & Company	Firm	Small
67	Olsen Thielen & Co., Ltd.	Firm	Small
68	Roche, Head & Associates, PLLC	Firm	Small
69	South Carolina Association of CPAs	State Society	Not Applicable

Agenda Item 4A – List of Respondents, by Comment Letter Number and by Type and Firm Size

Number	Responders	Type	Firm Size
70	Cohen, Kaufman & Associates, LLC	Firm	Smaller
71	New Jersey Society of CPAs (NJCPA)	State Society	Not Applicable
72	Compton, Kottke & Associates PSC	Firm	Small
73	Stephen Myrick, C.P.A.	Firm	Sole Practitioner
74	Tennessee Comptroller of the Treasury	State auditor	Not Applicable
75	Coastal Peer Review-NC and MD Association of CPAs	State Society	Not Applicable
76	Dohman, Akerlund & Eddy, LLC	Firm	G400
77	BDO USA LLP	Firm	MFG
78	RSM US LLP	Firm	MFG
79	Waters, Vollmering & Associates	Firm	Medium
80	John Shirley, CPA	Firm	Small
81	Harper, Poston & Moore, P.A. CPAs	Firm	Small
82	Lauren Corey Consulting, LLC	Firm	Sole Practitioner
83	National State Auditors Association (NSAA)	State auditor	Not Applicable
84	Land Firm, Inc.	Firm	Sole Practitioner
85	Smith Financial Services, PLLC	Firm	Sole Practitioner
86	Pennsylvania Institute of CPAs	State Society	Not Applicable
87	Perry M. Henderson CPA, MPA	Firm	Small
88	Boivin & Associates CPAs	Firm	Small
89	The Ohio Society of CPAs	State Society	Not Applicable
90	Virginia-Auditor of Public Accounts	State auditor	Not Applicable
91	Billy I. Pippin	Firm	Sole Practitioner
92	CliftonLarsonAllen LLP	Firm	MFG
93	Davis & Company CPAs	Firm	Very small
94	Indiana CPA Society	State Society	Not Applicable
95	Texas Society of CPAs	State Society	Not Applicable
96	Howard B. Levy, CPA	Individual	Not Applicable
97	Michael C. Haas, CPA	Firm	Small
98	Jones, Pounder & Associates, P.C.	Firm	Medium
99	Burgess, Lowman & Lay, PA	Firm	Smaller
100	PCPS Technical Issues Committee (TIC)	State Society	Not Applicable
101	Prida, Guida & Perez P.A.	Firm	G400
102	Massachusetts Society of CPAs	State Society	Not Applicable
103	New York State Society of CPAs	State Society	Not Applicable
104	KM Early CPA, PLLC	Firm	Very small
105	Christen Souers LLC	Firm	Small
106	Dora Jean Dyson, CPA P.C.	Firm	Small
107	Carolyn L Gandee, CPA	Firm	Small
108	Robert Loe & Associates CPAs	Firm	Sole Practitioner
109	Virginia Society of CPAs	State Society	Not Applicable

Agenda Item 4A – List of Respondents, by Comment Letter Number and by Type and Firm Size

Number	Responders	Type	Firm Size
110	Miller Cooper & Co., Ltd	Firm	MFG
111	Linzmeier Business Solutions, LLC	Firm	Sole Practitioner
112	The Marchese Group LLC	Firm	Very small
113	Minnesota Society of CPAs	State Society	Not Applicable
114	West Virginia Society of CPAs	State Society	Not Applicable
115	Sayle Sandifer & Associates, LLP	Firm	Small
116	SKDO P.C.	Firm	Small
117	Wachsler CPA, LLC	Firm	Sole Practitioner
118	Mack & Associates, P.C.	Firm	Small
119	Finney, Neil & Company, P.S.	Firm	Small
120	Corbets & Associates-Kathleen Hoover	Firm	Small
121	Mazars USA LLP	Firm	G400
122	Fricke, Sweatmon & Co., P.C.	Firm	Small
123	Michigan Office of the Auditor General	State auditor	Not Applicable
124	Kansas Society of CPAs	State Society	Not Applicable
125	RW Group	Firm	Small
126	Martin & Co CPA, P.C.	Firm	Sole Practitioner
127	Caudill & Associates, CPA, PLLC	Firm	Small
128	Crowe LLP	Firm	MFG
129	Patterson, Hardee & Ballentine, PC	Firm	Small
130	Four-Fifteen Group	Firm	MFG
131	Shelley Smart CPA MBA	Firm	Sole Practitioner
132	James J. Newhard, CPA	Firm	Sole Practitioner
133	Billy Price, CPA	Firm	Sole Practitioner
134	Grant Thornton LLP	Firm	MFG
135	Peer Review Alliance-Illinois CPA Society	State Society	Not Applicable
136	Hearne & Associates, P.C.	Firm	Small
137	Partners in Peer Review- Alabama Society of CPAs	State Society	Not Applicable
138	Plante Moran, PLLC	Firm	G400
139	Oklahoma Society of CPAs Peer Review Committee	State Society	Not Applicable
140	Mississippi Society of CPAs	State Society	Not Applicable
141	ABDO EICK & MEYERS LLP	Firm	Small
142	Dixon Hughes Goodman LLP	Firm	MFG
143	Deloitte & Touche LLP	Firm	Big 4
144	Katz Sapper & Miller, LLP	Firm	G400
145	Diverse Organization of Firms	State Society	Small
146	Colorado Society of CPAs Peer Review Committee	State Society	Not Applicable
147	Illinois CPA Society	State Society	Not Applicable
148	Kentucky Society of CPAs	State Society	Not Applicable
149	Stephen T. Hopkins, CPA	Firm	Sole Practitioner

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Number	Responders	Type	Firm Size
150	Stephen Merritt, CPA, P.C.	Firm	Sole Practitioner
151	Watson Rice LLP	Firm	G400
152	Kent Whitfield	Firm	Very small
153	Scot Chism, CPA	Firm	Small
154	Chism & Company, Ltd	Firm	Small
155	Eide Bailly LLP	Firm	MFG
156	Moss Adams LLP	Firm	MFG
157	Corbets & Associates	Firm	Small
158	SingerLewak LLP	Firm	G400
159	Blankenship CPA Group, PLLC	Firm	G400
160	Douglas C. Koval, CPA	Individual	Not Applicable
161	PricewaterhouseCoopers LLP	Firm	Big 4
162	CohnReznick LLP	Firm	MFG
163	Shannon & Associates, LLP	Firm	G400
164	Office of the Washington State Auditor	State auditor	Not Applicable
165	Tennessee Society of CPAs	State Society	Not Applicable
166	Chadwick, Steinkirchner, Davis & Co., P.C.	Firm	Smaller
167	Bauknight Pietras & Stormer, P.A.	Firm	Small
168	California Society of CPAs	State Society	Not Applicable
169	Don Wallace	Firm	Sole Practitioner
170	Ernst & Young	Firm	Big 4
171	Krystal Consulting Inc.	Firm	Very small

Table 2: Respondents by Type and Firm Size

Number	Responders	Type	Firm Size
10	KPMG LLP	Firm	Big 4
143	Deloitte & Touche LLP	Firm	Big 4
161	PricewaterhouseCoopers LLP	Firm	Big 4
170	Ernst & Young	Firm	Big 4
			Count 4
61	Carr, Riggs & Ingram, LLC	Firm	MFG
77	BDO USA LLP	Firm	MFG
78	RSM US LLP	Firm	MFG
92	CliftonLarsonAllen LLP	Firm	MFG
110	Miller Cooper & Co., Ltd	Firm	MFG
128	Crowe LLP	Firm	MFG
130	Four-Fifteen Group	Firm	MFG
134	Grant Thornton LLP	Firm	MFG
142	Dixon Hughes Goodman LLP	Firm	MFG
155	Eide Bailly LLP	Firm	MFG
156	Moss Adams LLP	Firm	MFG
162	CohnReznick LLP	Firm	MFG
			Count 12
6	Allen, Gibbs & Houlik, L.C.	Firm	G400
76	Dohman, Akerlund & Eddy, LLC	Firm	G400
101	Prida, Guida & Perez P.A.	Firm	G400
121	Mazars USA LLP	Firm	G400
138	Plante Moran, PLLC	Firm	G400
144	Katz Sapper & Miller, LLP	Firm	G400
151	Watson Rice LLP	Firm	G400
158	SingerLewak LLP	Firm	G400
159	Blankenship CPA Group, PLLC	Firm	G400
163	Shannon & Associates, LLP	Firm	G400
			Count 10
7	Apple Guerin Company, LLC	Firm	Medium
20	Slocum, DeAngelus & Associates, P.C.	Firm	Medium
23	Murphy, Coe & Smith, PLLC	Firm	Medium
46	Lance, Scroll & Lunghard, LLP	Firm	Medium
79	Waters, Vollmering & Associates	Firm	Medium
98	Jones, Pounder & Associates, P.C.	Firm	Medium
			Count 6
1	Burgess, Lowman & Lay	Firm	Small
3	Hamilton, McKinney & Moss	Firm	Small
8	Harry J. Honan, CPA	Firm	Small

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Number	Responders	Type	Firm Size
9	HMS Schafer Group, LLC	Firm	Small
13	Accountabilities Consulting Services, LLC	Firm	Small
14	Bayshore Reineck Stoller & Waterman Inc CPAs	Firm	Small
19	Chase & Co.	Firm	Small
21	Thomas M Kotulak, CPA	Firm	Small
24	Dave Simmons, CPA, CIA, CISA	Firm	Small
25	Joseph Wollack, CPA	Firm	Small
26	QRGA, LLP CPAs	Firm	Small
27	One River CPAs	Firm	Small
29	Pooler CPA Group, LLC	Firm	Small
30	Russell D. Boerner, CPA, S.C.	Firm	Small
39	David Enzastiga CPA	Firm	Small
45	Terry R. Fyffe, CPA, ABV	Firm	Small
52	Evers Robinson Ltd.	Firm	Small
53	Marlett, Wheeler & Co. Ltd.	Firm	Small
58	Rea CPA Group PC	Firm	Small
59	Hilarion V. Cann, CPA	Firm	Small
60	Weinshel, Wynnicks & Associates, LLC	Firm	Small
63	Blumenthal Squire & Blanck	Firm	Small
64	Norris Taylor & Co. CPAs	Firm	Small
66	Necaise & Company	Firm	Small
67	Olsen Thielen & Co., Ltd.	Firm	Small
68	Roche, Head & Associates, PLLC	Firm	Small
72	Compton, Kottke & Associates PSC	Firm	Small
80	John Shirley, CPA	Firm	Small
81	Harper, Poston & Moore, P.A. CPAs	Firm	Small
87	Perry M. Henderson CPA, MPA	Firm	Small
88	Boivin & Associates CPAs	Firm	Small
97	Michael C. Haas, CPA	Firm	Small
105	Christen Souers LLC	Firm	Small
106	Dora Jean Dyson, CPA P.C.	Firm	Small
107	Carolyn L Gandee, CPA	Firm	Small
115	Sayle Sandifer & Associates, LLP	Firm	Small
116	SKDO P.C.	Firm	Small
118	Mack & Associates, P.C.	Firm	Small
119	Finney, Neil & Company, P.S.	Firm	Small
120	Corbets & Associates-Kathleen Hoover	Firm	Small
122	Fricke, Sweatmon & Co., P.C.	Firm	Small
125	RW Group	Firm	Small
127	Caudill & Associates, CPA, PLLC	Firm	Small

Agenda Item 4A – List of Respondents, by Comment Letter Number and by Type and Firm Size

Number	Responders	Type	Firm Size
129	Patterson, Hardee & Ballentine, PC	Firm	Small
136	Hearne & Associates, P.C.	Firm	Small
141	ABDO EICK & MEYERS LLP	Firm	Small
153	Scot Chism, CPA	Firm	Small
154	Chism & Company, Ltd	Firm	Small
157	Corbets & Associates	Firm	Small
167	Bauknight Pietras & Stormer, P.A.	Firm	Small
			Count 50
33	Reiser, Chinski & Co., LLP	Firm	Smaller
50	James E. Driskell, CPA, PFS, Chfc	Firm	Smaller
70	Cohen, Kaufman & Associates, LLC	Firm	Smaller
99	Burgess, Lowman & Lay, PA	Firm	Smaller
166	Chadwick, Steinkirchner, Davis & Co., P.C.	Firm	Smaller
			Count 5
36	Welch & Company, CPAs, PSC	Firm	Very small
51	Daniel Wagner, CPA	Firm	Very small
93	Davis & Company CPAs	Firm	Very small
104	KM Early CPA, PLLC	Firm	Very small
112	The Marchese Group LLC	Firm	Very small
152	Kent Whitfield	Firm	Very small
171	Krystal Consulting Inc.	Firm	Very small
			Count 7
2	Andrew K Collins CPA PLLC	Firm	Sole Practitioner
4	Hill & Jordan LLC CPA's	Firm	Sole Practitioner
5	Robert Goldstein, CPA	Firm	Sole Practitioner
11	Phillip V. George, CPA	Firm	Sole Practitioner
12	Shaun Thayer, CPA	Firm	Sole Practitioner
15	J. Bradley Kevil, CPA	Firm	Sole Practitioner
16	A.A. Branca & Co, LLC	Firm	Sole Practitioner
17	Shad J. Allen, CPA, PLLC	Firm	Sole Practitioner
18	Timothy R Mott, CPA	Firm	Sole Practitioner
22	Abraham A Fasten, CPA	Firm	Sole Practitioner
28	Canny Accounting, LLC	Firm	Sole Practitioner
32	Alan Bahr CPA	Firm	Sole Practitioner
34	R. MacDonald & Associates, Ltd.	Firm	Sole Practitioner
35	Bachmeier CPAs, Inc.	Firm	Sole Practitioner
37	Fox CPA Group Ltd.	Firm	Sole Practitioner
38	Joseph Folsom, CPA	Firm	Sole Practitioner
41	Wayne E Rabon, CPA	Firm	Sole Practitioner
42	Denise M. Keene, CPA	Firm	Sole Practitioner

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Number	Responders	Type	Firm Size
43	Susan J. Lyons	Firm	Sole Practitioner
44	Kevin Hawk	Firm	Sole Practitioner
48	Dale Kubiesa	Firm	Sole Practitioner
49	Michael J. Kuefler, Certified Public Accountant	Firm	Sole Practitioner
54	Smith Patrucco, LLC	Firm	Sole Practitioner
56	Timothy J. Otte, CPA, PC	Firm	Sole Practitioner
57	Wachsler CPA, LLC	Firm	Sole Practitioner
62	Roger Harrelson CPA	Firm	Sole Practitioner
73	Stephen Myrick, C.P.A.	Firm	Sole Practitioner
82	Lauren Corey Consulting, LLC	Firm	Sole Practitioner
84	Land Firm, Inc.	Firm	Sole Practitioner
85	Smith Financial Services, PLLC	Firm	Sole Practitioner
91	Billy I. Pippin	Firm	Sole Practitioner
108	Robert Loe & Associates CPAs	Firm	Sole Practitioner
111	Linzmeier Business Solutions, LLC	Firm	Sole Practitioner
117	Wachsler CPA, LLC	Firm	Sole Practitioner
126	Martin & Co CPA, P.C.	Firm	Sole Practitioner
131	Shelley Smart CPA MBA	Firm	Sole Practitioner
132	James J. Newhard, CPA	Firm	Sole Practitioner
133	Billy Price, CPA	Firm	Sole Practitioner
149	Stephen T. Hopkins, CPA	Firm	Sole Practitioner
150	Stephen Merritt, CPA, P.C.	Firm	Sole Practitioner
169	Don Wallace	Firm	Sole Practitioner
			Count 41
65	James Laures	Individual	Not Applicable
96	Howard B. Levy, CPA	Individual	Not Applicable
160	Douglas C. Koval, CPA	Individual	Not Applicable
31	George W Ferenzi	Individual	Not Applicable
			Count 4
40	GAO	Regulator	Not Applicable
47	NASBA	Regulator	Not Applicable
74	Tennessee Comptroller of the Treasury	State auditor	Not Applicable
83	National State Auditors Association (NSAA)	State auditor	Not Applicable
90	Commonwealth of Virginia-Auditor of Public Accounts	State auditor	Not Applicable
123	Michigan Office of the Auditor General	State auditor	Not Applicable
164	Office of the Washington State Auditor	State auditor	Not Applicable
			Count 7
100	PCPS Technical Issues Committee (TIC)	State Society	Not Applicable
55	Florida Institute of CPAs	State Society	Not Applicable
69	South Carolina Association of CPAs	State Society	Not Applicable

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Number	Responders	Type	Firm Size
71	New Jersey Society of CPAs (NJCPA)	State Society	Not Applicable
75	Coastal Peer Review-NC and MD Association of CPAs	State Society	Not Applicable
86	Pennsylvania Institute of CPAs	State Society	Not Applicable
89	The Ohio Society of CPAs	State Society	Not Applicable
94	Indiana CPA Society	State Society	Not Applicable
95	Texas Society of CPAs	State Society	Not Applicable
102	Massachusetts Society of CPAs	State Society	Not Applicable
103	New York State Society of CPAs	State Society	Not Applicable
109	Virginia Society of CPAs	State Society	Not Applicable
113	Minnesota Society of CPAs	State Society	Not Applicable
114	West Virginia Society of CPAs	State Society	Not Applicable
124	Kansas Society of CPAs	State Society	Not Applicable
135	Peer Review Alliance-Illinois CPA Society	State Society	Not Applicable
137	Partners in Peer Review- Alabama Society of CPAs	State Society	Not Applicable
139	Oklahoma Society of CPAs Peer Review Committee	State Society	Not Applicable
140	Mississippi Society of CPAs	State Society	Not Applicable
146	Colorado Society of CPAs Peer Review Committee	State Society	Not Applicable
147	Illinois CPA Society	State Society	Not Applicable
148	Kentucky Society of CPAs	State Society	Not Applicable
165	Tennessee Society of CPAs	State Society	Not Applicable
168	California Society of CPAs	State Society	Not Applicable
145	Diverse Organization of Firms	State Society	Small
			Count 25
			Grand Count 171

Exhibit B: Comments on Cost-Benefit and Lack of Scalability

Number	Coded Text
013	Intended or not, the current format will likely result in a large number of firms losing a substantial base of their work, thereby affecting the clients they serve and the community at large. A path forward was in process for a greater focus on small, woman owned, minority owned businesses and this plan as written will literally pull the rug out from under a great number of firms in this category. PLEASE DO NOT BE THE REASON THIS HAPPENS!
024	have never commented on any standard change, but this proposed change has the potential to significantly hinder our ability to serve our clients in an effective and cost-efficient manner.
027	This will likely further weed out the smaller firms, which certainly serve a need in our nation.
028	It is frustrating that the AICPA has not regards for the impact there regulations will have on small firms.
029	Making the changes as stated in the ED would dramatically impact smaller firms and may push many to retire early or cut back on services, which would only impact the shortage of qualified CPAs to perform the needed audits of various industries. Many CPAs that were once considering purchasing a sole practice or small firm may also pass on the opportunity if the changes in the ED are passed. CPAs are usually very conservative and not the most risk taking individuals, so adding additional monetary and regulatory pressures on them may constrain the dream of having one's own practice.
030	This is absolutely ridiculous. You are already overburdening small firms with your standards and costs. We already have CPE requirements, Peer Review, and Standards in place to ensure we are in compliance. Now you just want to DESTROY SMALL FIRMS! Because that is all this will do. It will improve nothing.
031	I'm glad I retired. Horrible for small firms doing non-public audits. And to top it off the big firms still screw up.
032	While self-inspection has never made any sense to me, the prospect of tripling the quality control costs for small firms (essentially requiring a peer review every year, instead of every third year) would be a significant economic cost to those small firms and would likely result in some small firms either discontinuing audit, review and compilation services, or finding it necessary to merger with a larger firm. Neither of those results would be in the best interest of the profession as a whole.
033	Adding these new rules will only add cost to already low margin engagements and will result in lost revenue to smaller firms who will now need to engage others to do the inspection of the engagements and will need to turn away existing clients due to new proposed cooling-off period.
034	These additional regulations may be warranted in Audit and review engagements, but for compilations, they are simply an additional major burden to single owner CPA firms.
036	We are a three-CPA firm doing eight audits, this will be the death knoll to our audit practice and maybe that is the intent. Do you have any suggestions as to how we can replace the audit revenue?
037	Is the intent to get rid of small firms? Do they realize that especially in downstate Illinois many entities can not afford the larger firms and come to small firms as we relate more to them being small govts and their budgetary concerns. Will this really do any good? We struggle to find qualified peer reviewers for what our practice has – ours is from Iowa now. Young people already don't want to enter this profession. Having been a CPA for over 30 years I really don't feel we need more regulations – all the standards now really aren't for the small business/govt but these are the backbones of society. It sounds like we don't trust our own peers to do what is right. You may force many small quality firms out of business – is that your intent – what are you saying to young CPA's who maybe dream of owning their own firm in a small town.
038	am a sole practitioner CPA. I only do compilation reports. I preform NO review or audit engagements. From my understanding from the peer review update email is that the proposed

	changes would require myself to hire an outside CPA every year to check over my compilation reports even though I have a peer review done every three years. If I am correct in reading the email, this will be huge financial burden on my single CPA firm which may require me to change the services my firm offers to clients.
041	1) The cost of this outside annual inspection will be time by me for the process and fees due to the outside reviewer. I know that if I add such cost to some audits those clients will cease having services or go to a lower service. I do not think this will serve them or the public. If I do not add the cost to the fee then I am working for free and having a smaller take home pay to my family.
043	I feel like they are trying to force the small CPA firms to close. If I am forced to hire another firm to do my self monitoring I most likely would close my business. It
048	I have never responded to these exposure drafts. I had to because I am so frustrated with the entire process. The small practitioner tries to comply with your dictates, but you are never satisfied or reasonable. I am anti-union, but I would consider unionization because you do not support me. Why not just be honest and dictate the firm's size that you want to anoint to do the engagements (audits, compilations, etc.).
052	I understand the push by the PCAOB to merge with international standards. Is it necessary to implement all of this for smaller firms that do not audit publicly held or international clients? The proposal will create a requirement to develop a new QM document that will be time consuming and costly and then realistically will never be looked at after it is created. I am just being realistic.
060	The three proposed standards in the Exposure Draft were prepared by the AICPA Auditing Standards Board (ASB). Two of the proposed standards (SQMS No. 1 -A Firm's System of Quality Management and SQMS No. 2 - Engagement Quality Reviews) are relevant to compilations, reviews, audits, and other attest services. The third proposed standard {QM SAS - Statement on Auditing Standards Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards) only applies to audits. There appears to be an auditing bias inherent in the first two standards as they apply to compilations, reviews, and other attest services thus making them more burdensome (time and cost) for small and medium firms, especially firms that consist of one or two professionals that compile or review financial statements and do not perform audits. Furthermore, the ASB strategy to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB) potentially creates additional burdens for small to medium firms that do not perform engagements in accordance with international standards. An example of this audit bias is in the last paragraph on page 28 {emphasis is commenter's): Other than the peer review process, the ASB was unable to identify anything unique in the United States with regard to self-inspection, nor did the ASB believe that safeguards exist that could lower the self-review threat to an acceptable level. The ASB recognizes that the extant standard permits those involved in the engagement to inspect their own work, and some practitioners may be capable of doing so effectively. However, while concerned about the impact on smaller firms, the ASB believes that this requirement is necessary to enhance audit quality. Accordingly, proposed SQMS No. 1 convergences [sic] with the IAASB standards with respect to self inspection.
064	Our firm wishes you would reconsider the suggested draft and propose a standard that would benefit all firms and clients while not providing a death sentence for smaller firms who rely on auditing billings to meet overhead and keep CPAs and staff employed.
069	Overall, the proposed standard is not scalable. The requirements of the standard for cooling off periods, and independence as it relates to internal inspections are not achievable in small firm practice settings. If the standard were to be equal in the efforts required to meet expectations, then small firms and large firms alike would be required to seek outside sources to meet the objectives of the standard. As currently stated, larger firms with more robust infrastructure would be able to meet the objectives of the proposed standard with little or no

effect on its operating environment.

Because the proposed standard is more comprehensive than previous guidance, we feel it would be beneficial to be provided parameters for the different size firms as well as a definition of “smaller firms.” Clarity on defining “smaller firms” as 1-5 partners, 1 CPA or a different definition would be necessary. If possible, clear parameters, specific guides, practice aids considering the needs of smaller firms would be beneficial. Smaller firms could have difficulty in implementing the new requirements specifically in risk management.

This may be a case where merging with international standards may not be achievable. Anecdotally, the limited occasions our members have been contacted to perform engagements in accordance with international standards, the contact has been made by international accounting firms. There has been no case where a local firm in another country has contacted our members to perform services under international standards. This begs the question, do small firms in other countries perform audits to the extent local firms do in the United States. This would lead to the conclusion that international markets differ widely from the business environment in the United States.

070 When you are dealing with smaller firms, scalability becomes an issue. Adding additional staff or subcontracting out to comply with the proposed review/monitoring process has a cost that often cannot be afforded by a smaller firm and the clients it serves. The proposed standard will cause the timeline for each audit to stretch out. It will use more not fewer resources with little impact on quality improvement. The existing Peer Review process is more than adequate in fulfilling the third-party oversight roll.

071 audit quality that is critical to the reputation of the profession. In general, the Group is concerned with the challenges small firms and sole practitioners (SFSPs) will face meeting the objectives of the Proposed Standard. The Group appreciates the ASB’s effort to improve audit quality by revising and updating the Quality Management Standards.

075 high level of quality should be expected of all practitioners, regardless of size, however it is critical to understand that smaller practitioners have very limited resources. Therefore, processes or procedures should only be required if they add to and are necessary for the quality of the practice and engagements.

The proposed SQMS 1 and 2 add many requirements, however we do not believe that all of them equally impact quality. Our specific comments that follow address the general cost of implementation of the new standards, and several areas where we believe the cost, which can be significant to smaller practitioners, exceeds any incremental benefit to quality.

There is a very real risk that the new QM standards (alone or in combination with other new standards) will cause some smaller practitioners to discontinue their audit and attest practices. We believe that many of these practitioners play an important role in the attest market and that the public interest would not be served by their departure.

076 This proposed guidance seems to be "anti small firm" based. Again, do not see any need for revised QC guidance.

078 will assist firms in adapting to new trends resulting from the ever-evolving environments in which they do business.

We agree that it is important to converge the ASB’s standards with the quality management standards of the International Auditing and Assurance Standards Board (IAASB). It would be impractical to expect firms to comply with fundamentally different quality management standards if the standards of the ASB were not converged with those of the IAASB, especially since the Public Company Accounting Oversight Board’s (PCAOB) initial concept release on enhancements to its existing quality control standards indicated the consideration of using the IAASB framework as a potential base for future PCAOB standard setting.

In this letter, we offer comments on matters related to the proposed QM standards that we believe should be addressed, including those for which feedback was specifically requested by the ASB. Our extensive review of the proposed QM standards included intentional outreach to seek input on the standards from RSM US Alliance member firms and AdvanceCPA firms. This

	<p>letter includes the views of our firm, and, for certain matters, as described within, includes the views of smaller firms that were expressed during our outreach with the RSM US Alliance member firms and AdvanceCPA firms</p>
079	<p>I believe this proposal is being driven to align with international standards when that is unnecessary. The AICPA is not representing the majority of its member firms who do not have international attest practices, and are being unnecessarily burdened by an increase in practice management standards that are not responsive to their CPA practices. Larger firms that may be need of adoption of interna</p>
082	<p>“There’s no room for small firms in the 21st century” – I wonder how many of the folks on the panel that devised the proposed standard have had the experience of launching a small practice. I can appreciate the concerns about sole practitioners performing attest work without any oversight. One of the things I miss most about working at a large firm IS the oversight. On the other hand, it seems that the odds are stacked against those would-be “innovators” trying to offer CPA services in a more flexible environment. And when I say flexible, I mean it in a good way with respect to audit quality. Many costs are not very scalable (I would include an outside inspection in this category), and the competition for staff is punishing, at best. I was a partner in a large firm prior to managing my own practice – with certainty, the hours and responsibilities of managing a small practice are far greater. Though I wholeheartedly support audit quality, I often feel that small firms are doomed to fail under the oppressive challenges of today. Everything from IT to new accounting/audit standards to staffing/health insurance to QM. Specifically with respect to the proposed QM standard, I would ask that, rather than the prohibition of self-inspection, that EQCR adherence be thoroughly reviewed during peer review, and that peer review include an inspection of the EQCR activities of the three years since the last peer review. I sincerely think that this type of review/enforcement of an existing expectation under the standards would be far more effective. Theoretically, if sole practitioners are getting EQCR when they should, it would not impose additional hours on CPAs when there is such a shortage. Similarly, during peer review, a review of the skills of the reviewed firm’s EQ reviewers should be performed. A requirement that firms document the appropriate skills of their EQ reviewers is a something that will help with audit quality and should not be an onerous task.</p>
084	<p>4. The timing of these proposed changes could hardly be at a worse time for most small firms. We have lost clients who closed because of Covid restrictions or who lost enough business that they could not afford their monthly accounting. CPA's are still dealing with the tax and payroll tax changes related to Covid. Some of us also have less staff now and are working very long hours at home and at the office. To learn all new standards and figure out how to pay for more peer review costs in the next two years is almost unthinkable. I do not have very much hope that those of us who are older and sole practitioners will have a voice in whether these proposed standards are implemented. I do want to express my dismay and concern for the future of our profession after reading through the proposed changes. I perform reviews and compilations, but have ceased my audit practice because of the numerous administrative costs and time costs that do not seem to benefit the client, the end users, or the practitioner. I have seen standards change over the years, and in the last ten years they seem to be less grounded in practicality, reality, and clarity than ever before.</p>

086

Given the pervasiveness of the proposed changes, the committees recommend that the Auditing Standards Board perform a cost-benefit analysis to determine whether the effort required to properly implement these proposed changes will result in sufficient tangible improvements to practice quality to justify the implementation costs. If fees cannot be increased due to market constraints, additional time that practitioners spend on this new approach will decrease the time spent on performing the engagement. These cost-constraints are real; especially for smaller entities (e.g., not-for-profit organizations) that are required to have an audit due to state regulations but don't have funds to pay for increased audit fees. Here is an example: many local fire departments hold fund-raising events to meet their budgetary constraints. In Pennsylvania, these departments are required to be audited, and due to the high costs of these audits they are lobbying for legislation that would encourage practitioners to perform these audits for free (offering them 40 hours of CPE in exchange). We believe that there would be legislative push back on increased fees. Further, it is hard to justify increased costs to end users who will not see an immediate benefit from the increased fees. Given the enormity of the challenges of these proposed standards, the committees suggest considering practical expedients for small to midsize firms.

087

There is a wide perception among small firms that the AICPA is trying to drive us out of the A&A business altogether. My anecdotal observations in the field, as a peer reviewer and in interaction with colleagues, are that firms are increasingly stepping down a level in the services they offer, or getting out of A&A altogether, because of onerous requirements. AICPA officials swear on a stack of Bibles that this is not their intent. Frankly, we don't care what they intend. We just see and feel the effects. It's like *Brown v. Board of Education*, that landmark Supreme Court decision on school desegregation. The school district disingenuously argued to the effect that, "Oh, no no no. These are just geographically contiguous school district boundaries. In no way do we intend to exclude those lovely children from our schools." The Supreme Court said, in effect, "We don't care what you intended. The effect of those boundaries is that you have achieved school segregation. Stop it." This is exactly what the AICPA is doing to its small-firm members. If you don't believe me, go back and read the chat feed from the on-line peer review conference this year. And listen to the input from the QM Roundtable on-line discussion meetings. One of the speakers at this year's peer review conference used a beautiful phrase, in discussing the shortage of firms willing to take on the coming wave of Single Audits. The phrase was "the art of the doable." This was offered in the context of the profession trying to explain to the regulatory community the troubles that are coming, in terms of the profession's being able to find qualified firms and staff to meet this demand. Consider, please, that driving firms out of the audit business is not moving "doable" any closer to "done."

There are many other things I could say about the EDs, many are good, some are bad. But they all pale in comparison to these self-inspection issues. My 40+ years of membership in the AICPA attests to my loyalty to the organization. But I warn you strongly that you are becoming irrelevant to a large segment of your membership, and alienating those many other CPAs out there who should be members but are not. Listen to us. Listen.

088 It appears that these proposed changes in the ED will once again cause undue burden and expense for smaller CPA firms.

Making changes to a small firm's quality management standards is a burden that will not add any value to our audit practice and will not change the detail audit work for the audits performed. These are purely additional administrative procedures in the ED. We are very aware of the risk that clients may provide to our practice and our reputation. We don't need the current system of practice monitoring to be changed to enhance our risk assessment of our practice. The ED continues to add many policies and procedures that in smaller firms are communicated day to day.

The profession has already enhanced peer reviews and those performing peer reviews in the past few years, including our area of expertise in employee benefit auditing. This has resulted in our peer review fee tripling. If a firm can continue to pass its peer review, then that firm must be able to navigate the risks of the attest services they provide. The risk is understanding how to audit, not the process of added documentation over the firm's quality standards and oversight.

We recommend that the ED be amended to address the concerns of so many small (one audit partner) firms that continue to perform quality work as evidenced by its peer review results.
Remediation to firms

091 I started my public accounting career nearly 20 years ago in a small firm and have owned my own sole practitioner practice for 15 years. When I first began, many of my peers performed audits of local governments and nonprofit organizations. Many of those peers did quality work. Today I am one of the only remaining CPAs in the area who perform any of this type of work. Since I have started, I (like my peers) have basically been forced out of doing single audits, and most recently, audits in accordance with government auditing standards.

If you have ever worked as a sole practitioner, it is obvious that you can not meet the peer review requirements or the standards without hiring another firm to perform pre-issuance services. Have you ever tried hiring someone to do pre-issuance services on a domestic violence shelter that is required to undergo an audit in accordance with government auditing standards by the state it operates in? Like finding a peer reviewer, it is nearly impossible. Most of the organizations I audit have extremely small budgets. These bureaucracies that have been created by standard setting bodies are narrowing the profession to a degree where these small organizations are finding it impossible to find an auditor.

The equation is simple, there are not enough CPAs to do the assurance work that is out there, so the standard setters decide to broaden the scope of the work. I simply find this ideology completely out of touch with reality.

Additionally, I would be interested to know how many sole practitioners were authors of the proposed standards?

093	<p>Another possible impact would be more small firms leaving the auditing profession creating less competitive options for the general public when hiring an auditor creating more expense for an audit. Increased fees because of this requirement and possible reduction in available auditors could discourage clients, including smaller nonprofits, from having an audit performed. This would not serve the public interest.</p> <p>Overall, the proposed standard is not scalable. The requirements of the standard for cooling off periods, and independence as it relates to internal inspections are not achievable in small firm practice settings. If the standard were to be equal in the efforts required to meet expectations, then small firms and large firms alike would be required to seek outside sources to meet the objectives of the standard. As currently stated, larger firms with more robust infrastructure would be able to meet the objectives of the proposed standard with little or no effect on its operating environment.</p> <p>Because the proposed standard is more comprehensive than previous guidance, we feel it would be beneficial to be provided parameters for the different size firms as well as a definition of “smaller firms.” Clarity on defining “smaller firms” as 1-5 partners, 1 CPA or a different definition would be necessary. If possible, clear parameters, specific guides, practice aids considering the needs of smaller firms would be beneficial. Smaller firms could have difficulty in implementing the new requirements specifically in risk management.</p> <p>This may be a case where merging with international standards may not be achievable. Our firm size and practice area does not include international work and we are not an international firm. This begs the question, do small firms in other countries perform audits to the extent local firms do in the United States. This would lead to the conclusion that international markets differ widely from the business environment in the United States.</p>
094	<p>If the proposed standards were to be adopted, it seems probable that many of our small firm and sole practitioners members would no longer be able to provide much needed accounting and attest services. This cannot be overstated. Further, these proposed standards would negatively affect small businesses and local community organizations, as they will struggle with the associated additional costs and find fewer firms able to perform much needed services.</p>
097	<p>The cost of implementation and annual compliance would be higher than the cost dealt with now.</p> <p>This is another example of post-Enron knee jerk reaction from the ASB and the AICPA. Chuck Landes’ on-going speeches of “the same blocking and tackling” were garbage in that the massiveness of the suite of audit standards that came out in reaction to Enron and Congress’ establishment of PCAOB created a cost burden of time to the firms and higher billings to the clients. Clients that are mom and pop type of companies that can’t afford increases in fees because of accounting standards changes. This is no different than the costs issue to be dealt with as ASU 842 comes into practice next year and we will have to charge clients for the implementation and on-going application of the new standard. These companies don’t have accounting departments to do the computations.</p>
098	<p>Another possible impact would be more small firms leaving the auditing profession creating less competitive options for the general public when hiring an auditor creating more expense for an audit. This could have the unintended effect in discouraging client entities, including smaller nonprofits, from having an audit performed. This would not serve the public interest.</p>
099	<p>I do not believe the proposed standards will improve the quality of small firm audits and will do nothing to improve large firms evidenced by the constant reports of large firm audit deficiencies. The proposal seems to discriminate against small firms,</p>
100 TIC	<p>TIC does not believe that the quality management approach in SQMS No. 1 is fully scalable. As the collective voice of small and medium sized firms, TIC believes that the SQMS presents significant scalability concerns to many firms of this size. TIC acknowledges the difficulty in the standard setting process that the Board faces in serving firms that include tens of thousands of employees to sole practitioners. TIC appreciates the opportunity to identify areas of greatest concern related to scalability and provide suggestions that potentially would mitigate those concerns. Our thoughts in this area related to the content of the standard, as well as the</p>

breadth of guidance included, are outlined below.

Lack of Available Personnel with Sufficient SKE

An example of TIC’s concern with the scalability of the proposed SQMS can be illustrated by the possibility of self-review at a small firm which operates with only one tax and one assurance partner. To comply with the proposed SQMS in this situation, the tax partner would need to perform the internal inspection or engagement quality review since the assurance partner would not be eligible to do so. The tax partner may not have suitable expertise to serve in that role which likely would not result in an improvement in quality. In this case, TIC believes that the assurance partner self-inspecting their work would be more likely to achieve the goal of evaluating whether a quality engagement was performed.

In situations like the above example, TIC notes that the firm could engage an external party to perform an inspection which would address self-review concerns; however, doing so results in the firm incurring additional costs. TIC is concerned that, as a result of the additional costs incurred to engage an external party, some practitioners facing this decision may choose to no longer provide those services.

See ‘Suggestions to Alleviate Self-Inspection Risk’ below for TIC’s commentary on potential ideas to address the self-inspection risk.

Hinderance of Ability of Firms to Specialize

Many firms achieve success through carving niches for themselves in their local market in specific industries. In many cases, this specialization is the result of having one partner who has deep knowledge of a particular industry, which may have unique accounting and/or auditing considerations, such as employee benefit plans, not-for-profits, single audits, healthcare, and many others. In situations where a firm has a single partner with deep knowledge of an industry, requiring that a review of the engagement be performed by a different partner only to comply with proposed guidance prohibiting self-inspection may not result in the desired enhancement of quality. When considering specialized industries, even having another partner who performs similar engagements in other industries perform the review may not identify concerns with quality due to the specialized nature of the engagement. For example, a partner who serves mainly retail clients and restaurants may not have the expertise required to perform a meaningful inspection on the audit of an employee benefit plan.

The inclusion of this requirement could be detrimental to these sorts of niche practices, as firms potentially would incur significant additional costs to locate someone with sufficient industry expertise to perform the reviews. Further, external resources, if available, may not possess the same level of specialized knowledge as the firm performing the engagement which would not result in an enhancement to quality.

102	Qualified No
103	If smaller firms decide to leave the attest space, larger firms will fill the vacuum, likely resulting in an overall increase in audit fees. This scenario could cause significant problems for small not-for-profit organizations that rely on small one- person firms with low operating costs to perform their audit work. It could also result in difficulties finding new auditors if the smaller firms withdraw and the larger firms choose not to accept the new clients due to economics or risk profiles. Smaller public companies encountered this problem when Sarbanes-Oxley was passed, and smaller audit firms decided to drop their public clients.
105	We are a small firm and there is no way we would be able to comply with the proposed changes. We would be out of business. We look over each other’s engagements but one person is in charge to make sure the firm is in compliance. And for that person’s engagement, we have someone else at least look to make sure it looks like we haven’t missed anything. But we are too small to have just one person dedicated to do that and nothing else. Please

	<p>reconsider this or small firms will not be able to be in business and more small businesses will go out of business because they won't be able to get funding from banks since they won't have the proper financials needed. Thank you.</p>
107	<p>The Proposed Quality Management Standards would cause great hardship on the small audit firms.</p> <p>The small audit firms take great care to provide a quality produce and to follow all auditing standards. We as auditor take seriously our comment to complete quality control review of our product.</p> <p>I can understand that the Auditing Standards Board would want to ensure that all auditors are completing an audit according to the Standards however the auditor are completing the quality control review and having a peer review completed. Most small firms are already having another CPA review their work therefore this new standard would be over regulation.</p> <p>My firm completes audit within United States only. I do not think that auditors as myself should have to conform to the International Standards! Please consider my strong disagreement in your proposed quality management standard</p> <p>This proposed quality management standards would cause a hardship on the small audit firms in financial cost which could put some of the small firms out of business. This would be especial true in these times we are living through. Audit firms continue to try keep our audit fee competitive. These new standards would completely drive the cost of auditing up on the auditee which struggle to afford the cost of audit now.</p> <p>Just when more auditing work needs to be completed due to the federal and state governments giving more grants. You are trying to put more restrictive standards in place that would slow down the amount of audit work completed due to cost.</p>
108	<p>Approval of the exposure draft in its' present form will result in the further decline of the number of firms participating in the AICPA Peer Review Program, and the continued attrition and reduction in the number of CPAs who will want to participate as peer reviewers or RAB members.</p> <p>The AICPA is a member-supported organization. It is not in the interest of the AICPA membership for the Peer Review Board to continue its present practice of developing standards that result in fewer of it s' members engaging in attest work, nor is it in the public interest.</p> <p>I have read the exposure draft. Since the emergence of the PCAOB, following the Enron debacle, the AICPA has dramatically increased the complexity of auditing standards, and peer review standards, specifically in the area of audit documentation and audit risk assessment. This has resulted in an increase i</p> <p>Many smaller CPA firms have found that it is no longer profitable to perform attest services, due to the increased time required to complete additional forms and checklists, resulting in a steady decrease in the number of firms who participate in our state's peer review program. In recent years there has been a corresponding decrease in the number of CPAs who are interested in to serving as peer reviewers, and it has become increasingly difficult for our state society to find CPAs who are willing to serve on the RAB.</p>
113	<p>But we have concerns about the impact on sole proprietors and small firms, especially ones that have done and continue to do quality work. If a firm is demonstrating that they are achieving high quality under the current quality standards, it is not in the best interests of CPAs, their clients (many of whom have resource constraints in purchasing professional services), or the profession as a whole to add costly administrative burdens that do not significantly enhance quality.</p>
115	<p>This, coupled with the already increasing cost of peer reviews due to the AICPA's additional requirements every three years, will cause many small accounting firms to go cease providing audits and reviews, as they simply will not be able to afford these inspections and reviews while also maintaining their client base.</p>

	<p>Once all of the small firms have ceased providing audits, only large firms would be left to do audits. This would then cause an enormous influx of clients forced to have their audits done by large firms, which would lead to these audits taking even longer than they already had. This would cause nothing but contempt and frustration among clients and will only have a detrimental effect on the reputation of CPAs.</p> <p>I am proud to be a CPA, and, as you know, the CPA is the only one who can perform an audit. However, these proposed implementations almost seem as if the AICPA doesn't want small, local firms around anymore! Perhaps this letter has helped enlighten you on why we may still be needed, after all.</p>
118	<p>Firms that perform audits are already required to undergo a peer review which provides sufficient oversight of audit quality. The peer review process is a thorough review of the firms audits and audit procedures and provides significant safeguard over the audit process. These proposed standards will not increase audit quality but will be an unfair hardship for small firms and will push them out of the audit industry. The proposed standards will have a profound and negative impact on small accounting firms.</p>
119	<p>Given the pervasiveness of the proposed changes, we recommend that the Auditing Standards Board perform a cost-benefit analysis to determine whether the effort required to properly implement these proposed changes will result in sufficient tangible improvements to practice quality to justify the implementation costs. If fees cannot be increased due to market constraints, additional time that practitioners spend on this new approach will decrease the time spent on performing the engagement. These cost constraints are real; especially for smaller entities (e.g., not-for-profit organizations) that are required to have an audit due to state regulations but don't have funds to pay for increased audit fees. Here is an example: many local fire departments hold fund-raising events to meet their budgetary constraints. In some states, these departments are required to be audited, and due to the high costs of these audits they are lobbying for legislation that would encourage practitioners to perform these audits for free (offering them 40 hours of CPE in exchange). We believe that there would be legislative push back on increased fees. Further, it is hard to justify increased costs to end users who will not see an immediate benefit from the increased fees. Given the enormity of the challenges of these proposed standards, we suggest considering practical expedients for small to midsize firms.</p> <p>However, we are not convinced that the proposed changes will result in the improvement of engagement performance. Instead, we are concerned that the significant implementation costs will adversely impact small and regional firms. We believe greater enhancements in audit quality could be achieved by investing in resources that help firms to apply emerging technologies (e.g., data analytics, artificial intelligence, etc.) in the audit process.</p>
124	<p>Roughly 50% of Kansas firms performing audit and attest engagements are small, with only one or two CPAs on staff. The additional attempt to protect the public comes at an added cost to firms that will be passed onto the audit client. Many of these clients are smaller entities whose boards or, in some cases financing demand audit financial statements. In some cases, these added costs may create an added burden that these entities may find difficult to bear or an added cost to CPA firms, which may make these engagements not meet required profit margins restricting public access to audit services. The added costs could be an issue to rural Kansans. Thus, we are concerned that the significant implementation costs will be burdensome and adversely impact our smaller firms.</p>
125	<p>We refer back to our first paragraph in this response – “what’s broken with what we already have.” Our final remark/question is, has anyone performed a cost-benefit analysis in relation to the adoption of these standards.</p>
127	<p>We believe that the proposed changes as communicated in the exposure draft entitled, “Proposed Quality Management Standards” will create a significant cost burden on smaller firms.</p> <p>U.S Firms are subject to an external peer review every 3 years and international firms might not be subject to a similar requirement.</p> <p>It would appear those Firms that are larger and perform audits under the internal auditing and assurance standards would benefit more than smaller firms who audit within the U.S. Larger firms have a competitive advantage with more resources.</p>

The “Proposed Quality Management Standards” would place a cost burden on smaller firms and be equitably unfair to smaller firms.

The Firm believes that the Proposed Quality Management Standards should not be implemented and required for smaller firms.

131

I am writing this email to provide my comments on the proposed quality management standards from the ASB ED (proposed SQMS 1 and proposed SQMS 2). I am a sole proprietor with two employees, one of which is another CPA and one is a staff accountant pursuing her EA/CPA designation. My office prepares and compiles financial statements on a tax basis for small, privately owned business entities for tax planning and tax preparation purposes. We participate in the AICPA peer review program. Due to the cost, time, and complexity involved with implementing new requirements, I am not in favor of adopting these standards.

I believe the proposed standards are an onerous requirement for a small firm such as mine. At a time when we are struggling to keep up with tax changes and the change in work environment due to the pandemic, adding a requirement to comply with additional peer review burdens is untenable. We currently have an internal process to ensure quality in our engagements that involves two CPA’s internally, so I believe this is a requirement that isn’t really beneficial to our clients compared to the cost involved. Having an internal process is part of being a professional and shouldn’t be something that even needs to be mandated by an outside agency. Either we are professionals trusted to understand and perform the work we do, or we are not. Mandating an annual review requirement in addition to a every 3 year requirement is not going to make someone who does not behave in a professional manner suddenly change their approach. The peer review process is already a costly, time intensive process that has the same quality goals as the proposed standards. Most of our small business clients have very little margin and I’ve had to provide discounted services over the past two years to accommodate changes in income flow due to the pandemic. Adding an annual engagement review process will unnecessarily increase the cost to the client and overburden staff that are already stretched thin.

I do not believe the issue with quality standards is due to lack of oversight from regulatory bodies, but rather a lack of clarity as to what the expectations are in the first place. Clearer communication that is available to members freely would assist me more in my efforts to be compliant. I find it odd that I am expected to pay a third party software company to gain access to the information I need to prepare or compile a financial statement and believe that the time and effort of regulatory bodies would be better spent in educating the professionals rather than mandating compliance.

If these quality standards go into effect, I envision the change to my firm to be the reduction in the provision of service to small business clients as the margin on accounting services is slim to begin with. At a time when the profession is struggling to meet the demand for professionals, it seems counter-intuitive to burden professionals more with additional requirements that provide limited benefit to stakeholders.

Put simply, I am personally overwhelmed and I am not making enough money to make this endeavor worth it. I spend more time reading new requirements and learning about tax changes than I do providing service to clients at this point. The amount I am able to charge clients does not equate to a livable salary for myself and my staff and adding more requirements that do not benefit my clients is not feasible. I believe implementation of this standard will reduce professional services available to small businesses due to the increased cost with minimal benefit. I also believe it will reduce the number of small firms such as my own that provide services to clients that bigger firms do not even want to take on.

133

As this proposal does not go into effect until periods beginning on or after 12/15/23, and I will be age 62 by the year end of the engagements I perform, it may not effect me, However, I am concerned about younger CPA's in smaller firms who will have to either pass the additional cost on to their small clients or give up these engagements. The law of supply and

demand are the same in the accounting industry as in all others, and the smaller private, governmental, and nonprofit organizations will bear the brunt of the additional fees they will have to pay if this proposal is implemented.

136 One of the focus points that I have and is a critical issue that the IAASB has identified on page 7 of the document as "Challenges experienced by smaller firms in applying standards". While all agree that achieving and maintaining quality is to always be accomplished, we do need to be aware of some items in the QM document that may affect smaller firms in a more impactful manner than larger firms.

139 While we support improving quality of all engagements, we do not believe the cost of some of these changes outweighs the benefits received by the public.

The OSCPA as an administering entity of the AICPA Peer Review Program is responsible for administering the reviews of firms in Oklahoma, Kansas, and South Dakota. Many of the peer review firms being administered by the OSCPA would be adversely affected by SQMS No. 1, SQMS No. 2 and QM SAS. The added cost of implementing some of the requirements in the proposed standards would not necessarily improve quality of engagements. The added cost of complying with the proposed standards of quality management would need to be passed on to the entities for whom these standards were designed to benefit.

140 I have been inundated with responses from members who are up in arms about what they see as a continued assault on small practices. I would like to share some of those responses with you:

We must take a stand against the ridiculous burden placed on members by the A/CPA as they continue to cater to Big 4 CPA firms. The peer review process has already gotten so out of control and caused review fees to triple. This exposure draft is just another way that the A/CPA is destroying its members from within.

This is absolutely unbelievable!! The A/CPA wants the smaller firms out of auditing. There are so many smaller companies that are required to have audits or reviews in small towns. Our firm has had audits come to us from larger firms because of issues related to customer service. If we have to have almost a peer review every year, we cannot afford it. Our peer review costs were \$8,000, then \$12,000 and are now \$18,000. What are the smaller firms to do?! We are responsible CPAs.

As I understand it, the A/CPA is essentially pushing many of us who practice in small environments to abandon our financial statement engagements. If implemented, these proposed standards will be totally burdensome and frankly, much like peer review has evolved, will accomplish very little. They are killing us with rules.

I am voicing my concerns with the exposure draft as its passing will likely force me to discontinue performing assurance work. I would proudly put my work up against many larger firms who do poor work in spite of their large environments. As a sole practitioner, I fill a very special need when larger firms price their services so high that it is the client that suffers (especially nonprofits). I am sure this will weed out some of the smaller bad auditors, but please know that you are also weeding out some truly great ones. We small practitioners are very vital to the success of this profession.

I stopped compiling and reviewing financial statements years ago because of the mandated regulations and costs associated with being a CPA. As a sole practitioner, I became buried under the costs of providing financial statements to my clients. Unfortunately, I am almost reduced to being a very educated and skilled bookkeeper because of this. As a CPA of 30 years, this saddens me. I work hard to uphold the quality and professionalism of the CPA industry, but my own industry is beating me down with regulations and costs. As I attend CPE over the years, I've noticed an aging CPA workforce. This tells me that our industry is not attracting the youth. The added burdens our industry is putting on us I'm sure will make public practice that much more less attractive.

The A/CPA just needs to come out and say they do NOT want smallfirms preparing financial statements. For review engagements, I see a lot of small businesses that will not be able to affordfinancial statements in the comingf ut ure. And many large firms will not take on these small business clients. Then where are we?

The majority of CPAs are responsible individuals who take pride in and want to perform quality workfor their clients and do so. The A/CPA has already changed the peer review procedures in the name of quality which have placed significant financial restraints on its members. Why do they continue to add more regulations? Sadly, the A/CPA no longer represents its members and has no respect for CPAs who do not fit their mold or best interests.

I agree that some responses are harsh, but as a small and mostly rural state, these concerns must be heard and acted upon accordingly . The future of our members, their clients, the Society, and the profession is at stake.

145 we are of the opinion the proposed changes would not be scalable for our membership, and the added cost and burden of implementation and maintenance would place our firms at a competitive disadvantage.

146 As indicated in 1b. above, this requirement alone will cause many smaller firms to cease providing audit services especially to those clients that are in less populated towns and rural communities, miles from major cities.
The COCPA has many small accounting firms throughout the state that serve nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans, and governmental organizations. Many of these clients are in less populated towns or rural communities that most large firms cannot effectively service. In general, we feel the burden of implementing the quality standards can be easily accomplished by larger, more well-established audit firms. However, we believe the burden of implementing these standards will be significant to smaller audit firms. This change in approach may result in smaller practice units deciding to exit the audit business. We also believe that in some cases implementing these standards could cause certain smaller clients (i.e., small government entities) to be unable to find an auditor or, as a last resort, escalating costs from a larger firm not even located in their area.

No. It is scalable to a certain extent, but for smaller firms and sole proprietors it will be expensive. Many of the smaller firms that we work with may have two or three partners, but only one of them has the qualified A&A credentials. The others may have done some compilations but have not performed an audit in several years. Aside from the high costs of implementation as the standards are currently written, the new standards would require these firms to hire an engagement quality reviewer and/or quality reviewer. This requirement creates an economic burden for smaller firms where these firms will need to merge or outsource some of the review and monitoring roles to an individual with suitable skills, availability, and abilities to fulfill these roles. Where are these firms going to find appropriate individuals to review and monitor them? We already have problems just finding peer reviewers with certain industry expertise.

149 I feel that the proposed standards will add significant costs to sole practitioners through the prohibition of the self inspection element. This cost will simply be passed along to the client which it seems is a common result of the both AICPA and GASB standards which don't seem to take into any consideration the truly smallest auditing professionals and auditing clients. I feel as though sole practitioners are a valuable element of the profession as they relate to smaller clients being able to afford a high quality audit from a firm that doesn't have to saddle the audit costs with the recovery of exorbitant overhead costs. I believe these standards are moving towards pushing the sole practitioner out of the profession which I think is a bad direction for the profession.

150 The quality control system needs to be flexible between firms as the nature of the engagements from a national firm to a local firm are totally different. Therefore, their systems of quality control will be different. Firms should have the ability and flexibility to have a system of

quality control that fits their needs and allows them to perform attest services without being forced out of the market due to the complexity of implementing the standards of quality control. There is a real need for attest services in smaller entities, however, the cost of providing attest services is continually increasing. The implementation of the standards for a local firm providing much needed attestation services cannot be a barrier to performing those services. The necessity to rewrite or update a firm's quality control system in a small firm is extremely difficult and costly to do, especially when it really doesn't change the nature of the engagements. The same risk's must be addressed whether you have a documented system of quality control, or you don't. Managing risks and only taking engagements you have the expertise and resources to perform is an ongoing decision for the management of the firm. We are against any proposals that increase our costs and are essentially a barrier to entry for smaller firms.

151 Additionally, we are of the opinion the proposed changes would not be scalable for our firm and due to the added cost burden of implementation and maintenance would result in placing our firm at a competitive disadvantage.

152 Secondly I do not see any data supporting these proposals. At the bottom of page six it says "The development of the proposed standards has been influenced by concerns about audit quality as indicated by the results of peer reviews and studies by other regulators" Where is the data supporting these "beliefs" and "decisions"(see page 28 and 32) made by the ASB? Have there been any cost benefit analysis performed, has diminishing returns been considered? While it says on page 28 cost was a consideration, I see no attempt to quantify the cost.

154 The exposure draft released was 193 pages. Save yourself some time, and just issue a one page declaration:

Attention small and medium size CPA firms....close up, get out, we don't want you.

Here's some advice.... Take up golf, go fishing, shopping, vacation, just anywhere that will keep you busy and stop screwing up the rest of us who are still trying to work.

157 These proposals are extremely damaging to small firms, in fact so much so that you may be on the threshold of restraint of trade with respect to a certain portion of your membership. Resources are mentioned in your draft they are not unlimited to small firms as they are extremely expensive, just ask me I know.

158 There appears to be limited scalability, whereas a small firm may need to add additional resources outside the firm, or reduce the billable time for existing partners to help meet the additional requirements that will reduce the overall profitability of small firms or reduce client service capabilities or capacity (that is, there may be insufficient time or resources for smaller firms to comply with the proposed SQMS No. 1 and run their business).

163 Overall, the proposed standard is not scalable as written. The requirements for independence as it relates to internal inspections are not achievable in small firm practice settings as previously stated, including ours.

The standard is not equal in efforts required to meet expectations. As currently stated, larger firms with more robust infrastructure would be able to meet the objectives of the proposed standard with little or no effect on their operating environments. As noted above, the burden is unevenly placed on small firms and will have long-term consequences to the small business community. One size fits all does not work and that is what this ends up being with the long list of requirements.

The proposed standard is far more comprehensive than previous requirements and it would be beneficial to be given parameters for the different size firms along with a definition of "smaller firms." "Smaller firms" must be defined and the definition must be not be too limiting/ to too small. The clarity of number of ATTEST partners vs administrative and tax partners would need to be considered. We may have 5-10 partners, but only 2-3 qualified for ATTEST partners, thus making the rules for "small" most fitting. Caution should be taken with putting small/medium

	<p>firms in too large a bucket that could cause great burdens.</p> <p>Why is merging with international standards a priority for firms not subject to work in this area? Suggestion: It should be a voluntary system update for those involved with this type of work that don't want to follow two sets of standards; those larger firms can converge. Just like FASB and PCC we recognize as a profession that large firms and smaller firms operate in different marketplaces. As previously mentioned, in our 70+ years, there has been no case where a local firm in another country has contacted us to perform services under international standards. We have done work under FASB/ASB for our Nexia partners from international firms. Accordingly, as others have pointed out, one has to ask, do small firms in other countries perform audits to the extent local firms do in the United States? This would lead to the conclusion that international markets differ widely from the business and not-for-profit environment in the United States. As previously stated, in the General Commentary above, our client base is in the US marketplace, some with international activity, but all financial statement work is for private entities performed pursuant to US GAAP and SSARS and Auditing Standards.</p>
165	<p>If self-inspection is prohibited and the cooling off period is implemented, will compliance be monitored through the peer review program? If so, AICPA should consider that firms not required to have a system review, who only have an engagement review, do not undergo a review of their system of quality control. A review of the entire system of quality control is not within the scope of an engagement review. A firm with one audit will be monitored, but a firm with hundreds of compilation and review engagements will not be. This creates a significant variation in how this standard will be implemented and monitored. Some firms will fail to implement the outside party performing their inspection (either purposefully or by not fully understanding the requirements) while others struggle to implement it. And often those two firms will compete in the marketplace, but now on unequal terms.</p> <p>There is a perception among many small firms that the AICPA and other standard setters are trying to decrease or eliminate the number of small firms performing audit engagements. We know this is not true, but the proposed standards may result in unintended consequences beyond addressing audit quality.</p>
167	<p>We do not agree with the assertion that this standard is scalable. We believe this standard would be burdensome to small firms, which have a limited pool of EQ reviewers. Further, it could have a negative impact on audit quality. While familiarity can pose a threat, it can also be an asset if used appropriately. EQ reviewers that are familiar with the client and technical issues are more likely to detect issues than an EQ reviewer who does not have previous experience with the client.</p> <p>Also, most smaller firms are already stretched thin from a capacity standpoint and these changes just add to the administrative burden and further reduce production capacity. There should be a small firm exemption (for example, 50 partners or less) from this requirement.</p>
168	<p>The Committee raised issues about several topics. In general, we feel the burden of implementing the quality management standards can be readily accomplished by larger, well established audit firms.</p> <p>However, the burden of implementing these standards will be significant for smaller audit firms. This change in approach may result in smaller practice units deciding to get out of the audit business.</p>
Roundtable 8-19-2021	<p>Scalability</p> <ul style="list-style-type: none"> o Does not seem scalable o Should be a bare minimum standard instead and allow firms to add if they choose o Details will open up more room for litigation
96	<p>See entire letter from Howard Levy</p>

Exhibit C: Responses to Issue 1, Should self-inspection be precluded?

Number	Position	Coded Text
002	Oppose	<p>I am writing to express my concern with the proposed self-inspection standards as documented on page 27ff of the proposed SQMS. As a sole practitioner who has been operating since 2009, I have found the prior position on self-inspection to be more than satisfactory. I believe that the new standards put a much higher burden on small firms and solo practitioners who will be forced to reach outside of their firm on an annual basis to comply with the new standards. The concerns raised by the AICPA PCPS Technical Issues Committee and listed in the proposed standards on page 29 resonate with me as a small practitioner. Audits that concerned areas of identified elevated risk already required a EQCR, which would have required outside consult for these same small firms. The EQCR will assess the QC for riskier engagements in between peer reviews, and then the system as a whole will be assessed in depth during the peer review every three years. Adding this extra inspection of non-EQCR engagements every year by an outside party will only serve to increase cost and compliance in areas of admittedly lower risk. The self-review threat is alleviated by the EQCR on specified engagements, the peer review every three years, continuing education that helps an auditor stay aware of requirements. Perhaps a better solution would be for firms that have a clean peer review report to be exempt from this requirement as they have demonstrated competence and professionalism, but for new firms or those with peer reviews with concerns to be subject to this self review standard since they have not yet demonstrated a proper QC environment at their firm.</p>
004	Oppose	<p>So, you folks are determined to put us smaller firms out of business. Now it has become very, very clear that you are completely out of touch and have no idea what is going on out here in the real world with small businesses like myself and my clients. I have been a CPA longer than most and I used to enjoy what I do but now, it is ridiculous. These mindless regulations and rules have made this just an exercise of complying with your rules that add absolutely nothing except for more cost to us and our clients for no good reason.</p> <p>Now, you may have successfully eliminated me from the business to the absolute detriment of my clients and my family. Thanks - you guys are just great.</p>

Number	Position	Coded Text
005	Oppose	<p>I oppose the proposed new requirement described at paragraph 40a of the proposed SQMS that would preclude inspection of completed accounting and auditing engagements by those who had been involved in the engagements. This would be a disservice to the thousands of smaller CPA firms with a limited number of professionals. These firms would be forced to endure an expensive out of pocket financial burden without the likelihood of significant enhancement of engagement quality. When a similar requirement was discussed many years ago in conjunction with the creation of Statement on Quality Controls No. 7, there was initially some incorrect belief that only sole practitioners would be deeply affected. In reality, however, there are numerous multi- professional CPA firms that would be equally affected. Although some firms may, on the surface, seemingly possess sufficient personnel to avoid any self-review threat, many of these firms have one or only a few persons involved in financial statement engagements while most of their personnel are involved in tax services, litigation support, management advisory services, or other professional services. As a result, these firms would also be forced to outsource their annual inspections because most of their personnel work in other areas and do not possess the skills, knowledge or experience to inspect accounting and auditing engagements nor the firm’s system of quality control or quality management for accounting and auditing engagements. The existing Statements on Quality Controls, as they were eventually issued, correctly avoided imposing disruptive burdens on smaller CPA firms.</p>

The sufficient safeguards that already exist to mitigate self-inspection risk contraindicate the need for the increased overreach that is being proposed. As pointed out at page 27 of the Exposure Draft, peer review already “provides a safeguard and provides evidence that monitoring procedures involving self-inspection can be effective.” Also, a pre-issuance Engagement Quality Control Review is part of the existing and proposed professional standards for quality control and it is already stipulated that such reviews, as part of engagement performance, must be conducted by a person who is independent of being an engagement team member. Other existing quality control standards, such as those governing leadership, engagement acceptance, and human resources (especially continuing professional education) further provide additional safeguards. Page 28 of the Exposure Draft emphasizes the importance for an individual to be able to “critically review his

or her own performance, assess his or her own strengths and weaknesses, and maintain an attitude of continual improvement.” Shouldn’t a certified public accountant already possess these abilities? In most CPA firms, monitoring and inspection tasks are conducted by a CPA or at least closely supervised by one. The proposed SQMS prescribes a risk-based approach to a system of quality management. Accordingly, the outsourcing of monitoring and inspection functions to outside parties should be relevant only in those risk-based instances where it is evident that a CPA firm’s personnel lack the skills, knowledge and experience to conduct those functions, which in turn raises a more fundamental question regarding whether such a firm should even be accepting accounting and auditing engagements to begin with.

The proposed requirement replaces professional judgment with a cookbook approach that lacks scalability (the capacity for change). Inspection decisions should instead be made by each CPA firm in response to the unique characteristics of each practice.

Number	Position	Coded Text
		<p>I previously responded on April 29, 2021, and the purpose of today’s response is to add additional commentary regarding other areas. This additional response does not change my previous position that I oppose the proposed new requirement described at paragraph 40a of the proposed SQMS that would preclude inspection of completed accounting and auditing engagements by those who had been involved in the engagements. I continue to believe that this would be a disservice to the thousands of smaller CPA firms with a limited number of professionals. As noted in greater detail in my previous response, sufficient safeguards already exist to mitigate self-inspection risk. Inspection decisions should be scalable and should be made by each CPA firm in response to the unique characteristics of each practice.</p> <p>As a general comment, it should be noted that the Explanatory Memorandum to the proposed standards specifically mentions “high-profile business failures.” This is certainly where most of the public interest truly resides. If a key objective of the proposed standards is to promote scalability, the standards should focus on the CPA firms who perform high-profile and risk laden audits rather than, in some instances, what amounts to the de facto punishment of smaller CPA firms who perform less risky engagements. Perhaps an example of scalability would be to allow small practitioners the ability to determine for themselves whether any significant self-inspection risk exists within their practices.</p>
008	Oppose	<p>Under these proposed standards, the demographics of these small firms will not provide eligible individuals within those firms to perform monitoring and inspections in compliance with these proposed standards. That means contracting outside the firm for those services – more cost that these small firms cannot pass on to their typical clients. The typical smaller clients (governmental, small contractors, CIRAs and NFPO), that these smaller CPA firms service, will not financially support the hiring of outside quality reviewers. T</p>
009	Oppose	<p>I highly encourage you not to force small firms to have outside annual evaluations. This is an unnecessary financial and time consuming burden on small firms. The A&A department is already considered to be the “loss leader” in small firms. Therefore, the financial burden will be difficult for the small firms to absorb and will require small firms to pass on such expenditures to their clients, which in most cases are small companies/nonprofits. In most instances, the clients will be unlikely to easily accept/afford the price increase and will look into moving to larger firms. I am concerned that this will have small firms considering closing the A&A portion of their practice.</p> <p>The peer review is already a financial burden on small firms. The hourly rate paid for our annual peer review was significantly more than the partner’s hourly rate on the engagements being reviewed.</p> <p>I would recommend that any firms that have not received any significant findings during their peer review not be subject to such a requirement.</p>

Number	Position	Coded Text
011	Oppose	<p>However, one aspect of the proposed standard is concerning to me – the prohibition on inspections being able to be performed by members of the engagement team. As a sole practitioner, I already have to go outside my firm for EQR’s on broker/dealer audits (currently 20+ annually) and every three years for a peer review. The annualized cost for these services is approximately \$20,000 as it is. As an auditor of broker/dealers, I am also subject to PCAOB inspection – which I have had every three years since the interim inspection program was implemented. As it stands, only a handful of my audits are not subject to EQR and those are subject to peer review, so adding inspection being performed by a person outside my firm seems unnecessary and overly burdensome. Also, I’m not sure the resources exist for those services to be performed. Over the last 10 years it has become increasingly difficult to find competent and reasonably priced peer reviewers (I am fortunate to have one of them).</p> <p>I want to ask you to remove the prohibition on inspections being able to be performed by members of the engagement team, or if you do keep that in the standards to provide for some sort of ability for small firms that do high quality work to be able to be exempted from it – maybe by allowing firms that receive a PASS on their most recent peer review to be able to do the inspections internally.</p>
014	Oppose	<p>For smaller firms with 1-2 CPA’s on staff (yes, there are thousands of them out here!) this will be very difficult and expensive to implement. Let’s be honest – the economics of implementation and maintenance will force many of them out of business. Given the current market conditions, it is doubtful that there would be enough people willing to take on the role of performing inspections and EQCR’s for these smaller firms. The requirement that the firm’s peer reviewer can’t play this role will further limit the pool of available resources. In addition, the liability issues surrounding an outsider performing those functions will further reduce the number of professionals willing to take on those roles.</p>

Number	Position	Coded Text
015	Oppose	<p>With that background, I now want to address what I see as an unfair item in the Proposed Quality Management Standards. We perform self-inspections as part of our quality control within the firm. As asserted above, we believe no one knows our client issues better than the CPA resources within the firm. As a result, we are able to properly self-inspect our engagements while maintaining professional integrity for them. Your proposal to end self-inspections would have been no issue during my days working at PriceWaterhouse, but, for the small firm and small business community, this is a problem. For example, audit costs are real and significant within the small business community. We find pressure to keep costs down even greater at the ERISA audit level. While we will not compromise on time and quality to perform these audits, these additional costs of engaging a partner outside our firm will potentially force us to raise audit prices. Contrast this to a larger firm that has partner resources to keep inspections in-house while abiding by your proposed changes simply by shifting to a partner not involved in that particular engagement. This is an unfair advantage to larger firms, it is an additional cost to smaller firms, and, ultimately, the small business clients have no choice but to pay more for the audit.</p> <p>Not only does this have the affect of raising costs where dollars count the most, the small business backbone of our country, it is totally unnecessary. As I described above, we eliminate most of our audit issues by not accepting clients in which we do not have the expertise to perform the audit. You currently have rules in place that demand an auditor have quality controls in place, including engaging outside expertise when issues arise in which the firm cannot handle. If there are firms that are not abiding by the current rules, then the answer is to punish these firms and not to punish all firms. The current rules, when followed properly, allow all firms, from a sole proprietor to a firm with hundreds of partners to govern themselves, use professional judgment and only engage outside personnel when it is necessary. If the current rules are not being followed by certain firms, why do you think they would follow the proposed rules? It is firms such as ours that do care about high quality engagements and are committed to following the current standards that will be punished.</p> <p>Finally, is not one of the purposes of the changes in quality management standards to move beyond a rules based approach to a principles based approach of quality management? Why then would we create a new rule that removes professional judgement when the answer is to enforce the rules already in place? I strongly urge you to remove the disallowance of self-examination from the proposed standards. Please consider the unique world of small business, the rising costs, the logistics with allowing competitors inside small business engagements and the fact there are rules in placed for firms that are not complying with current standards. I believe you will see the removal of self-examination is an unfair burden on smaller firms and their clients.</p>
016	Oppose	<p>This is ridiculous proposal. Requiring an outside CPA to review our work will only allow them to solicit the client and increase costs. We will have done all the hard work, they will have our pricing and all client contact info. In addition this is also redundant with peer review.</p> <p>You will force every small firm out of the attest business, is that what you want.....</p>

Number	Position	Coded Text
017	Oppose	I am commenting in response to the “Proposed Quality Management Standards”. I am appalled by the proposal that self review will be prohibited under this new standard. This strikes at the heart of the CPA profession by challenging a CPAs ethics. CPAs are required to maintain objectivity when reviewing engagements that they have participated in. Beyond this, the proposal will place an undue financial hardship on the sole practitioners by requiring them to hire an outside firm for this element of their quality control. EQRs are already in place and require an independent person to review engagements for which the firm feels is necessary. This proposal will be detrimental to the profession and will mark the end for sole-practitioner firms performing audits. Sole-practitioners play a very important role in the profession and help keep costs down for smaller attestation clients.
018	Oppose	am writing in response to the proposed changes to Quality Management Standards (QMS). I am concerned that there is no floor related to firm-size in proposed QMS changes. We are a one-partner firm, meaning that I perform the final quality review on all compiled financial statements that are issued by our office. The idea to require an independent partner-level review outside my own would mean having to obtain outside services for us. This would be cost-prohibitive and likely lead us to no longer issue compiled financial statements and leave the AICPA peer-review program. Rather than increase your quality standards for smaller firms, I feel your proposal will have the opposite effect by encouraging firms to no longer use any AICPA standards and simply issue financial statements as “No Assurance Provided.” Please re-consider the lack of a firm-size floor in your proposal. Thank you for your consideration.
019	Oppose	As a small successful CPA owner/firm, I strongly urge you to oppose the removal of internal self-inspections. It’s been far too long, that the requirements being placed on firms, especially smaller ones, are being overburdened with new parameters from varying outside parties; IRS,SBA,Banks,AICPA,States,Lenders,etc. We see the dwindling entry of new CPA’s numbers, no longer migrating in, and us small owners in rural states are going out of business. Please leave well enough alone and keep internal inspections rather than outsourcing.
020	Oppose	A couple of the larger proposed changes that we are completely against is the requirement that we will need to have annual outside self inspections. You would be adding more work to our staff in coordinating and working with the outside firm, and greatly increasing costs to have a reviewer in each year to do the self inspection. While the larger firms may be able to absorb those costs, smaller firms like ours take a big hit with this proposal.
023	Oppose	Requiring an annual external peer review is unattainable. We were barely able to get a reviewer for the year required as there were only two reviewers to chose from in the state of Iowa. There are not enough reviewers available to implement an annual requirement. Internal review is done each year as well which allows for another level of training. Firms are not going to chose an unqualified individual to perform these self-inspections which will lower the self-review threat. We are neutral that inspection of completed engagements by those involved in the engagements should be precluded to enhance audit quality.

Number	Position	Coded Text
024	Oppose	<p>It is my feeling that aspects of the proposed quality management standard would greatly impact and place a large burden on small firms. By eliminating the ability to use an engagement team member for inspections, smaller firms would be required to engage another firm or individuals outside the firm to perform inspections. This would significantly increase the price/cost required to perform the engagements. This is a big concern of ours and other similar size firm leaders I've spoken with.</p> <p>As the leader of a small firm that specializes in performing SOC engagements for TPAs, it is difficult to find individuals outside of the firm that have the knowledge and expertise needed to effectively inspect our work. We take pride in our expertise and commitment to serve a specific industry and type of engagement. When utilizing individuals and/or firms outside our firm, we are often required to spend a significant amount of time training and educating the individuals outside our firm in order to feel comfortable with their performance. If we were required to hire individuals outside our firm, we would be forced to significantly increase the price of our engagements while also spending more time (due to the training aspect). We feel like this only benefits firms large enough to have the personnel necessary to meet this requirement. It also benefits larger firms because they are often the only resource available for us to use because smaller firms rarely have the personnel with the necessary expertise to perform the inspections.</p> <p>At a time when most of our clients are struggling to remain in operation, we wouldn't be able to pass along the additional cost associated with this proposed requirement. To summarize, this proposed change would just shift more engagements away from smaller firms to the big 4 and larger firms that wouldn't be significantly impacted by the change.</p> <p>I have never commented on any standard change, but this proposed change has the potential to significantly hinder our ability to serve our clients in an effective and cost-efficient manner.</p>
027	Oppose	<p>As a small firm owner, I want to formally object to the proposed change whereby firms will need to amend/adapt/evolve their system of quality control to incorporate a new system of quality management by disallowing self inspections for smaller firms. This will force these firms, already on a tight budget, to engage outside parties to perform those annual inspections. This will likely further weed out the smaller firms, which certainly serve a need in our nation.</p> <p>I believe that if there is something wrong with self-inspections, more guidance should be put forth and have it be more scrutinized during the peer review process. In other words, fix what we have rather than completely replace it.</p>

Number	Position	Coded Text
028	Oppose	<p>Please do not implement the proposed quality management standards. The self-inspection standard is especially burdensome. It is difficult enough to find a peer reviewer every three years. We have a two CPA firm and may possibly be reduced to one in the near future. In order to comply with this, I will need to engage one firm to do my ECQR, one firm to do monitoring and one to do my peer review. I contacted dozens of firms just to find a replacement Peer Reviewer when mine notified me he was retiring. I was looking in other states for a peer reviewer.</p> <p>It is frustrating that the AICPA has not regards for the impact there regulations will have on small firms. If self-inspection and cooling-off periods for EGR’s are an issue for a firm, then it will be addressed in a peer review. At that time, these additional hurdles can be put in place for firms with insufficient EQCR. However, it seems to be unnecessary for all firms to be subject to more stringent guidelines when not all firms are having issues.</p>
029	Oppose	<p>An annual inspection would cost my firm approximately \$10,000, as opposed to hiring another highly qualified CPA for approximately 100,000 per year, if not more based on the qualifications they need to perform quality audits. Making the changes as stated in the ED would dramatically impact smaller firms and may push many to retire early or cut back on services, which would only impact the shortage of qualified CPAs to perform the needed audits of various industries. Many CPAs become sole practitioners or start smaller firms to offer services in just one industry or attestation area, which they are able to complete work more efficiently, with greater quality and profitably than their peers in medium to large firms.</p> <p>This will also affect many accounting majors that are considering becoming a CPA to start their own practice. Additional burdens will have to be overcome and they may see a venture off on their own as unattainable based on the additional changes, doubled with its affordability. The country is in dire need of more CPAs with the older generations retiring and leaving the field and accounting majors declining, as noted here in The CPA Journal in 2020 https://www.cpajournal.com/2020/10/12/the-future-of-accounting-education/.</p> <p>Many CPAs that were once considering purchasing a sole practice or small firm may also pass on the opportunity if the changes in the ED are passed. CPAs are usually very conservative and not the most risk taking individuals, so adding additional monetary and regulatory pressures on them may constrain the dream of having one's own practice.</p>
032	Oppose	<p>While self-inspection has never made any sense to me, the prospect of tripling the quality control costs for small firms (essentially requiring a peer review every year, instead of every third year) would be a significant economic cost to those small firms and would likely result in some small firms either discontinuing audit, review and compilation services, or finding it necessary to merger with a larger firm. Neither of those results would be in the best interest of the profession as a whole.</p>

Number	Position	Coded Text
033	Oppose	<p>I am writing regarding the proposed Quality Management Standards. I am the managing partner of a small CPA firm. We have 2 CPAs and 2 non-CPA accountants on staff. Our firm does not perform audits, however we do perform review engagements and, of course, have the ability to engage in other assurance services. The proposed new measures that would eliminate the self-inspection and the implementation of a two year cooling-off period would cause a burden on small firms like mine. The profession is one of integrity. We've even created a self-regulation system to ensure the quality of work performed by our profession. Adding these new rules will only add cost to already low margin engagements and will result in lost revenue to smaller firms who will now need to engage others to do the inspection of the engagements and will need to turn away existing clients due to new proposed cooling-off period.</p> <p>Please consider these points as this initiative moves forward. I believe the profession has adequate measures already in place to address the concerns these 2 things are meant to address.</p>
037	Oppose	<p>Do you realize the costs to hire an outside firm to do the self inspection on the 2 years there is no peer review? Is the intent to get rid of small firms? Do they realize that especially in downstate Illinois many entities can not afford the larger firms and come to small firms as we relate more to them being small govts and their budgetary concerns. Will this really do any good? We strive to stay current on issues and only become involved in audits we feel qualified to perform. We will have to pass these costs along. We are in central Illinois and there is a huge issue with having enough attorneys in the area to handle the work and if you try to remove all of us small accounting firms where will people go – we do many small governments and their budget won't allow for the larger firms to come in and do the work – they are seeing this with attorneys – many are not even using legal counsel unless there is an absolute need which can also lead to issues. Are there enough firms to do this self inspection? We struggle to find qualified peer reviewers for what our practice has – ours is from Iowa now. Young people already don't want to enter this profession. Having been a CPA for over 30 years I really don't feel we need more regulations – all the standards now really aren't for the small business/govt but these are the backbones of society. It sounds like we don't trust our own peers to do what is right. You may force many small quality firms out of business – is that your intent – what are you saying to young CPA's who maybe dream of owning their own firm in a small town. I have enough work for another CPA besides the other full time and part time CPA that I have but they don't want to locate to small areas so it has been impossible to find anyone. Please think about the small firms and the smaller clients that rely on them. We can't all be Chicago.</p> <p>Thank you for your time.</p>
038	Oppose	<p>I am a sole practitioner CPA. I only do compilation reports. I preform NO review or audit engagements. From my understanding from the peer review update email is that the proposed changes would require myself to hire an outside CPA every year to check over my compilation reports even though I have a peer review done every three years. If I am correct in reading the email, this will be huge financial burden on my single CPA firm which may require me to change the services my firm offers to clients.</p>

Number	Position	Coded Text
039	Oppose	Adding another level of inspection only seeks to increase the costs and administrative burden on firms that are currently complying with the requirements. There is no additional benefit to this procedure. It is overkill. Is the next step to review the reviewers who review the reviewers.
041	Oppose	<p>Current quality control (QC) standards permit individuals associated with an engagement or who perform the engagement quality control review (EQCR) on an engagement to also inspect the engagement as part of the firm’s annual monitoring process. Under the proposed quality management (QM) standards, self-inspection will not be permitted. Thus, smaller firms with fewer individuals capable of performing the monitoring procedures may be required to engage individuals outside their firms to perform their annual inspections.</p> <p>Please note the following:</p> <p>1) The cost of this outside annual inspection will be time by me for the process and fees due to the outside reviewer. I know that if I add such cost to some audits those clients will cease having services or go to a lower service. I do not think this will serve them or the public. If I do not add the cost to the fee then I am working for free and having a smaller take home pay to my family.</p> <p>2) Who is going to approve these inspection results and what will be there time line for completion? I work with the Illinois CPA Society for my peer reviews. My last two peer reviews took seven months on average to complete. A large percentage of this time was my waiting. The peer reviewer had other reviews in progress and then the waiting for final approvals. The later took several months. It is common knowledge among the CPAs I have spoken with that there are not enough reviewers on my end and not enough persons on the approval end to provide a timely peer review. This will add to the already over stretched timeline. That will not benefit anyone.</p> <p>3) This standard will place a higher burden on smaller firms. This will move some CPA firms out of the business of providing services covered by this standard. Any time a pool of providers shrinks the cost goes up for those accessing the service. Some may choose to not have the service. How is this serving the organizations and the public? Especially how is this serving smaller organizations requesting or requiring services?</p>
042	Oppose	<p>I am concerned about the proposed changes to the Quality Management Standards. I am a small sole proprietary, but I work hard to do good audit work. I am concern about the additional cost to my firm if the proposals go through.</p> <p>I would need to pay for someone outside my firm to do the inspections.</p> <p>Most of my audits are governmental audits (school districts). All of the school district audits in Kentucky are reviewed annually by the Kentucky State Auditors Office. Would this be considered acceptable for inspection?</p>

Agenda Item 4C – QM Comment Letter Analysis: Self-inspection

Number	Position	Coded Text
043	Oppose	<p>I do not agree with the proposed changes regarding the self monitoring between the 2 years of the peer review. I have always had a good peer review every 3 years and received good feedback and support from the reviewer.</p> <p>If I am forced to hire another firm to do my self monitoring I most likely would close my business. It would cost me additional fees every year instead of every 3 years. Also, it would be hard to find another firm to do this in my area. Most firms in my area are very busy doing the same types of audits I do.</p>
046	Oppose	<p>The EQR and inspection requirements in the new QM standard will set many small firms up for failure. I believe it is onerous on many to need to go to an outside firm for EQR (and in many cases for annual inspections), and unwarranted in some cases. I know firms that the main A&A partner is a peer reviewer (or qualified to do so if he wanted to perform such reviews), and would better qualified to objectively “look back” at his/her engagements when performing inspection than going to an outside firm.</p>
048	Oppose	<p>The self-inspection proposal is just driving up the costs that a sole proprietor or small practice has to absorb. Why not just be honest and dictate the firm's size that you want to anoint to do the engagements (audits, compilations, etc.).</p>
049	Oppose	<p>Specifically, the prohibition of self-monitoring and the partner cooling off requirement, will prevent most rural, main street accounting firms and all sole practitioners from being able to achieve compliance with the proposed standard without the aid of an outside firm for even the most straight forward and simple of attest engagements, and for its overall risk assessments for the management of their practices.</p>
050	Oppose	<p>These standards will have a decimating effect on solo practitioners. Small firms simply don't have the margins to cover the costs of outside review of each of their engagements. We already have peer reviews, why is this additional layer of monitoring needed? Y</p>
054	Oppose	<p>To add the cost of professional service would be cost prohibitive and I am not sure I can pass the cost along.</p>

Number	Position	Coded Text
055	Oppose	<p>The Committee members do not agree with the implicit assumption (by precluding those involved in engagements from performing inspection) that a third-party review invariably enhances audit quality. To the contrary, some risk may increase by using a third-party reviewer who otherwise may be suitably qualified, but who may not have the equivalent expertise, or an in-depth knowledge of the industry or the client, to perform a high-quality inspection for certain complex engagements. For example, not all single audit or employee benefit plan audits have the same complexity. The Committee recommends using peer review results as an alternative safeguard, instead of independent third-party reviews, to achieve the same goal of enhanced audit quality. This alternative safeguard is better aligned with a risk-based approach to Quality Management. If a firm receives a “Pass” report on its peer review, from a risk-based perspective the inspection process is effective and adequate for the firm, thus not necessarily requiring an independent inspection. If a firm receives a “non-Pass” report and the inspection process was determined to not be effective or not performed at all, then the firm should consider its risk in the inspection process and determine if an independent inspection might be needed. At that time the firm should consider modifying its policies and procedures for one or two years, until such time the firm has corrected issues noted in its peer review and/or inspection reports. This alternative gives firms some leeway in its approach and is not a mandated inspection approach.</p>
056	Oppose	<p>SELF-INSPECTION- Purpose of a Peer Review? Cost factor? Peer Reviews have escalated in costs in recent years. Why should the small firm/sole practitioner have to pay for a self-inspection by an outside firm in each of the two years when a Peer Review serves the same purpose in year three? Again what is the purpose of a Peer Review if you are being forced to accomplishing the same task each year? This will be an additional cost which is totally unnecessary.</p>

Number	Position	Coded Text
057	Oppose	<p>Thanx for your response. I’m sorry, but I’m trying to wrap my head around how I can feasibly implement bringing in an independent person for self-inspection. I was on the AICPA’s Peer Review Home Page. For my home state, Massachusetts, I noticed that there were only 23 peer reviewers listed. And there were 1,644 Public CPA firms listed that underwent peer review. As I mentioned to you on the Mass. Society of CPAs Zoom webinar, I had enough trouble finding a peer reviewer.</p> <p>I’m not sure that it’s feasible to find another qualified outside person to inspect my engagements. I suspect that the other 22 peer reviewers are busy. And, if I select a person not listed above, how do I know if that individual is qualified? Does this mean that I have to interview this individual? And then check references? And if I have to hire an independent person every year to review my system, why do I need to undergo peer review every three years? I might as well ask this individual to review my workpapers as well.</p> <p>It took me almost six months to find my last peer reviewer because my previous peer reviewer quit, and the five people they recommended also quit. Also, at least one individual of the above 23 peer reviewers isn’t accepting any new clients. This is a very time-consuming and costly because I’m spending a significant amount of time on non-value/non-billable work to find an individual.</p> <p>I feel confident in my current self-inspection process. Like tax returns, I have a checklist for the financial statements/agreed-upon procedures I perform. I usually review/update this checklist about 1-2 weeks after I’ve prepared a draft of the independent accountant’s report. If I’ve missed something, I correct it for current & future engagements. I do this for all tax returns that I prepare (including my niece’s taxes – a single W2 and ROTH contribution.)</p> <p>I’m confident that I’m not alone and that other solo/small practitioners face the same challenges.</p>
059	Oppose	<p>We as CPA's not only have to survive the toughest licensing examine for any professional, but we have stringent guidelines we have to follow year in and year out. Currently a peer review costs a small firm \$4,000 to \$6,500 every three years. Now with the new proposal that cost will now become annual and then double the cost in the year the peer review is required. So now instead of \$4,000 to \$6,500 every three years it will be \$16,000 to \$26,.000 every three years. For a firm whose auditing fees annually are \$30,000 to \$40,000 this is half the fees eaten up with the new costs associated with being licensed to perform audits. Does this seem reasonable to you? This could be the difference in hiring new employees or going out of business.</p>

Number	Position	Coded Text
061	Oppose	The standard does not need to suggest that small firms must hire an external person to carry out inspections or monitoring activities. This would essentially be an annual peer review and costly. In addition, clarity should be provided on what is considered a “small” firm. Assuming “small” firms are those that do not have the internal capabilities to perform the “independent” inspections, there may be safeguards that could be identified for those firms. For example, additional CPE in the areas of quality management related to the engagement types within those firms could be required of those individuals who perform inspections but are not “independent” of those engagements. Another safeguard could be to bridge the self-inspections with the peer review process by requiring a review of the self-inspected engagements as part of the firm’s peer review.
062	Oppose	As a seasoned CPA within a small firm, I would like to request that these new standards not be imposed upon myself nor my fellow CPAs. In my opinion the current Peer Review requirements, including the current engagement quality review, is more than adequate to ensure that the CPA profession is meeting its standards to protect and safeguard the users of our financial statements. These additional proposed requirements are overkill and pose additional unnecessary financial commitments on the profession, particularly us smaller firms. Currently, I believe that the professions is doing an outstanding job of self-policing itself and further requirements at this time would most definitely be a hardship for many to meet.
063	Oppose	It will diminish the standing of smaller firms who will have to explain to long term clients why we can no longer provide attestation services as we have always done, or try to explain why we cannot release the financial statements we have prepared because an accountant from another firm must inspect them first and he or she is too busy this week. The AICPA has to realize that this will put small firms at a severe competitive disadvantage.
064	Oppose	The cost to engage an outside firm to perform annual inspections erodes the margins from audit engagements and creates an unfair playing field for the smaller firms.
067	Oppose	Self-Inspection: Prohibiting this would be detrimental to smaller firms, as they will not do it (causes peer review issues) or they will have to spend money to have someone else do it. This also hurts larger firms as if a firm specializes in one area and as example only has 3 staff in that area, they would not have anyone qualified internally to do the inspection. In addition from a peer reviewer (which I am one), if this passes as is, I might decide to do inspections for firms that need it, and get out of the peer review program, and it is already projected we will be short of peer reviewers in the future. Strongly against prohibiting self-inspection

Number	Position	Coded Text
068	Oppose	<p data-bbox="456 218 1308 243">Self inspection should continue to be allowed for the following reasons"</p> <p data-bbox="456 289 1503 457">-We are already subject to peer review every three years, this should be enough. If self inspection is not allowed and my firm has to get an outside service to perform a review of our work, then peer review should be eliminated for the small firm. Effectively, an outside review is a realtime peer review. Please stop making it difficult for small firms to survive by imposing ridiculous impossible standards on us.</p> <p data-bbox="456 504 1507 672">-Small firms all over the US will not survive and audit quality will be reduced. If we perform an audit for \$6,000 and have to pay 1,500 or 2,000 for an outside firm to review our work not only will we lose money but our emphasis will simply be on passing the outside QC review and distract from the main purpose of the audit which is to gather enough evidence to express an opinion.</p> <p data-bbox="456 718 1511 991">-Once again, the future of our profession is being dictated by individuals that have never served in a small firm. Individuals that don't understand the dynamics of a small firm. My firm consists of four professionals, two of which perform audits. I don't have "teams" of "young talent" as they are often called in the JOA and other publications. I am the "team" My firm is truly a small firm. My firm is already subject to peer review and by making my firm subject to a constant realtime peer review of sorts is ridiculous, redundant and being suggested by those who only understand quality from a big accounting firm prospective</p> <p data-bbox="456 1037 1511 1205">To sum it up, self inspection should be allowed in the proposed changes. Disallowance of self inspection will only hurt small non profit and Mom and Pop organizations that are subject to audit (by increasing their fees to cover extra costs), it will hurt small firms by forcing many out of the profession because of this ludicrous idea. We already have peer review, where does the regulation end?</p>

Number	Position	Coded Text
069	Oppose	<p>While we acknowledge that inspection of completed engagements by personnel with no previous involvement on the engagement may or may not lead to more effective inspection results, there is an incorrect presumption that knowledge of the client lacks objectivity. We believe client knowledge is beneficial in an effective review. In addition, we believe the requirement will place an unfair burden on firms with a limited number of personnel.</p> <p>Sole practitioners and other small firms will often have to hire an outside firm to perform this inspection. These firms are less able to pass these additional costs on to clients and may also have trouble finding a comparable-sized firm with the appropriate industry expertise to perform the work. There are less peer reviewers and other outside firms may not have the expertise to provide the appropriate external inspection. If a small firm is already performing well, including getting pass ratings on its peer review and avoiding nonconforming issues, the requirement would seem to be an unnecessary cost burden. This could also cause some of these peer reviewers to make certain economic decisions such as performing services for a firm two out of three years. It may create a situation where it is more economically advantageous to avoid performing peer review and only perform firm on firm internal inspections.</p> <p>There are further safeguards that can be implemented to lower self-review threat and enhance audit quality. First there could be a requirement of an internal inspection by manager level or higher. The reviewer should be required to have twenty-four hours of A&A CPE in the previous two years. In addition, practice aids should be developed on how to perform an effective review and should involve such items as a focus on new standards applicable to the client, key audit matters related to the engagement and the high-risk areas of the engagement. For sole proprietors performing their own review, there should be a cooling off period of 6 months before the internal inspection is performed for the engagement. Personnel performing inspections should have a minimum of eight hours CPE every three years that specifically relate to performing internal inspections or engagement quality reviews.</p> <p>Larger firms with multiple technical experts on staff are likely to already have this policy in place and therefore, will not have to make operational changes or incur additional cost to implement this requirement. Again, 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>Another possible impact would be more small firms leaving the auditing profession creating less competitive options for the general public when hiring an auditor creating more expense for an audit. Increased fees because of this requirement and possible reduction in available auditors could discourage clients, including smaller nonprofits, from having an audit performed. This would not serve the public interest.</p>

Number	Position	Coded Text
070	Oppose	Adding a third set of eyes will not significantly improve audit quality. The proposal assumes that if a firm has a third individual, unrelated to an attest engagement, that person will have the superior knowledge and experience to properly fulfill the quality review position. Getting someone from outside the firm with the knowledge and experience necessary can be difficult for a smaller firm. If I understand this proposed standard, the ideal is to have a reviewer with the same knowledge and credentials as a peer reviewer look at every engagement. The number of reviewers required under this scenario is exponentially greater than the number of Peer Reviewers and I have no idea where they would come from.
070	Oppose	The number/percentage of failed attest engagements has not been disclosed and is key to understanding the need for independent review beyond Peer Review. If upon Peer Review, a firm receives a Fail rating then it is understandable that there should be a requirement for use of an independent third-party reviewer until such time that an independent reviewer indicates that there is no longer a problem. If a firm gets a "pass" rating, then why should it have to bear the cost and other issues that comes with third party inspection.
070	Oppose	What happens if after using a third-party reviewer there is still a problem identified by a Peer Review. Do we then start adding more and more levels of review. Not passing a Peer Review should result in remediation and if that does not work then AICPA membership and license revocation should be imposed.
071	Oppose	For the SFSPs, the Group believes that practices may be put in place to comply with the standard that will diminish audit quality. Some such considerations would be a) for the firm to determine on a risk-based approach that no engagements require an engagement quality review, and b) that terminology such as "concurrent review" will be used in order to avoid the engagement quality review requirements. Further, we note that at a smaller firm, the designated quality control partner is likely to have client service responsibilities as well, and that just the act of changing the engagement partner automatically changes the perspective on the engagement without further safeguards. In order to comply with the proposed standard, smaller firms may be required to seek outside engagement quality reviewers, who may be less qualified than firm partners.
071	Oppose	<p>The Group believes precluding individuals involved in the engagement from inspecting completed engagements will not necessarily enhance audit quality. The Group believes the following safeguards will reduce the risk associated with self-review to an acceptable level.</p> <p>The passage of time - typically an engagement inspection would occur at least several months after the engagement was performed, giving the audit professional time to take an objective look at the engagement;</p> <p>Using checklists and practice can provide a more objective and unbiased perspective when performing an engagement inspection that did not exist when the engagement was originally performed; and</p> <p>Peer review provides a thorough, unbiased inspection of the firm's engagements at least every three years, and provides the firm with guidance on implementing best practices.</p>

Number	Position	Coded Text
073	Oppose	<p>My main area of concern is with “Self-inspection” and smaller firms. You guys always state that everything should be based on risk. Therefore my inspections would identify the same engagements that my firm is ALREADY paying an outside CPA to perform an “External Quality Control Review” on before the report is issued. Why is this necessary other than to drive my costs up? However, there are no CPAs out there with time to do this inspection for me because the qualified CPAs are out doing their own audits.</p> <p>My contention is that the large firms want to eliminate the small guy (eliminate competition) by driving up costs and creating bars that are so high no one can jump over them. This in my book is another form of socialism.</p> <p>The audits that I do KPMG or even a large local firm does not want to do them. I am already receiving numerous calls from small organizations stating that their former CPA had fired them because their audits weren’t worth their time. All your rules will only drive out the honest CPA who is trying to follow the standards but is getting fed up with it all.</p> <p>The unethical people in our profession will remain and be the only ones left because they will find a way around your rules probably in an unethical manner.</p>
074 TN Dept of Audit	Oppose	<p>We believe the self-review should be discouraged but not prohibited if sufficient mitigation existed. The rule should not immediately prohibit the self-review action without consideration of mitigating factors.</p>
075 coastal- peer- review	Oppose	<p>Inspection, however, has a more indirect impact on quality. We recognize that inspection plays a role in the overall system of QM, however its benefits are generally prospective. Also, as noted in paragraph A167, the objective of a peer review is similar to that of inspection procedures. Therefore, all firms are subject to a complete totally independent inspection (peer review) every three years. These comments are made to add perspective and a cost benefit consideration to the discussion about self-inspection below.</p>

Number	Position	Coded Text
075 coastal- peer- review	Oppose	<p>Many smaller firms do not have the resources to form an inspection team of qualified individuals with no involvement in the engagements to be inspected. A total prohibition on self-inspection will cause them to either use a person who is not qualified to inspect the engagement which likely will not add to quality; or hire outside the firm which is similar to having a peer review every year. To firms conducting quality engagements this is overkill.</p> <p>To firms with quality issues, the peer review process already has a corrective action process which can involve directives regarding inspection (see below).</p> <p>We agree that self-inspection should be avoided when another qualified person in the firm is available. We think the standard should address the risks of self-inspection, but not prohibit self-inspection where it cannot be avoided. Instead, safeguards responsive to the risk of self-inspection can be required. The risk of “not knowing what they don’t know” can be mitigated by the use of an appropriate practice aid (different from any practice aides used to perform the engagement) such as AICPA peer review checklists, which can be an effective safeguard.</p> <p>We believe that for most firms this can be more than sufficient, and to require those firms that generally perform quality work to hire outside inspectors is not cost effective or necessary.</p> <p>For firms with quality issues, the peer review process already has a process for remediation through required corrective actions. Ineffective monitoring is a possible systemic cause when evaluating findings and deficiencies in a peer review. Peer review committees could focus on self-inspection as a root cause when ineffective monitoring is identified and assign corrective action accordingly. These corrective actions usually involve hiring a qualified person acceptable to the peer review committee to perform pre- or post-issuance review of engagements or the entire inspection. These corrective actions are done at the firm’s expense. Therefore, there already exists a system in the United States for firms where it is considered necessary to improve quality. However, this added cost should not be imposed when the results of peer review indicate the firm’s QM system is operating effectively.</p>
076	Oppose	<p>In a small firm setting, the involvement of a 2nd partner during completion of the audit may be a necessity in order to get work done. In our firm, we at times will have a second partner work on an engagement as a "staff" member while the audit partner in charge remains in his or her normal role. In this instance, we fully disagree with the proposed guidance as we feel the 2nd partner involved would be able to complete a QC review... it's their firm to so why would they want to issue reports that are substandard? We do feel if a firm has enough partners available, then a partner that does not have any involvement with the engagement should be charged with any QC reviews.</p>

Number	Position	Coded Text
079	Oppose	Prohibition of self-review on inspections. (1) the prohibition of self-inspection is totally inconsistent with a risk based approach to quality firm management as it bars the firm from making its own professional judgment. (2) the prohibition of self-inspection flies in the face of the overall results of peer reviews, which reflects that the vast majority of firms are receiving peer review report ratings of pass, both in system and in engagement reviews. Since from the stats previous noted about 99% of the firms in the US are small firms, and since the overall fail rate is no more than 10%, one has to conclude that small firms are not the problem SQMS 2 standards are designed to cure. (3) Peer Review pass rates seem to show that many firms that use self-review are passing peer review, which stands as prima facia evidence that self-review can work. (4) My conclusion is that the prohibition to self-review for inspection starts with the false straw man that it can't work, and that something needs to be fixed. The AICPA's Peer Review statistics show that this is a false premise. (5) Peer reviews of firms that do self-inspection and that are found to not be performing in accordance with professional standards are already subject to a process of corrective action that often includes having to have their inspections done by third parties acceptable to the peer reviewing administering entity. The system that is in place already provides the safeguard for the public if a firm doesn't perform in accordance with professional standards.
079	Oppose	Strongly disagree
080	Oppose	In our case it would mean pulling a great field auditor from our 10 SOC audits so that they can perform QC work. Taking that auditor off the audit in fact could diminish the quality of the audit, which defeats the idea of quality control. The idea of hiring a third party is going to be extremely expensive and time consuming.

Number	Position	Coded Text
082	Oppose	<p>“More bricks, less straw” - It has become increasingly difficult for most accountants to manage their workloads, and adding additional administrative burdens is not helping. I have had many conversations with other practitioners of firms varied in size. Many are exiting the profession, and there are very few students of accounting entering the pipeline. I have turned away a lot of work in order to maintain an acceptable level of quality on engagements, and many others are doing the same. It is becoming ever more difficult to schedule outside EQ reviews. Currently, there is only one CPA I have found with the necessary skills to perform EQCR work on my engagements. His schedule is very busy. Lauren Corey Consulting’s current arrangement with his firm for this service includes a hold harmless clause (I maintain full responsibility for engagement quality). The ASB should consider the overall impacts of these proposed changes on the profession (specifically, the prohibition of self-inspection for sole practitioners). My understanding is that peer reviewers and professionals doing EQ work are stretched very thin and many of them are retiring and not being replaced with incoming peer reviewers. Honestly, I am not sure how I will find someone, or a firm, to perform my entire annual inspection from soup to nuts (CPE, licensing, updated QCD, etc.) although I might find someone to look at a job or two. The proposed changes remind me of the decision years ago to require CPA candidates to earn 150 credit hours in order to qualify for licensing. It is not a surprise to me that the number of students entering the accounting field has dried up in recent years. I do not see how that decision improved quality in our profession. I am trying to understand how the proposed changes to quality management (QM) requirements on CPAs, who are already at capacity, will help quality. It is clear to me that more available time is needed to focus on attest engagements and related issues. I worry these proposed changes may push CPAs into retirement. Although I personally appreciate outside review of my work because it enhances the overall product, the administrative burdens of this proposal could likely prove to be too much. These changes may result in a further escalation of the existing shortage of skilled CPAs.</p>
084	Oppose	<p>2. To place the burden of having a "system review" and requiring outside reviewers on sole practitioners who do not perform audits is a very costly and unpractical idea. Most of us cannot hope to pass these costs on to our small non-profit and business clients and still retain them. Many will not go elsewhere, they just will not have the service performed.</p>
085	Oppose	<p>am against the proposed self-inspection change. I am a sole practitioner and would have to engage and pay an outside CPA to perform the self-inspection.</p>

Number	Position	Coded Text
086	Oppose	<p>Proposed SQMS No. 1 would prohibit the use of an engagement team member or the engagement quality reviewer of an engagement from performing any inspections on that engagement. We believe that this prohibition will create a struggle for qualified resources as firms will have to identify and engage multiple qualified quality review experts to</p> <p>meet this compliance requirement. This could be challenging given the significant shortage of peer reviewers and other qualified professionals. This would impact smaller firms considerably as well as those firms that operate in niche practice areas. Consider the sole practitioner who will need an EQR professional or another qualified practitioner to perform inspections and a third expert to perform their peer review. This is excessive.</p> <p>The Auditing Standards Board requested input regarding potential safeguards to reduce the self-review threat. The committees suggest a more flexible approach to developing self-inspection policies that take into consideration the risks associated with the firm’s engagements, whether the firm’s engagements are high risk, standards changes, or changes in the auditee’s operating environment (e.g., COVID-19 impact); whether the firm is undergoing peer review in the current year; and whether the firm has had an engagement quality review for a selection of its attest work.</p>
087	Oppose	<p>The proposed standards offer a modicum of scalability in some key areas. This is commendable. Yet, what they grant with one hand they take away with the other, by mandating that no member of an engagement team can inspect an engagement that he or she participated in. It has been well-noted that this will impose a costly burden on small firms, and will have the effect of driving many out of A&A practice altogether. This is first of all, anti-competitive. Secondly, it is bad public policy because it will reduce the supply of accounting firms available to report on financial statements. Many small businesses need only to submit full disclosure compiled statements to their banks for credit purposes.</p> <p>It makes sense to have the same firm that does their taxes and bookkeeping do this, rather than searching out some other firm, after the existing firm has gotten out of A&A practice. This will have particular effect on small businesses in rural areas where accounting services are scarce. And it will likely raise prices to those businesses. The proposed standard should have an exemption for firms that perform only compilations and preparations. The accountant expresses no assurance in these engagements, and there is no public interest served by mandating this outside inspection requirement. It will only drive small firms out of the compilation business, and force their clients to seek more expensive services from larger firms. Having an exception for compilation/preparation-only firms would provide relief to the many firms that would be impacted by this proposed standard.</p> <p>There is also the fact that there are many small firms that are doing excellent A&A work. This proposed approach tars them all with the same brush as the bad actors.</p>

Number	Position	Coded Text
089	Oppose	<p>We disagree that the inspection of completed engagements by those involved in the engagement should be precluded to enhance quality. For the standard to be scalable yet still provide for enhanced audit quality, we recommend that firms explicitly be required to evaluate the risk of self-inspection considering the specific nature of their engagements and practice, and document their specific responses to mitigate the threats identified. The documentation should reflect that the ability to mitigate this threat is expected to be rare, but we do not believe it can never be overcome. More specific examples should be provided of the level of involvement in the engagement for which the self-review threat cannot be overcome.</p> <p>The cost-benefit ratio of precluding all potentially involved parties is too great, resulting in a standard that is not scalable to the smallest practices, and will restrict audit supply to the detriment of the profession. We believe that for some parties (e.g., the firm’s QC partner,) for system reviews with prior good experience, or for engagement reviews with low risk in the nature of the firm’s engagements, the self-review threat could potentially be mitigated.</p>
093	Oppose	<p>While we acknowledge that inspection of completed engagements by personnel with no previous involvement on the engagement may or may not lead to more effective inspection results, there is an incorrect presumption that knowledge of the client lacks objectivity. We believe client knowledge is beneficial in an effective review. In addition, we believe the requirement will place an unfair burden on firms with a limited number of personnel.</p> <p>Sole practitioners and other small firms will often have to hire an outside firm to perform this inspection. These firms are less able to pass these additional costs on to clients and may also have trouble finding a comparable- sized firm with the appropriate industry expertise to perform the work. There are less peer reviewers and other outside firms may not have the expertise to provide the appropriate external inspection. If a small firm is already performing well, including getting pass ratings on its peer review and avoiding nonconforming issues, the requirement would seem to be an unnecessary cost burden. This could also cause some of these peer reviewers to make certain economic decisions such as performing services for a firm two out of three years. It may create a situation where it is more economically advantageous to avoid performing peer review and only perform firm on firm internal inspections.</p> <p>There are further safeguards that can be implemented to lower self-review threat and enhance audit quality. First there could be a requirement of an internal inspection by manager level or higher. The reviewer should be required to have twenty-four hours of A&A CPE in the previous two years. In addition, practice aids should be developed on how to perform an effective review and should involve such items as a focus on new standards applicable to the client, key audit matters related to the engagement and the high-risk areas of the engagement. For sole proprietors performing their own review, there should be a cooling off period of 6 months before the internal inspection is performed for the engagement. Personnel performing inspections should have a minimum of eight hours CPE every three years that specifically relate to performing internal inspections or engagement quality reviews.</p> <p>Larger firms with multiple technical experts on staff are likely to already have this policy</p>

Number	Position	Coded Text
		in place and therefore, will not have to make operational changes or incur additional cost to implement this requirement. Again, 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.
094	Oppose	Shifting firms from engagement level monitoring to system monitoring will require many firms and sole practitioners to engage outside resources simply because they are limited in people who meet the requirements. This incurs additional costs and adds to the time required and steps of an engagement, while not necessarily improving audit quality or providing enhanced service to the public interest.
095	Oppose	Both committees agree that it would be a best practice to preclude inspection of completed engagements by those involved in the engagement in order to enhance audit quality. However, the committees are not convinced of the benefit of such a requirement. Persons involved in the engagement are more likely to notice irregularities executed by the client, since they have experience with the client’s operations. Therefore, the committees believe that this should be a “best practice” recommendation rather than a requirement. While inspections outside the firm may be more objective, there is no certainty that they would improve audit quality since firms may arrange reciprocal agreements with other audit firms to exchange review services.
097	Oppose	<p>We don’t see how this work for small firms that don’t have the personnel capacity to handle the segregation desired.</p> <p>Related to most of the concerns above, this fails to acknowledge small firms who do not have that luxury. A safeguard of lowering the objectivity threat is placing a higher reliance on peer reviewers as their purpose is to review our quality of work.</p>

Number	Position	Coded Text
098	Oppose	<p>We believe there is an incorrect presumption that knowledge of the client creates and environment where there is a lack of objectivity. We believe client knowledge is beneficial in an effective review and improves overall audit quality. In addition, we believe the requirement will place an unfair burden on firms with a limited number of personnel.</p> <p>Sole practitioners and other small firms will often have to hire an outside firm to perform this inspection. These firms are less able to pass these additional costs on to clients and may also have trouble finding a comparable-sized firm with the appropriate industry expertise to perform the work. There are less peer reviewers and other outside firms may not have the expertise to provide the appropriate external inspection. If a small firm is already performing well, including getting pass ratings on its peer review and avoiding nonconforming engagement issues, the requirement would seem to be an unnecessary cost burden. This could also cause some of these peer reviewers to make certain economic decisions such as performing services for a firm two out of three years. It may create a situation where it is more economically advantageous to avoid performing peer reviews altogether, further decreasing peer reviewer availability.</p> <p>There are further safeguards that can be implemented to lower self-review threat and enhance audit quality. First there could be a requirement of an internal inspection by manager level or higher. The reviewer should be required to have twenty-four hours of accounting and auditing continuing professional education (CPE) in the previous two years. In addition, practice aids should be developed on how to perform an effective review and should involve such items as a focus on new standards applicable to the client, key audit matters related to the engagement and the high-risk areas of the engagement. For sole proprietors performing their own review, there should be waiting period of 6 months before the internal inspection is performed for the engagement. Personnel performing inspections should have a minimum of eight hours CPE every three years that specifically relate to performing internal inspections or engagement quality reviews.</p> <p>Larger firms with multiple technical experts on staff are likely to already have this policy in place and therefore, will not have to make operational changes or incur additional cost to implement this requirement. Again, 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>
099	Oppose	<p>Strongly disagree. In small firms there may not be anyone else to do it. Small firms should not be forced to go outside the firm for this. P</p>
100 TIC	Oppose	<p>While TIC acknowledges that there is a self-review threat when an inspection is completed by an individual who was involved in those engagements, TIC disagrees with inclusion of such a restriction, as we believe that adequate safeguards can be put in place to address the self-review risk in this area. Our concerns in this area as well as our suggestions can be found in Section 2 above.</p>

Number	Position	Coded Text
100 TIC	Oppose	<p>While TIC understands the position of the Board as outlined in the SQMS with regard to self-inspection and the importance of convergence with international standards when possible, TIC respectfully disagrees with the Board’s conclusion “that this requirement is necessary to enhance audit quality” as indicated on page 28 of the proposed SQMS. The specific prohibition on self-inspection is an area where TIC believes that a divergence from international standards would be acceptable in certain circumstances with safeguards or other requirements as discussed elsewhere in this letter.</p> <p>TIC is concerned that this prohibition may create undue operational and cost burdens on smaller firms or firms with specialized niches, as in many cases they simply do not have the resources to comply with this requirement. Our concerns regarding both the impact on quality and firm operations in this area as well as potential solutions to those concerns are documented in Section 2 below on Scalability.</p>
101	Oppose	believe that the ASB can maintain current quality control standards, with some modification and still be substantially compliant with IAASB standards on this standard.
101	Oppose	As a peer reviewer I work with a large number of smaller firms that I believe will have significant challenges implementing the proposed standard as currently written. I wish to remind the ASB that 70% its public member firms are comprised of firms with five (5) or less professionals. In my experience, the overwhelming number of these firms have only one individual qualified to act as an audit engagement partner and to supervise and perform the firm's internal monitoring procedures. As a result, substantially all of these nearly 16,000 firms will incur additional outside costs to comply with this proposed standard because of the "self-review" requirements for monitoring. The proposal does not include any criteria or evidence that the benefits of implementing this standard will exceed the costs other than an unsupported belief by the ASB that this is the case.

Number	Position	Coded Text
102	Oppose	<p data-bbox="456 218 1273 243">engagement quality reviewer from performing monitoring activities.</p> <p data-bbox="456 289 1468 386">The members contend that there are small and medium sized firms that are perfectly capable of inspecting engagements and properly performing monitoring so that their monitoring is in accordance with standards.</p> <p data-bbox="456 432 1479 600">The members have two basic concerns. The concerns are cost of bringing outside reviewers to perform monitoring plus the availability and timely scheduling of those outside reviewers to perform monitoring services for small and medium sized firms. Members concerns on the timely scheduling of the outside reviewer is that the lack of availability will not meet client needs and/or deadlines.</p> <p data-bbox="456 680 1487 743">The Committee puts forth three possible "safeguards" to overcome this self-inspection threat. The Committee has tried to tie these safeguards into peer review standards.</p> <p data-bbox="456 789 1503 1062">As part of the Firm's regular peer review, if a firm's work is not up to standard in a significant way the peer reviewer should take a close look at the design of the monitoring element. If the firm relies on self-inspection as part of monitoring and it proves to be ineffective in causing the firm to comply with professional standards, that would, at a minimum, generate a design MFC and the remediation of that might be to change away from self-inspection and retain an outside person to perform monitoring until the next peer review. This way, for firms that presently perform self-inspection and it is working for them, they can continue that policy.</p> <p data-bbox="456 1071 1224 1098">This provision is a presently built into the Peer Review Standards</p>

Number	Position	Coded Text
103	Oppose	<p>Performing an inspection of completed engagements by individuals not involved on the engagement may have a significant detrimental effect on small and medium size firms. This proposal would likely have limited impacts on the larger and regional firms as their inspection process may already include inspections by individuals not involved on the engagement. If not, the provisions of this proposal could be easily adopted due to the size, resources and nature of these firms. This proposal would also have minimal effect for firms that have a diverse practice with individuals with a broad range of practice experience. New York State has many small CPA firms with fewer than five CPAs as partners or owners. In these smaller firms, exclusive of firms that specialize in a particular field, each of the partners generally have a certain niche within the practice and would not easily be able to adopt these provisions due to their lack of experience in all the industries in which their firm practices. This proposal would require these firms to go outside their firm and hire an individual on “each” engagement it performs in order to complete a quality control review in accordance with proposed SQMS No. 1.</p> <p>If the proposal is adopted as written, the industry will likely see firms with small attest practices exit the attest field, the field that they have strived to become a member of since their first days studying accounting. The primary reason for exiting would be an increase in time required to complete engagements and the additional costs involved to perform the quality control inspection aspect of the engagement. This requirement would be detrimental to small and medium size businesses that are in need of accounting and auditing services, as well as numerous New York State not-for-profit entities, which are required to have an audit when their revenues are in excess of \$750,000. These organizations rely on smaller local firms for personalized services and reasonable fees. Many in the not-for-profit arena are hard pressed as it is in paying such fees to these local CPA firms and would not be able to withstand the fees of larger and regional firms.</p> <p>In our view, requiring small and medium size firms to seek monitoring assistance outside their firm will damage these firms economically, causing an exit from the industry. We believe no other profession requires its members to have an independent review of their work nor does any other profession have as much oversight as the field of public accounting. We believe this additional oversight will shrink the profession, leaving only the larger and regional firms remaining.</p> <p>An inspection or quality review of completed engagements by those involved on the engagement should not be precluded in order to enhance audit quality, as long as the individual performing the inspection has the requisite experience, knowledge, and objectivity to perform such function.</p>

Number	Position	Coded Text
106	Oppose	<p>Our firm would like to provide feedback on one of the specific areas of the proposed changes to Quality Management. The ability for an accounting and auditing practice to be able to be self inspect is vital for smaller firms. Taking away this ability will continue to push smaller firms out of the accounting and auditing practice.</p> <p>Our firm performs multiple engagements and also performs peer reviews for many firms. The amount of firms dropping out of the program because of technical oversight and the hard pass or fail rules has been worrisome and is starting to be a disservice to the profession. Many good firms are no longer available to help clients with these specific needs due to the overwhelming requirement on documentation matters that do not benefit the financial statements user and high review and compliance fees. If firms are then required to hire an outside party to inspect their material every year this will further push those out of the program.</p> <p>The need for reviewers and engagement performers is becoming strained in our area of Texas. When a firm is no longer able to review their engagements in what we describe as a “cold review” to double check their system and reporting matters, this will be the end to many firms’ services. It is already difficult to find a reviewer for peer review matters. If even more firms drop out from performing engagements then there will also be a limited amount of people who are qualified to perform an outside inspection. There are many small firms that work hard and produce wonderful work for their clients and these proposed changes will only further the current professional issues we are seeing.</p>
109	Oppose	<p>The Committee does not agree that inspection of completed engagements by those involved in the engagement should be precluded for smaller, less complex firms.</p> <p>The ASB has improperly interpreted ISQC 1. The ASB states that ISQC 1 Par. 48 prohibits engagement team members or the engagement quality reviewer from performing any inspection of that engagement, which is accurate as a standalone statement. However, the ASB proceeds to quote the application material in extant ISQC 1, which specifically allows small firms to use individuals responsible for the design and implementation of the firm's quality control or who may be involved in performing the engagement quality control review.</p> <p>A68. In the case of small firms, monitoring procedures may need to be performed by individuals who are responsible for the design and implementation of the firm's quality control policies and procedures or who may be involved in performing the engagement quality control review.</p> <p>The ASB should provide guidance for smaller firms similar to that of ISQC 1 to reduce the financial burden of the proposed standard on smaller firms.</p> <p>The Committee believes a better standard would be harsher punishment for those firms that continuously fail peer review and for those peer reviewers who do not perform their duties with professional due care.</p>

Number	Position	Coded Text
110	Oppose	<p>We agree that inspections of completed engagements by qualified independent personnel are typically more effective. However, we believe that self-inspection should be retained and not precluded to enhance audit quality and allow for customization based on each firm’s unique risks identified in their risk assessment. The size of the firm may not always be indicative with quality. We believe self-inspection is a choice that needs to be assessed by each firm based on their commitment to quality, understanding of standards, underlying risks, experience in certain industries, and involvement of professionals in the standard setting process. We ask the Board to consider permitting an engagement quality reviewer to serve on internal inspections since they are already independent and technically qualified to act in the role and for engagements undergoing an engagement quality review to count as an internal inspection selection based on the thoroughness and in-depth nature of the “pre-issuance” engagement quality review. Additionally, we note that the resource challenges that are associated with this aspect of the proposed standards may cause unanticipated results, as they may discourage firms from performing an engagement quality review, which is a very useful and effective quality measure. Such a result would be in contradiction to the underlying goal of the proposed standards.</p>
111	Oppose	<p>I disagree with the thought process of the ASB related to disallowing Self Inspection. In the past, the ASB had understood and concluded that the existence of the peer review process in the United States provided a monitoring safeguard that was not prevalent in other areas of the world and allowed self-inspection.</p> <p>Since that assertion, the involvement and review that I have experienced in my own firm’s peer review (and likely all firms as well) has increased substantially such that peer review today is even more advanced than when the ASB took the initial position. The peer review process is certainly capable of addressing issues that may present themselves related to this area. Further, it is not justifiable to automatically assume that individuals who have been part of the audit process are not capable of independently making the self- inspection engagement quality review process effective. Certified public accountants have made a commitment to integrity and honesty. If the ASB truly wants to make the assertion that a change should be made overall in this area, it would certainly be reasonable to implement the same thought process to ALL firms and not allow any firm to utilize their own employees to perform the engagement quality review.</p> <p>Firms of all sizes can have similar issues in this arena. Just because a larger firm may have an individual that is not part of the audit engagement review conduct the engagement quality review, the individual is still part of the same firm. If the firm does not have proper protocol and culture, the fact that someone outside the audit engagement team performs the engagement quality review is meaningless. Therefore, I strongly object to the ASB’s change of course in its position related to this. I believe that the peer review process has advanced itself to being a good safeguard in this area for all firms. However, if a change is made, I encourage the change to be universal for ALL firms such that all firms would need to utilize an individual outside of its own firm to provide the engagement quality review.</p>

Number	Position	Coded Text
112	Oppose	<p>The most burdensome provisions in the proposed standard involve the requirements for independent reviewers not otherwise involved in the engagement. This puts a HUGE burden on small firms, and also impacts medium sized firms that have a limited number of experts in the A&A area. I know of a firm of 100 professionals that has two partners in charge of the quality control of the A&A practice. Since they are both involved at some level in every A&A engagement, they would need to hire an outside expert to perform reviews that are independent of any engagement personnel.</p>
113	Oppose	<p>The proposed SQMS 1 prohibits the use of an engagement team member or the engagement quality reviewer of an engagement from performing any inspections on the engagement (i.e. prohibition against self-inspection).</p> <p>On p. 27 the exposure draft, under Issue 1- Self-Inspection, the ASB notes that current QC section 10 did not include this prohibition, and thus did not converge with ISQC 1, because "the ASB has previously concluded that it was not necessary to change existing practice to converge with ISQC 1 because in the United States, the peer review process provides a safeguard and provides evidence that monitoring procedures involving self-inspection can be effective."</p> <p>On p. 29 of the exposure draft: "Other than the peer review process, the ASB was unable to identify anything unique in the United States with regard to self-inspection, nor did the ASB believe that safeguards exist that could lower the self-review threat to an acceptable level. The ASB recognizes that the extant standard permits those involved in the engagement to inspect their own work, and some practitioners may be capable of doing so effectively. However, while concerned about the impact on smaller firms, the ASB believes that this requirement is necessary to enhance audit quality. Accordingly, proposed SQMS No. 1 converges with the IAASB standards with respect to self-inspection."</p> <p>Response to this argument: In the United States, no firm with an accounting and auditing (A&A) practice relies solely on self inspection, because peer review includes a review of selected A&A engagements by an independent party on a periodic basis of no less often than every three years. In the application guidance for SQMS 1, a three-year inspection cycle for partners who perform audits is given as an example of a reasonable cycle (every five years who partners not involved in audit engagements). Can a similar cycle apply to firms who have limited personnel either in the firm as a whole or in a specific narrow practice area? The ASB had "previously concluded that the peer review process provided evidence that monitoring procedures involving self-inspection can be effective." The implication is that the ASB has now arrived at the opposite conclusion. But peer review results provide ample evidence that there continue to be many firms who have an effective monitoring process that involves self inspection, with external inspection done only in the peer review year by the peer reviewer. Why must the firms who are successfully self-monitoring be required to add the cost of a "mini peer review" every year, when there is no evidence that to do so would enhance quality beyond what they are already achieving?</p>

Number	Position	Coded Text
		<p>Review by a party other than the preparer is no guarantee of enhanced quality. Peer reviewers are specially trained individuals who must meet certain qualifications and are subject to much oversight. If the ASB is concluding that the existing peer review process is not doing enough to catch poor quality, why does it believe that involving another reviewer - who may have less training and qualification than the firm's peer reviewer - would be likely to enhance quality on a significant basis?</p> <p>The ASB believes that this prohibition is necessary to enhance audit quality. Many CPA firms do not perform audits but only compilations and/or reviews. These types of engagements provide a higher level of financial attestation than preparation engagements, and thus is of value to the marketplace. It is also important to note that preparation engagements are not subject to any oversight when they are the highest level of service a firm provides. With the elimination of self inspection, and if there were no allowance for a three-year inspection cycle as noted in the next comment, a potential outcome is that more firms drop compilation and review engagements and move to preparations, which could lead to a decrease in quality and we would argue reduces public protection.</p> <p>We recommend that the standard allow for self-review as a legitimate monitoring activity, even if it does not meet the level of formal "inspection."</p>
115	Oppose	<p>As a local public accounting practice, our firm provides a much-needed service to those in our community. Clients often prefer to deal with someone local who can understand them more, and we have been blessed with the CPA credential which allows us to provide the services they need. However, if the AICPA prohibits self-inspection, we would be one of many firms that would be forced to have increased fees in order to cover the costs of external inspections. T</p>

Number	Position	Coded Text
116	Oppose	<p>We do not agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. Using a party that has no knowledge of the client and/or client activities, can in fact be detrimental and decrease audit quality.</p> <p>An automatic preclusion of an involved party in a completed inspection discounts the value of the detailed knowledge that an experienced partner, sole practitioner, or staff member has obtained on an engagement. In most cases, the engagement partner or sole practitioner has the most knowledge about the client’s financial activities. The presumption that a sole practitioner, engagement partner, or experienced staff member automatically lacks objectivity due to the knowledge gained about a client is flawed.</p> <p>Also, there appears to be a presumption made that a sole practitioner or small firm would inevitably and/or automatically find itself facing a familiarity threat with a long-term client relationship. This is not necessarily true. In certain industries, such as governmental and nonprofit entities, mid- and upper-level management positions change frequently with elections and/or natural turnover for higher-level political positions. There are many client relationships that produce increased levels of professional skepticism rather than decreased levels of professional skepticism as time progresses due to the rapid turnover and/or complete turnover of a slate of office holders depending upon the political wave in any given election year. Auditors in these circumstances are not developing long-term relationships with mid- to upper-level management that present familiarity threats. Instead, auditors find themselves working with new management in the lead financial and executive office holder positions frequently and needing to respond to the risks that new management brings accordingly. Keeping procedures fresh in response to key management position turnover is not a new concept for sole practitioners or small firms under these circumstances. Accordingly, with the introduction of appropriate targeted training materials introducing procedures for self- inspections, sole practitioners and small firms can also achieve the same self-sufficient and resilient results.</p>
118	Oppose	<p>In addition to the costs of engaging outside individuals, implementing these proposed standards will create additional burdens on small firms. Currently, these small firms can quickly and efficiently communicate the results of annual monitoring and the EQCRs to staff and implement training to address any areas of concern. If the annual monitoring and EQCRs were outsourced, the firm would have to wait for the outside individual to complete these reviews and deliver their findings before they could provide meaningful feedback to staff and implement changes in their audit process. One of the strengths of small firms is their ability to implement changes efficiently, which will be reduced or eliminated by forcing small firms to rely on outside individuals.</p>
118	Oppose	<p>The proposed standards will no longer allow self-review for the annual monitoring process. Small CPA firms may only have a few staff members who are qualified to perform an engagement quality control review and the monitoring procedures for the annual inspections. Small firms would be forced to engage an outside party to perform the annual inspections which would significantly increase the cost of the annual inspection. This increase would force small firms to increase their audit fees and would likely result in the loss of clients.</p>

Number	Position	Coded Text
119	Oppose	<p>Proposed SQMS No. 1 would prohibit the use of an engagement team member or the engagement quality reviewer of an engagement from performing any inspections on that engagement. We believe that this prohibition will create a struggle for qualified resources as firms will have to identify and engage multiple qualified quality review experts to meet this compliance requirement. This could be challenging given the significant shortage of peer reviewers and other qualified professionals. This would impact smaller firms considerably as well as those firms that operate in niche practice areas. Consider the sole practitioner who will need an EQR professional or another qualified practitioner to perform inspections and a third expert to perform their peer review. This is excessive, and the related costs would trickle down to clients, including non-profits and small businesses.</p> <p>The Auditing Standards Board requested input regarding potential safeguards to reduce the self-review threat. We suggest a more flexible approach to developing self-inspection policies that take into consideration the risks associated with the firm's engagements, whether the firm's engagements are high risk, standards changes, or changes in the auditee's operating environment (e.g., COVID-19 impact); whether the firm is undergoing peer review in the current year; and whether the firm has had an engagement quality review for a selection of its attest work.</p>
120	Oppose	<p>I also disagree that self-inspection should be prohibited. This should also be part of the risk assessment. The firm again needs to be able to assess the risk– and here primarily we are talking about small firms. Numerous factors could mitigate the threat – positive peer review results certainly an important factor. Firms should consider other mitigating factors – how much time has elapsed since issuance – enough to look critically?, what type of CPE does this individual have, was an EQR already performed with respect to the engagement to be included for inspection, does the individual routinely review the work of others and recommend improvements, does this often consult with others to ensure compliance. The firm should also consider high risk factors – are there new standards out, what level of service are the engagements, how complex are the clients, are the industries high risk. An individual needs to be able to assess whether or not they have the time, the energy, the expertise to self-inspect. If they cannot make that assessment, likely they cannot assess other factors either – like whether they are qualified to perform a certain engagement. I am sure that many of us can look critically at something we did in the past and find something we could have done better. If an individual cannot, then he should not self-inspect. Here again, the assessment including the factors considered should be documented to support the conclusion that self-inspection will be effective.</p> <p>In numerous instances, peer review will require follow-up that includes a pre-issuance review or outside monitoring. These are clearly situations where the firm needs outside assistance but has not identified it. The majority of firms have never had to have a pre-issuance review or outside monitoring. So what is likely to happen? The firms that are not doing a good job will not comply, but will end up with unfavorable peer review results. We need to find a way to provide quality firms with the opportunity to decide what works best for their firm, but also helps firms who really should not self-inspect conclude that they need to go outside.</p>

Number	Position	Coded Text
122	Oppose	I disagree strongly with your proposal to change monitoring standards in circumstances where a firm would have to obtain an external quality control reviewer to comply.

First, a little bit about our firm. I have been in the profession since 1998 and was licensed in 2002. I have been a partner in our firm since 2007. Our firm is a two partner practice (myself and Johnny Fricke, Jr.). Johnny Fricke, Jr. has been in the profession since 1964 and was licensed in 1968. Our firm performs several audits and reviews for clients with assets ranging up to \$50,000,000. Our firm collectively has over 50 years of experience in performing auditing and accounting services.

My reasons for disagreement are numerous, and are as follows:

This proposal is not warranted in the first place based on the evidence presented. The proposal indicates in a VERY brief background that there have been "issues and challenges" faced by firms as pointed out by peer reviewers and regulators. What you don't cite is the size of firms involved in those challenges and the degree of issues or how big the problem really is among local firms (I'll define them as firms with 20 or less professionals, which make up the VAST majority of CPA firms in the United States). I have searched for results of peer reviews from the last three years and can't find the "issues" you are basing this standard on from the perspective of local firms. We all know it was the "big boys and girls" that embarrassed our profession greatly back at the turn of 2000 but SOX only applies to them, not to the entire body of CPA firms. Could you possibly be talking about the national ethics embarrassment that another big firm has become (search \$50,000,000 fine, cheating on ethics exams that were punishment for cheating on PCAOB examinations and you'll see what firm I reference)? Once again, that's not the problem of local firm America. Show me, in statistics, the exact degree of the problems cited caused by local firms. We are not the ones involved in "high-profile" business failures (which are also undefined in the background section of the proposal). I certainly don't see "Local Firm Involved in Parmalat Failure" anywhere in the newspapers in Cullman, Alabama or even in Birmingham, Alabama. I imagine what you could be referring to may be the failures in the Employee Benefit Plan (EBP) area quite a few years ago. The failures resulted in the government threatening to remove the audits of those plans from the private sector. Those studies resulted in the AICPA charging firms like mine \$300 per partner per year to fund an oversight committee which does not even directly benefit a firm that doesn't do EBP work. In addition, AICPA personnel were quoted as basically saying "if you do less than 10-15 EBP audits, you need not to be doing them". There is little doubt among local practitioners that the AICPA has taken the bully pulpit to practitioners who work in the EBP area. Could this proposal be a continuation of "never letting that EBP crisis go to waste" in tormenting all local firms for the substandard work of a select few?

As to the IASSB issue, I see no benefit whatsoever to making all firms subject to the standard just because an insignificant number of local firms have IFRS work. Do you have any statistics as to how many local firms issue a financial statement that is used outside their community, much less outside the country? This rationale is confounding at best. I work in Cullman, Alabama, not Paris. Just as the convergence project stopped short of selling all firms out to IFRS, I encourage the Board to stop short again. Local firms DO NOT equal international firms in our need for overregulation! If I ever have clients in

Number	Position	Coded Text
		<p>Germany or other foreign country, I will contemplate how they do things over there. Are we not the gold standard? Has that changed?</p> <p>I don't believe you have obtained adequate information from local firms as regards to this proposal. The proposal indicates that the Board consulted the PCPS Technical Issues Committee (TIC) as all its (TIC) members "are from small firms". Your definition of "small firm" and mine differ greatly. While I searched diligently for a complete listing of the 14 members of the TIC, I was unable to find one. However, I was able to locate the names and CPA firm employers of the last three chairs of the committee that "represents" all small firms. One works for BKD, which lists its current employees on its website at 2,981. One works for PKF Texas which lists its current employees at 137 (Texas office only, probably a few thousand nationwide). And lastly, the current chair works for Dixon Hughes Goodman, which lists 2,000 employees on its website. Now, let's take a look at accurate statistics of how many a "small firm" employs. An article in Accounting Today from September of 2018 states "there are around 46,000 CPA firms in the United States and the 500th largest has about 20 people and \$3 million in revenue." That equates to 45,500 firms with 20 or less employees (99% of the total). While TIC is labeled a "volunteer committee", its members are appointed to it by the AICPA. In my opinion, at least 7 of the members of TIC should be from firms of 20 or less before it could ever be considered "representative" of the CPA firm population. I am unaware of any "real" local firms that have indicated support for this proposal. However, I am aware of fear and disdain of the perceived inappropriate and overreaching regulation of their practice and, thus, their clients. Item number 3 below lists reasons why local firms don't like this proposal.</p> <p>The proposal leaves only bad choices for local firms.</p> <p>The firm can:</p> <p>Utilize the services of an external reviewer who has to complete the review and sign off before the issuance of the audit report. Given that many audits performed by local firms are in the midst of "busy season", what firm in the local area would have the resources to loan experienced professionals to do the work of another firm without asking astronomical rates, which, of course, then would have to be passed on to the client? How am I supposed to explain that fee increase to my client? "Well, our regulators think we aren't big enough to do your job appropriately?" Hmm. Where does the client then go? Correct! To the larger firms who would be largely unaffected by this provision. And who is the Board looking for in relation to guidance (and who will be voting) on this provision? Right! Firms that meet that profile; NOT true local firms.</p> <p>Other practical issues would be finding a quality reviewer that exists in, say, rural locations where the local firm is also the local expert in a particular industry, coordinating schedules so the poor client in all of this doesn't have their reports needlessly delayed. In addition, what are the legal ramifications if all parties miss something? Can you sue your quality reviewer? Wouldn't the client need to know that their files were being examined by someone other than the CPA Firm? What about risk of client poaching by the quality reviewer? Who breaks the tie if the local firm disagrees with the quality reviewer and the reviewer is clearly wrong in their position? Would</p>

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there be another AICPA hotline for that "(Non employee technical reviewer hotline, can I help you?") I mean it's what happens in peer reviews. Don't

think it wouldn't happen under this new proposal. Finally, this would set up a situation where other reviewers may "squeeze" one of their competitors by ganging up and refusing to quality review their files so as to force the "victim" firm to either not comply with the rules, skip the engagement quality review altogether or release the client. None of these options are an appropriate outcome.

Let's be honest. The true objective in this proposal is to have continuous peer reviews of most all local firms. The Peer Review Committee had an idea 5 plus years ago to place hardware in a firm whereby all engagements could be continuously monitored with little flags popping up to indicate a potential deficiency occurring which required action by a partner or the AICPA would swoop in to "help" and that proposal didn't come close to happening. So, now, the Board is looking to accomplish that utilizing another path. We have peer review for a reason every three years. That is all we need! It would be incredibly burdensome on local firms to add an outside quality reviewer mandate to the list of things we have to look after and ask our clients to cover the costs.

Firms may not subject as many engagements to quality reviews. Since firms are allowed to determine which engagements will be subject to engagement quality control reviews in the current standard, this could certainly occur. Of course, that would devastate the original intent to look closer at our engagements.

Firms may get out of the audit business. The AICPA made it clear a few years back telling firms in the EBP business to, in essence, "go deep or get out" (nice advice from a trade organization) . One wonders if this is just the next step to forcibly consolidate audits in the hand of much bigger firms by making it impossible for local firms to compete. In my opinion, this provision would be dangerously close, if not over the line, to being an "unreasonable restraint on trade" under the Sherman Act for local firms.

Can the ASB prove that change, if necessary, would be successful in improving local firm audits? Given that the ASB has not provided the statistics related to the "issues" related to local firms in the United States (where we live and work and our clients live and work), it is hard to make a case that a change would succeed as the problem hasn't even been quantified or defined in the case of local firms. The ASB makes a vague statement in the background that there is too much dependence on third-party materials (a vague reference no doubt to the AICPA's product nemesis PPC). How would that change if you have to hire some external experienced person who most likely utilizes PPC themselves? Is the AICPA intending to maintain a list of approved Quality Control Reviewers who swear allegiance to only using AICPA materials? In fact, if rules and regulations didn't change so much and so often, we wouldn't need nearly as much third party guidance!

The next part of my response to this provision is alternative suggestions. I would respond like this: Usually in a debate or court case, the plaintiff (in this case that would be the ASB) makes a case indicting the status quo (what is referred to as "extant" in the professional literature) with specific evidence to establish that the current way we do

Number	Position	Coded Text
		<p>things as local firms is flawed . As indicated above, that evidence has not been presented so there is nothing to change from our three y ar peer review approach or extensive CPE requirements currently utilized. However, I'll play along.</p> <p>If the Board believes there is still a problem in the EBP area, then require that EBP engagements get additional scrutiny and have additional CPE in that area.</p> <p>For firms who have had clean peer reviews for the past three cycles, extend their cycle to four years or five years from three. Then, take the resources you would save on that vast majority of firms and shorten the failing firms cycle to 1-2 years or continuous.</p> <p>As a last thought on the matter, I can sum up my response to this proposal quite succinctly: You (the Board) keep trying to punish the entire population for the sins of a very few. There is nothing in any concept of equity that supports that treatment among local firms. In fact, as I understand it, a requirement to have an external reviewer on engagements is currently a punishment dispensed out for peer review or ethical violations of the very few. Why must all local firms be treated as if we are and were the problem? If you must pass this proposition, I would give an exception to it for firms who would have to hire an outside quality reviewer.</p>
124	Oppose	<p>The committee disagrees that inspection of completed engagements by those involved in the engagements should be precluded. In a smaller firm environment, there are limited qualified review resources. This will drive the firm to engage people to perform quality control functions that may not be as qualified as those who are part of the smaller pool of resources within the small firm, which has a potentially adverse effect on audit quality.</p> <p>Examples of safeguards that could lower the self-review threat to an acceptable level include: Guidance as to how long is an appropriate cooling off period to a fresh perspective to inspection of the engagement.? Guidance could include consideration of other factors such as prior peer review results and results of review by other outside parties, including the results of review by regulatory agencies.?</p>

Number	Position	Coded Text
125	Oppose	<p>We noted that there is a question as to whether self-inspection by those involved in the engagements should be prohibited. For the same reasons this was not included in QC Section 10, we believe this should be carried forward to SQMS 2. The reason stated that QC Section 10 did not require an independent inspection of engagements was that the peer review process provides a safeguard and provides evidence that the monitoring procedures involving self-inspection can be effective. Since QC Section 10 became effective, the peer review program has become more robust with various levels of oversight, and the statistics on the effectiveness of that additional oversight has shown significant engagement quality improvements. Accordingly, there is even more evidence that these improvements, and the potential self-review threat is reduced. If the proposed change prohibiting self-review is implemented, there will also be a significant increase to firm costs; generally, firms will need to undergo the equivalent of a peer review every year, albeit, without the review acceptance process. Lastly, the inspection of the completed engagements generally occurs weeks or months, perhaps up to nearly a year, after the engagements were performed; accordingly, there is ample time for those inspecting the engagements to be able to take a skeptical approach to reviewing their work</p> <p>Similar to our comment above regarding engaging an external reviewer, it is also highly likely that firms will reach into the peer reviewer pool to find individuals to perform the inspections. Also as noted above, the pool of reviewers is shrinking and highly probable that firms will have a difficult time finding individuals with the time and resources to perform the inspections. Again, as a litigious country, there becomes more risk to external resources as courts (plaintiffs) will look at these ongoing engagements as creating a relationship in which the reviewer is now a part of the firm’s system of quality management; accordingly, the inspector and their firm will be subject to additional risks. This risk is mitigated in the peer review program due to (1) the frequency of the peer review, (2) the requirement is imposed by most (if not all) State Boards, and (3) under the peer review standards there is very limited documentation that is retained by the reviewer.</p> <p>We suggest removal from the final standards the prohibition that those involved in the engagement be precluded from inspecting the completed engagement.</p>
126	Oppose	<p>I disagree emphatically with your proposal to change monitoring standards in circumstances where a firm would have to obtain an external quality control reviewer to comply.</p> <p>First, a little bit about me. I have been in the profession since 1986 and was licensed in 1988. Starting in 1997, I added an A&A CPE presentation division to my practice and since then have provided live presentations (with the majority being 8 hour, single speaker) approximately 2300 times to "true" local firms across the United States. I reach an average of 6,000 - 8,000 practitioners per year. My firm is a single partner practice (me) and performs several audits and reviews for clients with assets ranging up to \$50,000,000.</p> <p>My reasons for disagreement are numerous, and are as follows:</p> <p>This proposal is not warranted in the first place based on the evidence presented. The</p>

Number	Position	Coded Text
		<p>proposal indicates in a VERY brief background that there have been " issues and challenges " faced by firms as pointed out by peer reviewers and regulators. What you don't cite is the size of firms involved in those challenges and the degree of issues or how big the problem really is among local firms (I'll define them as firms with 20 or less professionals, which make up the VAST majority of CPA firms in the United States). I have searched for results of peer reviews from the last three years and can't find the "issues" you are basing this standard on from the perspective of local firms. We all know it was the "big boys and girls" that embarrassed our profession greatly back at the turn of 2000 but SOX only applies to them, not to the entire body of CPA firms. Could you possibly be talking about the national ethics embarrassment that another big firm has become (search \$50,000,000 fine, cheating on ethics exams that were punishment for cheating on PCAOB examinations and you'll see what firm I reference)? Once again, that's the not problem of local firm America. Show me, in statistics, the exact degree of the problems cited caused by local firms. We are not the ones involved in " high-profile" business failures (which are also undefined in the background section of the proposal). I certainly don't see "Local Firm Involved in Parmalat Failure" anywhere in the newspapers in Atlanta. I imagine what you could be referring to may be the failures in the Employee Benefit Plan (EPB) area quite a few years ago. The failures that resulted in the government threatening to remove the audits of those plans from the private sector. Those studies resulted in the AICPA charging firms like mine \$300 per partner per year to fund an oversight committee which directly benefits no firm that doesn't do EBP work. In addition, AICPA personnel were quoted as basically saying " if you do less than 10-15 EPB audits, you need not to be doing them". There is little doubt among local practitioners that the AICPA has taken the bully pulpit to practitioners who work in the EPB area. Could this proposal be a continuation of "never letting that EBP crisis go to waste" in tormenting all local firms for the substandard work of a select few.</p> <p>As to the IASSB issue, I see no benefit whatsoever to making all firms subject to the standard just because an insignificant number of local firms have IFRS work. Do you have any statistics as to how many local firms issue a financial statement that is used outside their community, much less outside the country? This rationale is confounding at best. I work in Atlanta, not Brussels. Just as the convergence project stopped short of selling all firms out to IFRS, I encourage the Board to stop short again. Local firms DO NOT equal international firms in our need for overregulation! When I have clients on the Riviera, I will contemplate how they do things over there. I thought we were the gold standard? Has that changed? Please see my further comments regarding the "cut and paste approach" you have taken from the IASSB standard in my response to the Issue 2 proposition.</p> <p>I don't believe you have obtained adequate information from local firms as regards to this proposal. The proposal indicates that the Board consulted the PCPS Technical Issues Committee (TIC) as all its (TIC) members "are from small firms" . Your definition of "small firm" and mine differ greatly. While I searched diligently for a complete listing of the 14 members of the TIC, I was unable to find one. However, I was able to locate the names and CPA firm employers of the last three chairs of the committee that "represents" all small firms. One works for BKD, which lists its current employees on its website at 2,981. One works for PKF Texas which lists its current employees at 137 (Texas office only, probably a few thousand nationwide). And lastly, the current chair</p>

Number	Position	Coded Text
		<p>works for Dixon Hughes Goodman , which lists 2,000 employees on its website. Now, accurate statistics of how many a "small firm" employs. An article in Accounting Today from September of 2018 states "there are around 46,000 CPA firms in the United States and the 500th largest has about 20 people and \$3 million in revenue." That equates to 45,500 firms with 20 or less employees (99% of the total). While TIC is labeled a "volunteer committ ee", one has to be appointed to it by the AICPA. May I suggest that at least 7 of the members of TIC be from firms of 20 or less before it could be considered "representative" of the CPA firm population. Of the thousands I talk to each year from "real" local firms, no one has indicated support for this proposal, only fear and disdain of perceived inappropriate and overreaching regulation of their practice and , thus, their clients.</p> <p>Now, we can get around to why local firms don't like this proposal. The proposal leaves only bad choices for local firms.</p> <p>The firm can:</p> <p>Utilize the services of an external reviewer who has to complete the review and sign off before the issuance of the audit report. Given that many audits performed by local firms are in the midst of "busy season", what firm in the local area would have the resources to loan experienced professionals to do the work of another firm without asking astronomical rates, which, of course, the beleaguered local firm would have to pass on to their client? How do you explain that fee increase to your client? "Well, our regulators think we aren't big enough to do our job appropriately?" Hmm. Where does the client then go? Correct! To the larger firms who would be largely unaffected by this provision. And who is the Board looking for in relation to guidance (and who will be voting) on this provision? Right! Firms that meet that profile; NOT true local firms.</p> <p>Other practical issues would be finding a quality reviewer that exists in, say, rural locations where the local firm is also the local expert in a particular industry, coordinating schedules so the poor client in all of this doesn't have their reports needlessly delayed. In addition, what are the legal ramifications if all parties miss something? Can you sue your outside quality reviewer? Wouldn't the client need to know that their files were being examined by someone other than the CPA Firm ? What about risk of client poaching by the quality reviewer? Who breaks the tie if the local firm disagrees with the quality reviewer and the reviewer is clearly wrong in their position? Would there be another AICPA hotline for that "(Non-employee technical reviewer hotline, can I help you?)" I mean it's what happens in peer reviews. Don't think it wouldn't happen under this new proposal. Finally, this would set up a situation where other reviewers may "squeeze" one of their competitors by ganging up and refusing to quality review their files so as to force the "victim" firm to either not comply with the rules, skip the engagement quality review altogether or release the client. None of which are an appropriate outcome.</p> <p>Let's be honest. The true objective in this proposal is to have continuous peer reviews of most all local firms. The Peer Review Committee had an idea 7 years ago to place hardware in a firm whereby all engagements could be continuously monitored with little flags popping up to indicate a potential deficiency occurring which required action by a</p>

Number	Position	Coded Text
		<p>partner or the AICPA would swoop in to "help" and that proposal didn't come close to happening because local practitioners saw through what it was proposing (see "Evolving the CPA Profession's Peer Review Program for the Future", AICPA, September 15, 2014). So, now, the Board is looking to accomplish that utilizing another path. We have peer review for a reason every three years. Because that is all we need! It would be incredibly burdensome on local firms to add an outside quality reviewer mandate to the list of things we have to look after and ask our clients to cover the costs.</p> <p>Firms may not subject as many engagements to quality reviews. This could certainly occur which, of course, would devastate the original intent to look closer at our engagements as local firms.</p> <p>Firms may get out of the audit business. The AICPA made it clear a few years back telling firms in the EBP business to, in essence, "go deep or get out" (nice advice from a trade organization). One wonders if this is just the next step to forcibly consolidate audits in the hand of much bigger firms by making it impossible for local firms to compete. In my opinion, this provision would be dangerously close, if not over the line, to being an "unreasonable restraint on trade" under the Sherman Act for local firms.</p> <p>Can the ASB prove that change, if necessary, would be successful in improving local firm audits? Given that the ASB has not provided the statistics related to the "issues" related to local firms in the United States (where we live and work and our clients live and work), it is hard to make a case that a change would succeed as the problem hasn't even been quantified or defined in the case of local firms .</p> <p>The ASB makes a vague statement in the background section that there is too much dependence on third-party materials (a vague reference no doubt to the AICPA's product nemesis PPC). How would that change if you have to hire some external experienced person who most likely utilizes PPC themselves? I mean is the AICPA intending to maintain a list of approved Quality Control Reviewers who swear allegiance to only using AICPA materials? In fact, if rules and regulations didn't change so much and so often. we wouldn't need nearly as much third party guidance!</p> <p>The next part of my response to this provision is alternative suggestions. I would respond like this: Usually in a debate or court case, the plaintiff (in this case that would be the ASB) makes a case indicting the status quo (what is referred to as "extant" in the professional literature) with specific evidence to establish that the current way we do things as local firms is flawed . As indicated above, that evidence has not been presented so there is nothing to change from our three year peer review approach or extensive CPE requirements currently utilized. However, I'll play along.</p> <p>If the Board believes there is still a problem in the EBP area, then require that EBP engagements get additional scrutiny and have additional CPE in that area.</p> <p>For firms who have had clean peer reviews for the past three cycles, extend their cycle to four years or five years from three. Take the resources you would save on the vast majority of firms and shorten the failing firms cycle to 1-2 years, or continuous.</p> <p>As a last thought on the matter, I can sum up my response to this proposal quite</p>

Number	Position	Coded Text
		<p>succinctly: You (the Board) keep trying to punish the entire population for the sins of a very few. There is nothing in any concept of equity that supports that treatment among local firms. In fact, as I understand it, a requirement to have an external reviewer on engagements is currently a punishment meted out for peer review or ethical violations of the very few. Why must all local firms be treated as if we are and were the problem? If you must pass this proposition, I would give an exception to it for firms who would have to hire an outside quality reviewer to comply.</p>
129	Oppose	<p>If the AICPA wants to make a requirement that all EQCR and inspections be performed by persons hired outside the firm, why aren't they just saying that? In my reading of the standards; we do this often to ourselves. We don't just say in the standard what we really want. I know the AICPA didn't write the YB but as an example, we saw it with the 2011 YB and the safeguards for nonattest. It had to be clarified in the 2018 YB. We thought we said what we meant but we got so tied up in not taking judgement away from the firms, we ended up being vague. If you just said it has to be an outside qualified person approved by the AE, I still wouldn't like it, but we'd have a lot easier time as peer reviewers defending why we'll be failing firms left and right for the next 9 years. Firms are going to tie themselves in pretzels to "interpret" the standard in a way other than the way the AICPA wants.</p> <p>I believe I'm qualified and can perform this task better and more efficiently for my firm and my clients. In my firm, my expertise is too valuable to be placed on a shelf. That's exactly what this new standard would do. Sure; I could be 2nd partner review and get all tangled up in audits whenever 2nd opinions are required...but I'd still have to hire someone to give a 3rd opinion -and you can bet, I'll pay for a quality person. So from a business perspective, why would I choose to triple review a file? Hiring an outside EQCR would also require scheduling logistics which will delay the issuance of the audits. Peer reviewers are busy and they're usually busy at the same time of the year that firms will need EQCR and Inspection. If you care about quality you'll plan to hire a peer reviewer. So now we're cutting an already small number of reviewers in a third. You're not just going to have to find 1 reviewer every three years. You're going to need a different one throughout the year for EQCR and a 3rd one to do inspection each year. If you're a member of EBPAQC and GAQC you're also going to hire an inspector in the same 6 month period you're hiring a peer reviewer to look at most of the exact same engagements at the exact same time.</p> <p>Certainly there would be cost concerns but there will also be an illusion of better quality without actual quality. Many firms will hire an EQCR or inspector who is not qualified but cheap. See my above comments about them needing to go through scheduling with the AE's if they do this. So now, because we are a quality firm and we will always take the standards seriously, we will be at a competitive disadvantage against firm's who cheap out.</p>

Number	Position	Coded Text
		<p>I understand the AICPA wants to know why we think we can be effective at doing it ourselves. We have always had a pass peer review report and that should be considered. I am in CPE throughout the year and not just crammed all into the last few months. At our firm we don't all sit in the same CPE class, learning the same material, from the same instructor. We've identified that as a risk. So some of us will attend the TSCPA EBP conference, while others attend the AICPA EBP conference. We choose different classes and different providers and then assign tasks at audit meetings to discuss what we learned in our individual classes. If we all do take the same webinar, it's best to have it on demand. When it's on demand, we can pause it and explain to the young auditors how what we're learning relates to our specific clients so they have examples and we have discussions about it. A 2 hour webinar might take us 3 hours or more to complete. My knowledge of the standards is different and complex from my staff's knowledge and therefore I can provide effective quality control. Occasionally my staff will push back on review notes and I encourage that because I have smart auditors. They have taken different CPE than me and have a different perspective. A healthy debate of the standards means they've done independent research and they don't just take my word for it. It's my favorite thing when they are right.</p> <p>If the AICPA goes forward with this as written they need to: be more specific so firms are not going out of their way not to get it make more of an effort to make sure firms know the stds have changed – think big advertisement campaign make it mandatory to hire outside (qualified and approved through AE's) EQCR and inspectors or you need to remove it altogether if they make it mandatory or leave it vague (the way it is) you should have to schedule your EQCR and Inspectors through PRIMA so we know they are qualified</p>
130	Oppose	<p>We disagree. While it is desirable that the inspection be completely independent, we believe that in certain instances it is unavoidable. For instance, a smaller firm may only have 2-3 partners serving attest clients. This proposed requirement and the one with the cooling off period may make it impractical to achieve given that one partner serves as engagement partner and another serves as the quality control reviewer. We believe that effective resources and other practice aids already exist to allow a firm to make the appropriate decisions on which individuals to assign in the various roles of engagement partner, quality reviewer and engagement inspector. This requirement is overly burdensome for smaller firms and there is not sufficient evidence supporting the cost benefit relationship.</p>
132	Oppose	<p>I do not. As discussed previously, in a principles-based engagement process, the CPA practitioner is required to provide due professional care, make the applicable assessments dictated by the performance obligations and the responsibilities in ET 1.100 and ET 1.200, and apply appropriate levels of expertise to conduct the engagement., 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.</p>

Number	Position	Coded Text
135	Oppose	<p>Considering the lack of a well-known network of qualified inspectors, the AICPA could leverage the current peer reviewer search system to assist firms in identifying qualified inspectors. This may include further promoting this system and allowing entry of resumes for inspectors that do not also perform peer reviews. In addition, implementation guidance should include consideration of how to select a qualified inspector.</p> <p>The challenge of locating a qualified party to complete the inspection outside the firm may not be overcome without significant expense to the firm. Also, the availability of outside qualified inspectors may be limited. The incorporation of bullet points 4 and 5 can assist sole practitioners and small firms in obtaining uniform inspections by qualified individuals at minimal expense for firms; but it may result in reducing the pool of individuals willing and able to perform external peer reviews.</p> <p>In addition, if sole practitioners and small firms are required to outsource inspections, the same requirements should be extended to firms of all sizes. The premise that having another partner within the same firm or sister office reviewing engagements and always resulting in a quality inspection is flawed. A familiarity threat still exists within the firm. Also, while two firms could work together to perform each other's inspections and technically meet the new proposed standard, such cross reviews may not result in the desired improvements in audit quality.</p>

Number	Position	Coded Text
135	Oppose	<p>We do not agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. Using a party that has no knowledge of the client and/or client activities, can in fact be detrimental and decrease audit quality.</p> <p>An automatic preclusion of an involved party in a completed inspection discounts the value of the detailed knowledge that an experienced partner, sole practitioner, or staff member has obtained on an engagement. In most cases, the engagement partner or sole practitioner has the most knowledge about the client’s financial activities. The presumption that a sole practitioner, engagement partner, or experienced staff member automatically lacks objectivity due to the knowledge gained about a client is flawed. In most cases, the sole practitioner, engagement partner, or experienced staff member is lacking an overarching professional standards- based approach to inspection of engagements. Assisting firms in designing a new approach to self-inspection services that is designed to be focused on the language from professional standards rather than repeating audit procedures from audit programs will be beneficial in enhancing the firm’s ability to perform self-inspections.</p> <p>Also, there appears to be a presumption made that a sole practitioner or small firm would inevitably and/or automatically find itself facing a familiarity threat with a long-term client relationship. This is not necessarily true. In certain industries, such as governmental and nonprofit entities, mid- and upper-level management positions change frequently with elections and/or natural turnover for higher-level political positions. There are many client relationships that produce increased levels of professional skepticism rather than decreased levels of professional skepticism as time progresses due to the rapid turnover and/or complete turnover of a slate of office holders depending upon the political wave in any given election year. Auditors in these circumstances are not developing long-term relationships with mid- to upper-level management that present familiarity threats. Instead, auditors find themselves working with new management in the lead financial and executive office holder positions frequently and needing to respond to the risks that new management brings accordingly. Keeping procedures fresh in response to key management position turnover is not a new concept for sole practitioners or small firms under these circumstances. Accordingly, with the introduction of appropriate targeted training materials introducing procedures for self-inspections, sole practitioners and small firms can also achieve the same self-sufficient and resilient results.</p>

Number	Position	Coded Text
136	Oppose	<p>Specifically, The engagement quality review and my understanding that small firms with for example, only one Partner having knowledge for an industry, will need to outsource the engagement quality review function. This will add a burden on the firm and ultimately the cost to the client without necessarily adding to the quality of the product. An outside reviewer does not necessarily have the proper knowledge of a client to assess the related financial reporting requirements.</p> <p>I am not aware of the international standards (that are referenced in the proposed statement) but to me in a small practice, we are affected on a national and local level. That is in Illinois, there is a requirement that not-for-profit charitable organizations with gross contributions in excess of \$300,000 have an audit. Also, the state of Illinois requires all municipalities with a utility system to submit an audit, regardless of its size. In the state of Illinois, approximately 1,600 audit reports are submitted to the Illinois Comptroller's office by counties, municipalities, and special districts, many of which have less than \$1,000,000 in revenue. In addition, there are approximately 850 school districts, all of which require audits under Government Auditing Standards. These governmental entities make up the majority of many small firms' audit practices in Illinois. This underscores the need to be able to affordably implement these new standards.</p> <p>So, the requirement of an external engagement review will be an additional financial burden to taller client base. When, if all things are the same year to year and no other issues have been identified, the self-review threat risk can be overcome by a cool down period by the engagement partner and their subsequent review.</p>
137	Oppose	<p>Self-Inspection: We are concerned that requiring a qualified independent party will have an unintended impact upon small firms. There may simply not be enough people available within small firms to meet the standard as written in the exposure draft. Although a firm might reach outside for assistance, locating qualified individuals that are available and willing to assist may be a significant challenge. In addition to limitations in availability of appropriate resources, the additional costs related to implementing outside review likely will impact firm costs and client costs significantly. These hurdles may drive firms out of their A&A practice. Allowing firms to scale this to their individual circumstances and to allow alternate safeguards that individually or collectively result in a quality practice may prevent potential negative quality results. There are small firms providing high quality A&A services to their clients as evidenced by consistent Pass Peer Review Reports and in some cases regulatory oversight with no comments of significance. Adding this requirement will add cost without adding quality for these firms. We encourage allowing firms with limited available resources to scale alternate safeguards or to provide for outside independent assistance in limited circumstances. For instance, requiring outside independent inspections for one of multiple engagements in a single industry would be an example of an alternate safeguard. We also believe that small firms receiving pass peer review system reports should be able to take their peer review reports along with alternative safeguards into account in designing appropriate safeguards.</p>

Number	Position	Coded Text
139	Oppose	<p>Self-Inspection Prohibition</p> <p>We do not agree that self-inspection should be precluded. Sole proprietors and small firms can, and often do, meet the objective in SQMS No. 1 of the system of quality management. This objective is to provide reasonable assurance that (a) the firm and their personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements and (b) engagement reports issued by the firm are appropriate in the circumstances. As long as the sole proprietor or small firm is meeting this objective, why is it necessary to add an additional burden to these firms which would be unnecessary? Peer review of these firms can determine if the objective is being met and if not, the RABs can assign implementation plans or corrective action to address this inability to meet this objective.</p>
146	Oppose	Strongly disagree
146	Oppose	This requirement will be significant for smaller firms. Not allowing self-inspection would be cost-prohibitive for these smaller firms, especially those located in less populated towns or rural communities.
148 QMS Exposure Draft KyCPA Comments 8-31-2021	Oppose	<p>The preclusion of individuals that conduct inspections of completed engagements who are also involved in those engagements can be beneficial. A third-party review of an engagement allows for detection of errors that the engaging parties may not detect in their own work. Familiarity with clients can lead to overlooked mistakes however, there are concerns amongst KyCPA members on the standards that govern third-party inspections of engagements.</p> <p>Conversely, the preclusion of individuals that conduct inspections of completed engagements who are also involved in those engagements does not guarantee enhanced and improved audit quality. Requiring a firm to utilize an alternative inspection of a completed engagement that has no background experience with the specific client can potentially be a detriment to audit quality due to unfamiliarity with the assessed client. In addition, these precluding requirements could create financial burdens on sole-practitioners and small firms that participate in these engagements. The process of obtaining and securing a third-party review of an engagement would be less cost-effective than utilizing self-inspection procedures.</p>
149	Oppose	<p>I very strongly disagree with the ASB’s decision to prohibit self inspection. As a sole practitioner this change would now require me to high someone to do inspections when necessary. This is just another added cost that will simply need to be passed onto the client. When this added cost is passed on to the client now they will have to make the decision as to whether or not to stay with me for auditing services if a larger firm can complete this requirement from within their own firm.</p> <p>The premise behind this proposed change seems to be the perception that self inspection in some way may lessen the quality of an audit. My firm only performs governmental audits so therefore I am very versed in the rules and regulations of this industry and feel that I am more then qualified to perform a self inspection. I obtain all of my continuing professional education with topics directly or indirectly related to governmental auditing and attend and annual government auditing and accounting conference to make sure that I am up to date with all aspects related to governmental</p>

Number	Position	Coded Text
		<p>accounting and auditing. The premise that I would not be qualified to perform a self inspection of the engagements that I perform would be incorrect.</p> <p>The comments received from small firms included in the exposure draft seem to indicate a number of burdens that eliminating the self review threat would create for small firms. One question that I would pose is whether or not the referenced technical issues committee which states that it is made up of members of small firms actually include any sole practitioners. Any member of a small firm is not a sole practitioner as they would most likely refer to themselves as such. Without specifically considering all types of firms or sole practitioners who perform audit engagements for all types of clients how is an adequate evaluation of the effects of such a change possible. As I referenced earlier there is an economy of scale within the auditing world though this particular change seems to simply be tailored to larger firms that can very easily implement such a change then from a sole practitioner who would be seriously affected by the change.</p> <p>The respondent that stated “a self inspection cannot identify one’s own lack of knowledge” is exactly correct. However, the obvious response to that statement is that simply because a review is being performed by someone other than the individual who performed the engagement doesn’t mean that they can’t miss something based on their own lack of knowledge. It seems like the quality of an audit is being directly linked to whether someone outside of the engagement performance is reviewing the engagement. That someone outside of the engagement performance can somehow do a better job of reviewing the engagement. The document states that the ASB could not find anything unique in the United States in regard to self inspection and as such considered that in their determination that it should be prohibited in the new proposed standard. That statement creates the obvious question that I would presume that the ASB considered in relation to why is the international standard automatically correct in prohibiting self inspection? Why is their standard correct and ours wasn’t correct in relation to self inspection? If I performed any audits under the international standards I would have disagreed with the inclusion of this prohibition in their standards as well. I certainly would agree that self inspection would be a threat but I would not agree that safeguards can’t be put in place to lower the threat to an acceptable level. The first issue with this is that applying safeguards to reducing any threats to an acceptable level should be a matter of professional judgement based on the specific circumstances surrounding any such threat and not just the self inspection threat. As stated earlier, I only perform governmental audit engagements. Though I would not consider myself an expert in the field in relation to GASB standard setters I would consider myself highly qualified to perform the audits and very knowledgeable within the field. The level of expertise within a specific field should certainly be able to be a safeguard which is applied to this threat. My firm quality policies relating to the continuing education I am required to take and the field related periodicals and guidance I am required to have available seems like an adequate safeguard. If I were required to hire an external individual to perform inspections then I would be looking for an individual who has the exact qualifications within the field that I do. So if they have the exact same qualifications and they had nothing to do with performing the engagement then how can it be said that they would do a better job of performing the review and thus the quality of the audit being higher? I liken this question to clients who feel that having a new auditing firm every so many years will somehow increase the quality of their audit. My</p>

Number	Position	Coded Text
		<p>thoughts are that it should be looked upon in the opposite way as the longer an individual or firm performs an audit the more things they know to look for and the more objective an opinion can be derived. This is similar to a self inspection. The current standards seem to indicate that at the end of an audit an experienced auditor should be able to look at the audit documentation and follow everything that was done. I don't believe that any auditor would honestly be able to simply open someone else's audit documentation and follow it as if they had performed the audit. That philosophy seems to downplay the amount of work and documentation that goes into an auditing engagement. This relates back to the self inspection conversation in that the person who performed the engagement can in my opinion more effectively and efficiently review the engagement documentation as they intimately know what was done.</p> <p>Another aspect about having someone outside of my firm performing a review of my audit documentation that confuses me is that they would be following the same exact standards to review the engagement documentation that I would? If they end up using the same review checklists that I would then why can't I simply perform the inspection?</p> <p>There are some simple safeguards that I feel could be implemented to reduce the self inspection threat to an acceptable level. The first safeguard would be your quality control system requiring a certain level of competencies in relation to the type of engagement being performed. If you can't document that you have attained these competencies then you wouldn't be able to perform a self inspection of the engagement. Another safeguard would relate to including within your quality control system a specific set of circumstances that would result in the requirement for an external review similar to the current external quality control review parameters established within a quality control system. For example if the engagement is in a field for which you have not previously practiced then you wouldn't be able to perform a self inspection. If there were an accounting situation that occurred during the engagement period that was not normal to the client such as an advance refunding or asset impairments or a new business type activity for which you have no previous experience then you wouldn't be able to perform a self inspection. At some point professional judgement and common sense need to be considered. If I have a governmental auditing engagement whereby the client has had no significant changes in their operations or types of operations for years then shouldn't I be able to perform a self inspection of that engagement?</p> <p>I guess in conclusion I don't feel as though the new standard should try to change or fix an aspect of the current system which isn't broken. I would urge the ASB to step back and look at the situation and realize that you can't specifically associate audit quality with this one aspect. As I have stated earlier it is about the individual or firm who is performing the task or the planning of the engagement that dictates the quality of the ending product. If adequate rules and regulations are in place that simply aren't being followed then creating new rules and regulation won't make those people follow them any more then they were before.</p>

Number	Position	Coded Text
150	Oppose	<p>We do not agree that the inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. In a small firm context, it is impossible to have an outside party inspect completed engagements. Additionally, the only person qualified in the majority of the cases is the one that knows the client-Le the engagement partner. Requiring outside inspection is just another cost to incur that small firms and their attestation clients simply cannot absorb. The safeguard is the engagement partner knows the client, has evaluated the associated risks of the engagement and has concluded the engagement is acceptable. There is no need for a further outside inspection and it certainly would be costly and difficult to implement and comply with.</p>
152	Oppose	<p>The ASB has approached this issue from the perspective of "self-review threat". I would ask the ASB to step back and ask could there be benefits of self-review.</p> <p>I believe there is a benefit in having some knowledge of the client and the way their business works. You do not have this benefit with a reviewer who has no background with the client.</p> <p>One of the points was "Self-inspection cannot identify one's own lack of knowledge". This is a false argument, because by the time you do the inspection it is months up to even approaching a year since you were involved with the engagement. You have months of additional work experience, you have additional continuing education and you will be looking at the engagement with independent eyes since it has been months since the engagement was completed.</p> <p>I do not believe enough consideration has been given to cost. What will the cost be to the small practitioner and the small audit client. I believe small practitioners will be forced out of the business and small clients will be forced out of the market.</p>
157	Oppose	<p>Our firm does an EQCR or pre-issuance on every attest engagement, it is always by the non-engagement partner and nothing leaves this office without that being completed.</p> <p>Self inspection should not be prohibited. Really? Why would it be a requirement for a firm that has proven itself to be qualified professional organization be required to endure the expense and the scheduling inefficiencies and cost of an outside inspection. What are we? junior CPAS with limited licensures?</p>

Number	Position	Coded Text
160	Oppose	<p>While I agree there are perceived benefits for disallowing self-inspection, I generally disagree with this provision and offer the following thoughts:</p> <p>As stated in SQMS 1, the objective of the standard is for firms to design, implement, and operate a system of quality management that provides the firm with reasonable assurance that the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and to provide that reports issued by the firm are appropriate in the circumstances. The system provides the firm with reasonable assurance that is NOT intended to be obtained through independent assurance.</p> <p>The new standard requires a risk-based approach where a firm would determine what could go wrong and design its system to prevent that. This provides scalability and is a welcome change. The matter of self-inspection appears to be directly at odds with the stated objectives of the standard. The statement noted above that independent assurance is not intended to be part of this approach; not allowing self- inspection is a contradiction.</p> <p>A risk based approach should not have proscriptive measures such as this. The firm’s monitoring program should be designed by the firm to provide the assurances and safeguards the firm sees fit to employ, not an outsider agency. The peer review program is designed for that purpose.</p> <p>The AICPA has developed a peer review program to provide assurance to the public that reports issued are appropriate. That program is the place to require independent evaluations. Monitoring is meant to be a procedure to assist the firm in identifying weaknesses in its system and not to supplant the peer review process.</p> <p>While another stated objective is to align with other standard setting bodies, it may be that those bodies require an element of independent assurance in its monitoring guidelines to augment their extant independent review programs. That is not required in the US.</p> <p>Another factor is that the vast majority of firms do not provide services to public clients. Additional guidelines are provided by the PCAOB and those are sufficient to address any perceived risk in this area.</p> <p>This is the new rule that prohibits an engagement team member or EQ reviewer from performing an inspection of that engagement. This would be particularly economically harmful for smaller firms.</p> <p>The primary purpose of monitoring should be far different than that of EQR. Monitoring is performed to assess the system of quality management, not the specifics of the engagement. Paragraph 36b indicates another purpose is to “take appropriate actions to respond to identified deficiencies....” This does not say the purpose is to identify deficiencies, only to respond to them. Inspecting an engagement at a time other than when issued, if done by a partner who is adhering to professional ethics, should be</p>

Number	Position	Coded Text
		<p>sufficient for this purpose. If the concern is partners will not perform their duties in accordance with ethical standards, that matter should be addressed separately.</p>
		<p>By definition, an engagement not subject to EQR contains less risk than other engagements. The requirement to have an independent peer review every three years was designed with this thought in mind. If independent inspections are required, that would be tantamount to requiring annual peer reviews. If this provision were to stand, the need for a peer review should be changed to once every 5 years.</p>
		<p>Given that monitoring is to assess changes needed to the system, an inspector from outside the firm would not have the knowledge of the system in order to fulfill the purpose of inspections. Only peer reviewers, who review all elements while inspecting engagements, or firm members would be able to do that. This self-review risk could be extended (inappropriately) to include the firm performing any portion of its inspection procedures, including the functional elements. I do not see where the issues differ between inspecting engagements by the person who performed them, versus elements of the system by persons who designed them.</p>

Number	Position	Coded Text
163	Oppose	<p>As currently written in the ED with the preclusion of engagement inspection by those involved with the engagement, there is an incorrect presumption that knowledge of the client lacks objectivity. Knowledge of the client is very beneficial in an effective review and often serves to help identify issues/facts that only someone with years of client knowledge would ascertain.</p> <p>We strongly oppose this requirement of preclusion. This requirement will place an unfair burden on smaller firms with a limited number of attest personnel. The option for small firms to hire an outside firm to perform this inspection is untenable as a long-term strategy for reasons previously mentioned such as firm talent shortage, timeliness etc. Small business clients also cannot bear the added cost of this that would have to be passed on or push small firms out of the business.</p> <p>If a small firm is already performing well, including getting pass ratings on its peer review and avoiding nonconforming issues such as our firm with a long history of excellent quality, this requirement is an unnecessary cost burden.</p> <p>Instead, there are safeguards that can be implemented to lower self-review threat and enhance audit quality. First there could be a requirement of an internal inspection by manager level or higher. The reviewer should be required to have twenty-four hours of A&A CPE in the previous two years. In addition, a uniform, mandatory checklist could be developed for review. Other practice aids could be developed highlighting key risk areas and items that would help trigger against self-review threat. Personnel performing inspections should have a minimum of eight hours CPE every three years that specifically relate to performing internal inspections or engagement quality reviews. Larger firms with</p> <p>multiple technical experts on staff are likely to already have this policy in place and therefore, will not have to make operational changes or incur additional cost to implement this requirement.</p> <p>As mentioned previously, a likely impact would be more small firms leaving the auditing profession creating less competitive options for the general public when hiring an auditor, thus creating more expense for an audit. Increased fees because of this requirement and possible reduction in available auditors could discourage clients, including small business and smaller nonprofits, from having an audit performed. This would not serve the public interest or the capital markets.</p>

Number	Position	Coded Text
165	Oppose	<p>TSCPA has identified two concerns with the proposed SQMS No. 1 convergences with IAASB standards with respect to self-inspection.</p> <p>This prohibition will be cost prohibitive to many firms, especially small firms and sole practitioners. The cost to engage an outside party will be far higher than the cost to perform an internal inspection. Firms may face challenges in passing the increased cost on to their clients who often see the audit as a compliance requirement and not a value-added service.</p> <p>The prohibition will require firms to identify high-quality practitioners to perform the external inspection. The number of qualified parties who are willing and have the time to perform inspections is limited. At a time when there appears to be a shortage of qualified peer reviewers, especially for higher risk engagements, this proposed standard will result in challenges for firms who now are tasked with identifying multiple qualified quality review experts.</p> <p>If the ban on self-inspection is retained in the final standard, AICPA should provide a network of qualified reviewers to assist firms in finding an external party to perform the inspection.</p>
166	Oppose	<p>The risk related to reviewing one’s own work is probably mitigated somewhat by the cooling off period that occurs when you complete a project or set it aside and come back days or weeks later and errors and omissions become clear because you come back with fresh eyes. I also think using third-party materials (such as GFOA checklists) could be used to overcome some of the risks related to self-review of engagements.</p>
167	Oppose	<p>We do not believe inspection by those involved in the engagements should be precluded. This would be burdensome and cost prohibitive for many smaller firms (and their clients to the extent that such costs could be passed along to the clients).</p>
010	Support	<p>We agree with the guidance in the Proposed Standards that those individuals involved in an engagement should be precluded from inspecting those engagements. This is consistent with the relevant requirements in the corresponding international quality management standard and is necessary to avoid the threat of self-review.</p>
021	Support	<p>The proposed prohibition of self-inspection would serve to improve quality.</p>
040	Support	<p>We believe that inspections of completed engagements should be conducted by individuals who were not involved in the engagement.</p>
045	Support	<p>Change 1 doesn’t impact us as we use a third party inspection reviewer as we didn’t feel independent enough to perform our own inspection effectively.</p>
047	Support	<p>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.</p>

Agenda Item 4C – QM Comment Letter Analysis: Self-inspection

Number	Position	Coded Text
052	Support	Having worked as a senior manager for a national firm, I understand that the inspection should never be done in the same office for potential threats to one’s career. A different office (out of state or region) seemed to work fine though. They could report to the outside inspector for confidentiality reasons, similar to an internal audit function. This could keep larger firm costs down as well.
058	Support	<p>My two cents worth – I hear a lot of people complaining about the outside inspection requirement and the EQCR issues. These are things we’ve been doing for over ten years now. We have two to three CPAs in our firm. So, its doable. It has to be managed.</p> <p>We as a profession need to concern ourselves with the appearance of professionalism. Watering these requirements down won’t help us look more professional.</p>
061	Support	<p>As indicated in Issue 1, self-inspection cannot identify one’s own lack of knowledge. For example, inspection may uncover that the engagement partner, being unaware of recently effective standards, did not apply them to the engagement. But that engagement partner, inspecting their own work while being unaware of recently effective standards, would never identify that the standards were not appropriately applied in that engagement. Although subscribing to a third-party methodology might correct the deficiency of the firm’s methodology of not being current on professional standards, it would not make self-inspection any more effective at identifying what one does not know.</p> <p>As part of View 2, CRI suggests that if the elimination of self-inspection is believed to result in the unintended consequence of a reduction in the number of small firms engaged in conducting audits, that an exception for smaller firms with fewer than 10, or some other appropriate number of, partners from the self-inspection restriction may be appropriate.</p>
065	Support	My former firm has extensive policies that prohibit inspection of completed engagements by those involved in the engagements, including engagement quality reviewer. Allowing self-review, in any circumstances, should be prohibited since no safeguards exist that can effectively lower the self-review threat to an acceptable level. The final standard should be consistent with both ISQC 1 (par. 48) and ISQM 1 (par. 46).
065	Support	X Strongly agree
077	Support	We agree that inspection of completed engagements should not be conducted by individuals involved in the performance of those engagements. A system of quality management cannot be effective if completed engagements are inspected by those who performed the engagements as self-inspection of work is prone to bias, self-preservation, and knowledge limitations which significantly impede quality improvement.

Agenda Item 4C – QM Comment Letter Analysis: Self-inspection

Number	Position	Coded Text
088	Support	We concur with the change to require smaller firms like ours to engage another firm to perform annual inspections during the non peer review years. We have engaged a firm other than our peer review firm for a few years and have found it to be beneficial. This change and the continued peer review every three years should be adequate for the professional to monitor small to mid-size CPA firms.
088	Support	We recommend that requiring an independent firm to perform a quality review in the non peer review years be the only added requirement for small firms. To ensure completeness, require that firm to provide a standard letter and have that letter be required as part of the peer review process to ensure that the annual inspection was completed.
092	Support	We strongly agree.
121	Support	Strongly agree, we do not believe the self-review threat could be lowered to an acceptable level and agree that it is appropriate for the standards to require that engagement inspection be performed by those not involved in the engagement. However, we would suggest the ASB include implementation guidance and best practices to assist smaller firms.
128	Support	We agree with the proposed SQMS 1 language that prohibits inspection by engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement due to the lack of safeguards that could lower the self-review threat to an acceptable level. While we understand there may be additional costs to implement this requirement, particularly for smaller firms, we believe this change is necessary to align with the overall enhancements to audit quality that the Proposed QM Standards will provide.
134 GT ASB SQMS Comment Letter	Support	We agree with precluding individuals who are involved in the engagement from inspecting the completed engagement. Although this may exacerbate resource constraints at smaller firms, we believe such prohibition would enhance audit quality overall since it effectively eliminates the self-review threat.
138	Support	Agree
138	Support	We support this requirement.
142	Support	We believe it is appropriate to preclude the inspection of completed engagements by those involved in the engagement. However, we do recognize the operational challenges this provision could have for firms of smaller sizes, particular those with a small number of partners/principals. Regardless, we believe this requirement is an instrumental part of enhancing audit quality and such challenges could be mitigated by additional application guidance.

Number	Position	Coded Text
143 Deloitte	Support	<p>D&T concurs with the ASB’s approach to align with ISQM 1 and prohibit engagement team members or the engagement quality reviewer from performing inspections of completed engagements in which they were involved. Practitioners should not be permitted to inspect their own work, as this is contrary to the purpose of an inspection as a monitoring activity, which is to perform an objective evaluation of responses to quality risks performed at the engagement level and identify deficiencies in the SOQM. Performing an inspection of one’s own work cannot be done with objectivity and does not follow the provisions of relevant ethical requirements.</p> <p>We understand that smaller firms may experience resource constraints in identifying personnel with the competence, capabilities, time, or objectivity to perform inspections. In these circumstances, proposed SQMS No. 1 already provides guidance that notes firms can use individuals outside of the firm for these monitoring activities.</p>
147 2021 ICPAS A&A Comment Letter on SQMS	Support	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Number	Position	Coded Text
156	Support	<p>We generally agree with the prohibition of engagement team members or the engagement quality reviewer of an engagement from performing an inspection of that engagement (Paragraph 40.b of SQMS No. 1). However, the definition in SQMS No. 1 of engagement team is as follows:</p> <p>All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external specialist and internal auditors who provide direct assistance on an engagement. (Ref: par. A14)</p> <p>We are unclear to what extent providing advice or consultation on a technical matter related to a specific engagement constitutes “performing procedures” and the standard does not address this. In some firms, a centralized group (e.g., “national office”) may provide technical consultations on engagements while also having responsibility for planning and oversight of internal inspections. Understanding what constitutes “performing procedures” and having more guidance as to the relevant considerations to make when determining what constitutes the engagement team under SQMS No. 1 will be critical.</p>
158	Support	<p>We strongly agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. We feel that a self-review of a file for inspection QC purposes will allow the overlooking of self-committed errors, and not maintain a level of quality within the practice, by allowing deficiencies and shortcuts to go uncorrected.</p>
164	Support	<p>We strongly agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality and to promote the credibility and value of the inspection.</p>
170	Support	<p>We agree that inspection of completed engagements by those involved in the engagements should be precluded to enhance audit quality, because we do not believe there are safeguards that could otherwise lower the self-review threat to an acceptable level.</p>
012	Exemption	<p>I believe that a blanket elimination of self-inspection as part of a firm’s monitoring and remediation process will negatively impact small practitioners and small businesses. On smaller, non-complex engagements, outside inspections are both ineffective and cost prohibitive for small practitioners and their clients. Many small businesses require attestation work that larger firms aren’t interested in performing. This work often does not involve complex matters or require outside consultation. Many of the professionals who serve these clients operate in small markets or geographically remote areas. Eliminating self-inspection places an undue burden on these small practitioners as well as raising the cost of the engagement for small businesses. In times where outside inspection is appropriate, the practitioner should be allowed to exercise professional judgement to make that determination. The ASB should consider establishing a threshold or allowing for professional judgement to determine if self-inspection is appropriate for smaller, non-complex engagements.</p>

Number	Position	Coded Text
014	Exemption	<p>to disallow a professional with involvement in the engagement from the inspection process will be cost prohibitive to small firms. Some safe-guard suggestions: CPE on how to do the inspection - for the person doing the inspection (does this even exist?) and/or use of an AICPA approved inspection checklist to make sure the inspection covers all necessary areas.</p> <p>I know what the statistics say about quality and smaller firms, but my experience as a reviewer is that the majority of firms, regardless of size, are very committed to providing quality work. There should be a way to provide a good workable system that small firms can utilize to help them meet that goal.</p>
052	Exemption	<p>I do agree with the need for an outside inspection, because most firms don't know what they don't know. Is it possible to limit the scope so that it can be partially internal and external and supervised by the outside inspection firm. Another option would be to do this once in the two intervening years in order to minimize cost to small firms. Could this be looked at?</p>
060	Exemption	<p>In essence, procedures and safeguards relevant to audits are being rammed down the throats of firms that do not perform audits or engagements in accordance with international standards.</p> <p>With respect to the monitoring and remediation process, paragraph 40 b on page 50 states the firm should establish policies or procedures that: address the objectivity of the individuals performing the monitoring activities. Such policies or procedures should prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement.</p> <p>This presents a problem in a sole practitioner firm, or even in a small or medium firm that only has one or two professionals to perform these engagements. It impedes scalability. In almost all such cases, at least one of the professionals is the engagement partner, technical reviewer, and/or engagement quality reviewer. This same individual may also be the managing partner. It appears that the only way for such firms to satisfy the proposed standard for inspections is to hire an outside individual at additional cost to perform the periodic (at least annual) inspection. However, such firms already pay fees to their state society and to their outside peer reviewer as part of the peer review process. The prohibition against self-inspection is especially overreaching for firms that only perform compilations without notes in accordance with a special purpose framework such as tax basis.</p> <p>All firms that are only subject to an engagement review under peer review should be exempt from the prohibition against self-inspection provided that the following criteria are met (which will provide safeguards against the risks of self-inspection): The firm received a rating of pass on its peer review report immediately before the effective date of the new QM standards, The firm receives a rating of pass on its triennial peer review reports immediately after the effective date of the new QM standards, Once a firm receives a rating other than pass on its peer review report, it will be prohibited from self-inspection every year thereafter until it receives a peer review report rating of pass, If necessary, an additional safeguard could be added requiring CPE specific to inspections for the individual performing the inspection (four hours every three years).</p>

Number	Position	Coded Text
061	Exemption	Further, to reduce the burden on smaller firms who do not have internal resources to perform such inspections, and to recognize that requiring external inspections would be tantamount to having annual peer reviews, consideration should be given to modifying the need for triennial peer reviews in such cases; a recommendation would be to require peer reviews every five years instead. We recognize the issue that would arise with state licensing requirements and anticipate a joint discussion with NASBA, coupled with possible external inspection reporting requirements, could alleviate such hurdles.
081 harper- poston- and- moree	Exemption	To make the standard scalable, provide an exemption from this requirement for sole proprietors and small firms with satisfactory peer review results. Utilize and rely upon the current peer review program as a safeguard to identify the existence of deficiencies of self-monitoring and self-inspection activities and to determine if outsourced monitoring and inspection activities are necessary for corrective action. Based on data provided by the AICPA, the peer review program has a high success rate and could be relied upon regarding the ASB’s concerns for audit quality.
081 harper- poston- and- moree	Exemption	We somewhat agree that inspections of completed engagements should not be performed by those involved with the engagement. Larger firms will be able to successfully implement this standard; however, it will negatively impact sole proprietors and smaller firms due to additional costs of outsourced inspections, limits on their ability to be competitive with larger firms, and difficulty obtaining qualified third parties to perform inspections, particularly in the case of specialized industries. Depending upon a practitioner’s individual circumstances, this requirement could create the need for multiple external service providers to perform inspections, engagement quality reviews, and peer reviews creating a significant financial burden. The ASB should consider making this requirement more scalable and provide an exemption for sole proprietors and small firms. The following safeguards could lower the self-review threat:

Number	Position	Coded Text
102	Exemption	<p>If none of the recommendations above are affirmed, the Committee believes carve-out provisions to exempt small firms from parts of this standard should be considered. The parts to be included as possible carve-outs are self-inspection during both monitoring and the engagement quality review when assessed applicable and the two year cooling off period.</p> <p>The Committee recommends that the ASB apply a three bucket approach to determine the level of each firm to which the carve-outs would apply. The three level approach would be:</p> <p>Bucket 1 - Firms that perform "public interest" audits and other engagements Bucket 2 - Firms that perform audits and other engagements not included in bucket 1 and are staffed by 20 or more professionals and/or have more than one office. Bucket 3 - Firms that are not included in buckets 1 or 2.</p> <p>The Bucket 3 Firms would be eligible for the carve-outs. Bucket 3 firms should have the option to elect to forego the carve-outs if they so choice.</p> <p>"Public interest" engagements would need to be defined.</p> <p>Firms in bucket 3 would be subject to the first self-inspection threat "safeguard" the Committee details above and remedial action would be required if deficiencies exist.</p> <p>One member of the Committee used the analogy that there are different rules for cars versa trucks on the highways. Thus there should be different rules for small and medium sized firms from larger firms.</p>
113	Exemption	<p>We would like the ASB to clarify whether a firm could satisfy the prohibition against self-review by setting an inspection cycle of every three years, with the firm's peer review providing the required non preparer inspection. We would expect that such a clarification would have provision that if/when a firm experiences significant new risks, a three-year inspection cycle may not be appropriate.</p> <p>If an inspection cycle of every three years is not allowed under the new standard, then we recommend that firms which do not perform audits be exempt from the self-review prohibition.</p>
144	Exemption	<p>I like this better as a recommendation, rather than a requirement, due to the impact to smaller firms. While the self-review threat exists, following a prescribed template, like the peer review checklists, would mitigate the risk. Also, someone familiar with the file would be more efficient at completing the inspection. Overall, I support this concept, but I don't know if it fits well for all firms. If awareness about new standards is an area of concern (i.e. "you don't know what you don't know"), part of the inspection could be to review listings of recently effective standards for applicability.</p>

Number	Position	Coded Text
146	Exemption	<p>We believe that inspections of completed engagements by someone not involved in the engagement is a “best practice,” but we do not believe it is an absolute necessity. As noted previously, this will be a huge burden for smaller firms, not only in terms of cost but also in finding a qualified individual who has the time to perform such procedures. In practice, we believe that smaller firms will have a difficult time implementing this requirement and that the current audit / concurring review / EQR partners would still be able to gain considerable knowledge inspecting their own files after a period of disassociation from the engagement. We also believe that there is great benefit to even a self-review provided after some period of disassociation from the engagement. We have found firms that receive pass reports on their peer reviews often are doing an excellent job in inspecting their own work. Perhaps there could be an additional A&A education requirement for firms that want to continue to inspect their own work.</p> <p>We recommend as part of the inspection process that a firm have an outside party review a must-select audit for each type of must-select audit performed by the firm. We believe that the EQR can be used to meet this requirement. Additionally, all firms (including those which are subject to engagement peer reviews) must have an outside party review at least one engagement from its highest level of service.</p>

Number	Position	Coded Text
147 2021 ICPAS A&A Comment Letter on SQMS	Exemption	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Number	Position	Coded Text
159	Exemption	<p>We believe there are situations in which a member involved in an engagement in a limited capacity should not be precluded from performing the inspection. As an example, a person could perform audit procedures with respect to a certain account balance, class, or transaction without disqualifying themselves from performing the inspection on the overall audit engagement with appropriate safeguards in place, such as requiring another person to inspect the section of the work performed, so long as the account balance, class, or transaction was not pervasive or of such significance that any self-review threat could not remain at an acceptable level.</p>
161 PwC	Exemption	<p>We recognize a difference exists today between ISQC 1 and QC section 10 relating to the involvement of those performing the engagement or the EQR in inspecting the completed engagements (also referred to as self-inspection).</p> <p>We support the approach taken in SQMS No. 1 to converge with ISQM 1 in relation to inspection of completed engagements. However, we understand the concerns of smaller firms that result from potentially removing the existing difference between ISQC 1 and QC section 10, and encourage the ASB to consider how best to respond to those concerns, including whether there are additional actions that could be taken to help firms consider alternatives to self-inspection.</p>
162	Exemption	<p>We believe inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. As a part of maintaining public trust and continued self-regulation, we believe self-inspection should be precluded for the following reasons:</p> <p>Self-review may make certain practitioners less objective in reviewing their own work Self-review may make certain practitioners less diligent when performing their own work Self-review prevents the benefit of a “fresh set of eyes” and feedback that would improve a firm’s audit quality</p> <p>In the interest of scalability, regarding the preclusion of inspection of completed engagements by those involved, we do recommend the ASB consider that very small firms be exempt from this preclusion.</p>
168	Exemption	<p>We believe that inspections of completed engagements should be performed by individuals not involved in the engagement. However, in practice, we believe that (1) small firms will have a difficult time implementing this requirement, and that (2) audit / concurring review / EQR partners would still be able to gain considerable knowledge inspecting their own files after a period of dissociation from them (say 3 months have passed since audit was completed). There is great benefit to even a self-review provided some period of dissociation from the engagement. However, we concur that there will be instances where “you don’t know what you don’t know” will be best identified by having a reviewer that was not involved in the initial engagement.</p>
014	Safeguards	<p>Some safe-guard suggestions: CPE on how to do the inspection - for the person doing the inspection (does this even exist?) and/or use of an AICPA approved inspection checklist to make sure the inspection covers all necessary areas.</p>

Number	Position	Coded Text
039	Safeguards	Self-Inspection - All firms participate in peer review every 3 years and have 40 hours of CPE to keep up to date annually. Along with the testing to become a CPA, these requirements prepare a firm to review and perform the work adequately.
081 harper- poston- and- moree	Safeguards	<p>Examples of Safeguards:</p> <p>Utilize the peer review process and provide an exemption for sole proprietors and small firms that have a satisfactory peer review. Rely upon the peer review program to identify the existence of deficiencies of self-inspection activities and to determine if outsourced inspections are necessary for corrective action.</p> <p>Implement or utilize regulatory oversight programs with state boards of accountancy or other regulatory organizations, in the case of specialized industries, to perform inspections or desk reviews of selected annual engagements. This process could be completed through random oversight of all firms by regulatory or oversight agencies or either offered at minimal or no cost to sole proprietors or small firms that could not adhere to the self-inspection standards as proposed.</p> <p>Enhance continuing education programs to provide adequate training in technical expertise concerning implementation of new accounting and auditing standards and quality management. With proper training, self-inspection would be possible and lower the self-review threat. There is no assurance that a third party performing an outsourced inspection is any more knowledgeable of professional standards.</p>
087	Safeguards	<p>There are many factors that can contribute to the competence to perform, and lower the quality risks of performing self-inspection of engagements such as compilations and even reviews or audits of lesser complexity. Among them are:</p> <p>A history of “pass” peer review reports. Extensive continuing education in A&A subjects. Participation in technical committees of professional accounting organizations. Authorship of professional A&A literature. Teaching at colleges. Specialization in one or a few industries. Strong acceptance and continuance policies. The presence or absence of significant new professional standards that have to be implemented for the first time. First year vs. continuing engagements. Presence or absence of significant transactions that are not typical for the client’s business.</p> <p>Such attributes should be considered before labelling all small firms as potential bad actors and forcing them into outside inspections.</p>

Number	Position	Coded Text
089	Safeguards	<p>Examples of safeguards that can help mitigate this threat as identified by the committees include:</p> <ul style="list-style-type: none"> Specific CPE throughout the year External training History of pass reports in a system peer review with no FFCs Up-to-date practice aids Background and experience of the individual with respect to monitoring or engagement review, including successful prior experience with comprehensive review of engagements Service as a peer reviewer Consultation if questions or contentions are identified Consistency in firm practice (no expansion of services, no significant changes in the client base) <p>Specific streamlined application resources should be provided to guide a smaller firm through this assessment.</p>
100 TIC	Safeguards	<p>TIC recognizes that, when allowing even the most well-meaning and qualified individuals to self- inspect their work, they are susceptible to self-serving biases. As such, TIC recommends there be a general expectation of avoiding self-inspection. However, rather than a bright-line rule prohibiting self-inspection, we believe firms should be permitted to overcome the general expectation when certain safeguards are implemented.</p> <p>Example safeguards (there may be others), which may reduce the self-inspection risk to a sufficiently low level, include the following:</p> <p>Link to Peer Review. Linking the ability to self-inspect engagements to the results of the most recent peer review. TIC believes that the peer review process continues to be a vital part of ensuring that practitioners perform quality engagements. If the engagement partner has demonstrated their existing quality management processes produced successful peer reviews, then they should be allowed to continue using the processes which resulted in that success. Because of the complexity and nuance involved in the peer review process, TIC suggests that the ASB work with the Peer Review Board to determine what would be considered a successful peer review for this purpose.</p> <p>Conversely, TIC would support engagement partners being prohibited from self-inspection as a remedial action based on the result of their most recent peer review. That prohibition could extend until their next peer review is complete and they have demonstrated that they have proper quality management processes in place. At that time, the firm would be free to re-evaluate if they believe that self-inspection can be effective.</p> <p>Require Training. By including a requirement to attend an annual training course which covers risks associated with self-inspection and inherent biases, practitioners would be consistently made aware of the risks related to self-inspection, which would reduce the risk of the practitioner succumbing to their bias in reviewing the work. TIC believes that this suggestion would be similar to the requirement in many states related to required ethics CPE in order to maintain CPA licenses.</p>

Number	Position	Coded Text
		<p>Require Center Membership. The AICPA has many resources available which are designed to assist members in performing quality engagements including the Employee Benefit Plan Audit Quality Center and Government Audit Quality Center as well as other memberships such as the Not-For-Profit Section and Center for Plain English Accounting. Membership based on the types of clients being served by the practitioner, would demonstrate a commitment to quality which may help alleviate risk in this area.</p> <p>Use of Peer Review Checklists. As noted previously, the peer review process is critical in ensuring that quality engagements are performed. Requiring firms that self-inspect engagements to use the same checklists which are used by peer review would provide structure to internal inspections that comes from a qualified source outside of the entity. As these checklists are developed by parties outside the firm for the purpose of performing a quality review via the peer review process, they help the practitioner approach the engagement internal inspection from a different perspective than the review done during engagement performance. TIC believes that this approach to engagement inspection responds to the primary concerns related to self-inspection. TIC is aware that some firms already use these checklists for this purpose and those firms have indicated that they have identified issues to be corrected through their use.</p>
101	Safeguards	<p>One significant safe-guard is that many non-USA IAASB member are not subject to peer review for engagements of non-listed entities, whereas under AICPA peer review, all such engagements are included. Also, the AICPA peer review program is very robust compared to other such programs. In particular report acceptance bodies will normally require firm's that have shown to have deficient internal monitoring process to enhance those processes and be subject to some level of follow-actions. Firm's internal monitoring process are evaluated every three years (this includes reviewing the monitoring procedures and results for all years since the firm's last peer review) and if there are any deficiencies identified, there will be oversight and follow-up that would extend typically one or even two years depending on the improvement made. I don't believe it is fair to think of peer review as evaluating monitoring only once every three years, but rather it is a more risk-based approach and will include greater oversight if a firm's monitoring procedures are not effective.</p> <p>I believe that these factors more than compensates for not prohibiting self-review and not requiring EQCR cooling-off.</p>

Number	Position	Coded Text
102	Safeguards	<p>Allow self-inspection as part of monitoring during the 2 year period between the triannual peer reviews if the Firm has a "clean Peer Review" for the year preceding that 2 year period. A "clean Peer Review" can be defined as a Pass Report under the Peer Review Standards.</p> <p>Allow a carve out exception for Firms to self-inspect their engagements and perform monitoring that will only apply to firms that are required to have Engagement Peer Reviews under the Peer Review Standards.</p> <p>The reasoning behind this carve-out exception for engagement review firms is risk based, which would be in accordance with the Standard. The Committee does not visualize that a Firm that performs only these type of engagements is exposing the public users of the result of the engagement to a great degree of risk. Any non-conforming engagement will be subject to Peer Review corrective action.</p> <p>Beyond the "safeguards" the Committee proposes two other alternatives</p> <p>Allow the present self-inspection procedures to remain in place.</p> <p>A requirement that if the engagement is assessed at a higher risk such as an Employee Benefit Plan Audit, Government Audit or any other high risk assessed engagement then the self-inspection threat could not be overcome and the engagement would require an outside party to look at that engagement. Government audits presently have this requirement as related to the preparation of the financial statements.</p> <p>If one of these type of high risk engagements is assessed as a lower risk it is recommended that the risk assessment criteria used for these engagements be subject to review as part of the monitoring process. Proper documentation of the result of that review would be required.</p> <p>Under this monitoring alternative the risk assessment per engagement will need to be documented by the Firm. See concerns about risk assessment above.</p> <p>The Committee under paragraph A168 sees the wording "A self-review threat may arise when an individual who performs another type of monitoring activity participated in designing, executing or operating the response being monitoring." The Committee is unclear what this means and asks for further clarification via examples and/or other explanatory material.</p> <p>The present interpretation of A168 is that the individual who designed, executed or operated the system is ineligible to be part of the inspection of the system. This will be a burden to the small and medium sized firm.</p>

Number	Position	Coded Text
116	Safeguards	<p>One or more of the following suggested safeguards could be implemented:</p> <p>Carve-out for compilations and preparation engagements – There should be a carve-out in the self-inspection prohibition for compilations and preparation engagements since CPAs offer no assurance or conclusions on these types of engagements.</p> <p>A firm with a peer review report rating of pass – This safeguard could allow the firm to perform self-inspections for the two years after the year with a peer review report rating of pass.</p> <p>The firm’s personnel include a qualified, experienced peer reviewer – Qualified, experienced peer reviewers work directly from standards and have enhanced training that would enhance a firm’s system of quality management and serve as a potential mitigating factor for the self-review threat.</p> <p>For smaller firms performing their own inspections, there could be a cooling off period of 6 months before the internal inspection is performed.</p> <p>Targeted training – Sole practitioners, engagement partners, and experienced staff members could attend engagement quality designed continuing education classes that are specifically designed to assist firms with reviewing engagements on either a pre-issuance or post-issuance basis from a professional standards approach. More specific examples of continuing education classes are detailed in a – c below.</p> <p>Industry specific classes – A sole practitioner, engagement partner or experienced staff member could participate in live round table continuing education classes that are specifically designed to assist the firm in a review of the report, financial statements, and workpapers. Enhanced classes for Uniform Guidance audits, Employee Benefit Plan audits, audits performed under Government Auditing Standards, and other specialty categories could be designed. The classes could be designed in a roundtable format so that all class participants could address questions or problem areas. The classes could be offered in-person or via an online platform. The live format will enhance participation and improve the practitioner’s ability to obtain and retain professional guidance to apply in practice.</p> <p>Pre-issuance or post-issuance classes – Continuing education classes could be developed for each pre-determined size of firm for the pre-issuance and/or post-issuance review of engagements. The classes could emphasize specific examples of review procedures that firms can do to enhance the quality of an engagement prior to issuance. The classes could be designed in a live round table format so that all class participants could address questions or problem areas. Each class participant would be required to submit one A&A engagement to review during the class prior to the class date. The class instructor would receive the A&A engagements in advance and could provide the firms with specific guidance to enhance audit quality. This class could be offered on a pre- or post-issuance basis. Developing classes designed just for sole practitioners or small firm owners will give these firms’ owners an opportunity to attend classes with peers from firms of the same size that are experiencing the same professional challenges. Note: Monitoring classes are available in some areas on an annual basis. These classes include a lecture</p>

Number	Position	Coded Text
		<p>component where the instructor discusses the monitoring element of quality control and a workshop component where participants perform a self-review on one or more of their own firm’s A&A engagements using checklists from the AICPA Peer Review Program Manual and assistance from the instructor and one or more facilitators.</p> <p>Inclusion of peer reviewer on live round tables – Continuing education classes could be developed as stated above and include a qualified peer reviewer as the class instructor or class contributor as an enhancement to the classes. With peer reviewers serving as the instructor or contributor, firms can gain added knowledge of the standards from the reviewer’s perspective prior to implementing any new procedures.</p> <p>The AICPA could enhance and market the current search feature that exists on the AICPA website to assist the firms in finding a qualified inspector.</p>
116	Safeguards	<p>The challenge of locating a qualified party to complete the inspection outside the firm may not be overcome without significant expense to the firm. Also, the availability of an outside qualified inspector is limited. The incorporation of bullet points 4 and 5 may possibly assist sole practitioners and small firms in obtaining uniform inspections by qualified trained individuals at minimal expense for firms; but come at the possible expense of further reducing the pool of qualified individuals willing and able to perform external peer reviews.</p> <p>In addition, if sole practitioners and small firms are required to outsource inspections, the same requirements should be extended to firms of all sizes. Also, while two firms could work together to perform each other’s inspections and technically meet the new proposed standard, such cross reviews may not result in the desired improvements in audit quality. Finally, the external peer review program is designed to identify deficiencies in a firm’s monitoring activities. If no deficiencies have been identified, then self-inspection appears to have been successful and should be allowed to continue. Additional safeguards should only be required for those firms with deficiencies.</p>
135	Safeguards	<p>Possible safeguards could include one or any combination of the following:</p> <p>A firm with a peer review report rating of pass – This safeguard could allow the firm to perform self- inspections for the two years after the year with a peer review report rating of pass (i.e., no deficiencies or significant deficiencies).</p> <p>Carve-out for compilations and preparation engagements – There should be a carve-out in the self-inspection prohibition for compilations and preparation engagements since CPAs offer no assurance or conclusions on these types of engagements.</p> <p>The firm’s personnel include a qualified, experienced peer reviewer – Qualified, experienced peer reviewers work directly from standards and have enhanced training that would enhance a firm’s system of quality management and serve as a potential mitigating factor for the self-review threat.</p> <p>For sole practitioners performing their own inspections, there could be a waiting period of 6 months before the internal inspection is performed.</p>

Number	Position	Coded Text
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Targeted training – Sole practitioners, engagement partners, and experienced staff member could attend engagement quality designed continuing education classes that are specifically designed to assist firms with reviewing engagements on either a pre-issuance or post-issuance basis from a professional standards approach. More specific examples of continuing education classes are detailed in a – c below.

Industry specific classes – A sole practitioner, engagement partner or experienced staff member could participate in live round table continuing education classes that are specifically designed to assist the firm in a review of the report, financial statements, and workpapers. Enhanced classes for Uniform Guidance audits, Employee Benefit Plan audits, audits performed under Government Auditing Standards, and other specialty categories could be designed. The classes could be designed in a roundtable format so that all class participants could address questions or problem areas. The classes could be offered in-person or via an online platform. The live format will enhance participation and improve the practitioner’s ability to obtain and retain professional guidance to apply in practice. Note: Governmental report review classes are available in some areas on an annual basis. These classes are generally limited to the report and accompanying financial statements only and are not offered in a frequency that would allow a firm to obtain a quality EQR prior to issuance.

Pre-issuance or post-issuance classes – Continuing education classes could be developed for each pre- determined size of firm for the pre-issuance and/or post-issuance review of engagements. Firms currently have corrective action assigned that require either a pre- or post-issuance review of an engagement in response to matters noted during a peer review. While this can be helpful for firms, an enhancement for firms’ education could be direct participation in a pre- or post-issuance review of the firms’ engagements. The classes could emphasize specific examples of review procedures that firms can do to enhance the quality of an engagement prior to issuance. The classes could be designed in a live round table format so that all class participants could address questions or problem areas. Each class participant would be required to submit one A&A engagement to review during the class prior to the class date. The class instructor would receive the A&A engagements in advance and could provide the firms with specific guidance to enhance audit quality. This class could be offered on a pre- or post-issuance basis. Developing classes designed just for sole practitioners or small firm owners will give these firms’ owners an opportunity to attend classes with peers from firms of the same size that are experiencing the same professional challenges. Note: Monitoring classes are available in some areas on an annual basis. These classes include a lecture component where the instructor discusses the monitoring element of quality control and a workshop component where participants perform a self-review on one or more of their own firm’s A&A engagements using checklists from the AICPA Peer Review Program Manual and assistance from the instructor and one or more facilitators.

Inclusion of peer reviewer on live round tables – Continuing education classes could be developed as stated above and include a qualified peer reviewer as the class instructor or class contributor as an enhancement to the classes. We often hear that peer review has become punitive rather than educational. With peer reviewers serving as the

Number	Position	Coded Text
		instructor or contributor, firms can gain added knowledge of the standards from the reviewer’s perspective prior to implementing any new procedures.
163	Safeguards	First there could be a requirement of an internal inspection by manager level or higher. The reviewer should be required to have twenty-four hours of A&A CPE in the previous two years. In addition, a uniform, mandatory checklist could be developed for review. Other practice aids could be developed highlighting key risk areas and items that would help trigger against self-review threat. Personnel performing inspections should have a minimum of eight hours CPE every three years that specifically relate to performing internal inspections or engagement quality reviews
003	Oppose	<p>I have been a peer reviewer since PR began. Previously I was on the AICPA PR Board, Chair of the state PR Committee and a technical reviewer for two different AEs. In brief, I support CPA attest quality.</p> <p>For the approximately 42,000 CPA firms in the USA, the demographics of eligibility of the individuals within the firm responsible for the appointment of engagement quality reviewers will be near impossible to meet. The typical smaller clients (governmental, small contractors, CIRAs and NFPO), that these smaller CPA firms generally service, will not financially support the economies of mandatory hiring outside quality reviewers. In summary, it will be difficult to find and fund sufficiently experienced and knowledgeable external people, particularly for specialized industries or areas.</p>

Exhibit D – Paragraph A168

Number	Coded Text
040	<p data-bbox="370 344 570 371">Paragraph A168:</p> <p data-bbox="370 380 1495 478">The provisions of relevant ethical requirements are relevant in designing the policies or procedures addressing the objectivity of the individuals performing the monitoring activities. A self-review threat may arise when an individual who performs</p> <ul style="list-style-type: none"> <li data-bbox="370 520 1495 730">• an inspection of an engagement was <ul style="list-style-type: none"> <li data-bbox="370 558 1495 657">— in the case of an audit of financial statements, an engagement team member or the engagement quality reviewer of that engagement or an engagement for a subsequent financial period, or <li data-bbox="370 663 1495 730">— for all other engagements, an engagement team member or the engagement quality reviewer of that engagement. <li data-bbox="370 772 1495 835">• another type of monitoring activity participated in designing, executing, or operating the response being monitored.
	<p data-bbox="370 877 570 905">Paragraph A169:</p> <p data-bbox="370 913 1495 1052">In some circumstances, for example, in the case of a less complex firm, there may not be personnel who have the competence, capabilities, time, or objectivity to perform the monitoring activities. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.</p> <p data-bbox="370 1094 1495 1444">We believe that paragraphs A168 and A169 imply that small governmental audit organizations that are required to follow the SQMS would have to contract with service providers to perform all monitoring activities. We acknowledge that there is a self-review threat when individuals monitor a response that they helped to design, execute, or operate. GAGAS paragraph 5.48 states, “Monitoring is most effective when performed by persons who do not have responsibility for the specific activity being monitored.” However, we believe that there are measures that could be implemented to mitigate this threat to objectivity. For example, third-party inspections would mitigate at least some of the self-review threat discussed in paragraph A168. As such, it is possible that individuals within small governmental audit organizations could perform certain monitoring activities.</p>
081	<p data-bbox="370 1451 1495 1549">However, we strongly believe paragraphs 40b, A168, and A169 prevent the scalability of the standards to sole proprietors and small firms and would require them to outsource monitoring activities to external service providers.</p>
102	<p data-bbox="370 1556 1495 1694">The Committee under paragraph A168 sees the wording "A self-review threat may arise when an individual who performs another type of monitoring activity participated in designing, executing or operating the response being monitoring." The Committee is unclear what this means and asks for further clarification via examples and/or other explanatory material.</p> <p data-bbox="370 1736 1495 1837">The present interpretation of A168 is that the individual who designed, executed or operated the system is ineligible to be part of the inspection of the system. This will be a burden to the small and medium sized firm.</p>

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Paragraph A168 of SQMS No. 1 notes that a self-review threat may arise when an individual who performs another type of monitoring activity participated in designing, executing, or operating the response being monitored. Many mid to large size firms support national practice groups that perform administrative functions over audit practices such as developing quality management policies, designing audit methodologies, and creating tools and templates to promote understanding and consistency. It would seem that such functions then create a self-review threat if those involved then plan or coordinate an internal inspection, even if not performing inspections themselves. It would be very helpful to address this common scenario in terms of considerations when assessing the self-review threat and safeguards that could be employed.

Exhibit E: Cooling-off period

Number	Position	Coded Text
021	Yes	The proposed EQCR being done by those not involved in the engagements reviewed is also a good idea when it comes to quality.
058	Yes	<p>My two cents worth – I hear a lot of people complaining about the outside inspection requirement and the EQCR issues. These are things we’ve been doing for over ten years now. We have two to three CPAs in our firm. So, its doable. It has to be managed.</p> <p>We as a profession need to concern ourselves with the appearance of professionalism. Watering these requirements down won’t help us look more professional.</p>
074	Yes	We agree with the ASB requiring a two-year cooling-off period, consistent with ISQM 2. However, we suggest the ASB consider allowing an exemption similar to the PCAOB’s for firms with fewer than 5 audit clients and 10 partners.
077	Yes	We agree with a 2-year cooling-off period before an engagement partner can serve as an engagement quality reviewer for the same engagement. This provision will align SQMS 1 with ISQM 2, SEC and PCAOB requirements. We recommend the ASB include additional guidance for smaller firms regarding EQR assignments when resources are limited, as well as provide explanations as to why exceptions, similar to those allowed by the PCAOB, are not allowed under SQMS 2.
138	Yes	We believe that the cooling off period should be the period covered by the financial statements. For example, if they are single year financial statements, the cooling off period would be one year and if they are comparative financial statements, the cooling off period would be two years.
143	Yes	<p>D&T is supportive of the new requirement of a two-year cooling-off period for an individual who previously served as engagement partner to be eligible to be appointed as engagement quality reviewer. Further, D&T agrees with the ASB’s decision to converge with ISQM 2 regarding the length of the required cooling-off period.</p> <p>As indicated in the exposure draft, involving an engagement quality review is one response a firm may deploy to address quality risks, and is not mandatory. D&T believes that, when a firm has determined an engagement quality review is the appropriate response to a quality risk for an engagement, the requirement of a two-year cooling-off period appropriately addresses the threat to the objectivity of the engagement partner stepping into the role of an engagement quality reviewer. Separation by the engagement partner from their previous involvement in making significant judgments on the engagement is critical to provide a basis for an objective evaluation of the current significant judgments.</p> <p>We recognize that, especially for smaller firms, requiring a two-year cooling-off period may mean that the firm would need to engage engagement quality reviewers from outside the firm. The cooling-off period may also be viewed by some as a disincentive for firms to “determine” that an appropriate response to a quality risk is the performance of an engagement quality</p>

review. We believe that it is always helpful to have an outside perspective on work performed for an engagement, especially related to significant findings or issues, items to be communicated to those charged with governance or management, and conclusions reached. In this regard, we recommend the ASB add application material to proposed SQMS No. 2 or develop implementation guidance for scalability or “less complex entity” purposes that (1) suggests firms may use a risk-based approach in determining which engagements need a formal engagement quality review to address quality risks and (2) encourages firms to identify engagements that could benefit from a less formalized process that would still provide input and insight to the engagement team and improve quality overall.

161	Yes	<p>We agree with the principle that ordinarily, in the case of an audit of financial statements, an engagement partner would not be able to act as the engagement quality reviewer until two subsequent audits have been conducted. However, we recognize the potential challenges to smaller firms if the ASB converges with the IAASB as described in the Explanatory Memorandum, and believe a careful consideration of feedback from respondents will be necessary. In deciding the best way forward, we consider it important to reflect on whether there are circumstances, in particular in the context of smaller practitioners, when there may be potential risks to quality from mandating a minimum specific period. For example, we are concerned that taking a very prescriptive approach in SQMS No. 1 could dissuade firms from requiring EQRs as a quality response when it would otherwise be appropriate to do so. While we anticipate this situation to be rare, it would not seem to be in the public interest that there may be circumstances when a compliant audit could not be performed because it is not possible to identify an engagement quality reviewer who could meet this criterion.</p> <p>Additionally, the PEEC has historically been charged with addressing partner rotation requirements set out by the IESBA, rather than the ASB. We suggest that the PEEC be asked to consider whether there are additional safeguards that can be put in place in these rare circumstances. Additionally, we believe the ASB should carefully consider the exemption within the PCAOB’s standards and the role the AICPA Peer Review Program plays in mitigating any self-review threats.</p>
164	Yes	The cooling off period should be at least two years to provide a safeguard for a possible self- review or objectivity threat resulting from previous decisions made by the reviewer while acting as the engagement partner.
081	Yes\1 year	We generally believe that the engagement quality reviewer should not be an individual on the engagement team or the engagement partner. We believe a required one year cooling-off period would be appropriate for a former engagement partner. Larger firms would be able to comply with this standard; however, this requirement is not scalable and could disadvantage the accounting and auditing practice of smaller firms creating a financial burden to outsource this service. This standard could be made scalable by providing an exemption from this requirement for small firms with a limited number of partners
092	Yes\1 year	One year.
095	Yes\1 year	Both committees would support a cooling-off period before a former engagement partner can serve as an engagement quality reviewer. However, we realize that the IAASB requires a two-year cooling-off period, so we would support a similar requirement. The committees believe that a one-year period, at most, would be sufficient. A longer period would increase the risk that a reviewer unfamiliar with the client might miss important details during the EQR and that some familiarity with client operations provides the necessary experience to notice discrepancies.

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146	Yes\1 year	We understand the need for a “cooling off” period for serving as EQR partner. However, the two-year requirement may be burdensome for smaller firms. If the “cooling off” period is retained, we would highly recommend a one-year period.
152	Yes\1 year	<p>This seems to be an attempt to converge with international standards with little or no thought about the cost to small firms and their clients.</p> <p>I think two years is excessive. I believe the year following the year they were involved in the engagement is adequate.</p> <p>I am against both proposals as written.</p>
159	Yes\1 year	We believe a cooling-off period should be required for a period of one year. For example, the engagement partner for the 2021 audit could not serve as engagement quality reviewer for the 2022 audit but could for the 2023 audit or any interim period during 2023.
168	Yes\1 year	We understand the need for a “cooling off” period for serving as EQR partner. However, the two (2) year requirement may be burdensome for smaller firms. If the “cooling off” period is retained, we would highly recommend a one (1) year period.
047	Yes\2 years	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.
061	Yes\2 years	<p>View 2 – Maintain Provision for Cooling-Off Period in SQMS No. 2</p> <p>In this view, CRI suggests that paragraphs 19, A16, and A17 remain as provided in SQMS No. 2 with no change. The primary factors supporting this view are as follows:</p> <p>As indicated in Issue 2, matters on which significant judgments are made in recurring engagements often do not vary and, therefore, significant judgments made in prior periods may continue to affect judgments of the engagement team in subsequent periods. Thus, the ability of an engagement quality reviewer to perform an objective evaluation of significant judgments is affected when the individual was previously involved with those judgments as the engagement partner. In such circumstances, it is important that appropriate safeguards are put in place to reduce threats to objectivity, in particular, the self-review threat, to an acceptable level.</p> <p>As further provided in Issue 2, a cooling-off period may be the only safeguard to the self-review threat to objectivity.</p> <p>Maintaining objectivity is of critical importance to the performance of an engagement quality review, which is intended to provide an objective evaluation of the significant judgments made by the engagement team.</p> <p>The benefits of convergence of the quality management standards of the ASB, the IAASB, and the PCAOB are significant to firms</p>

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that operate under all three sets of standards. Complying with fundamentally different quality management standards is not feasible, and performing an audit in accordance with multiple sets of auditing and quality management standards (for example, those of the ASB and the IAASB or the ASB and the PCAOB) would be impracticable.

As part of View 2, CRI suggests that if the cooling-off period is believed to result in the unintended consequence of fewer engagement quality reviews being performed by smaller firms that an exception for smaller firms with fewer than 10 partners from the cooling-off period may be appropriate.

065	Yes\2 years	Two years
121	Yes\2 years	<p>8a. Yes, in our view a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement.</p> <p>8b. We believe a two-year cooling off period is appropriate. Switching partners helps identify issues that may have been missed in the past, having the same person involved albeit in a different role would sacrifice this purpose. Therefore, we believe the former engagement partner should not have any involvement in the engagement during the cooling off period, except for providing an understanding of the engagement history to the new engagement team.</p>
128	Yes\2 years	We believe the importance of maintaining objectivity in performing an evaluation of the significant judgments made by the engagement team warrants a required cooling-off period before a former engagement partner can serve as an engagement quality reviewer on that engagement. We do not believe there are safeguards that would lower the objectivity threat to an acceptable level. In addition, we do not believe the burden to meet this requirement is so onerous that it supports divergence from ISQM 2, and therefore we support a two-year cooling off period.
156	Yes\2 years	We support a cooling-off period that aligns with PCAOB standards to promote consistency. With limited exceptions, the PCAOB prohibits the person who served as the engagement partner during either of the two audits preceding the audit subject to the engagement quality review from serving as the engagement quality reviewer.
164	Yes\2 years	The cooling off period should be at least two years to provide a safeguard for a possible self- review or objectivity threat resulting from previous decisions made by the reviewer while acting as the engagement partner.
170	Yes\2 years	We also support the enhanced requirements relating to the nature, timing and extent of the engagement quality reviewer’s procedures because they would help improve the robustness of the engagement quality review and the consistency in the depth of the review.
040	Yes\Other	In general, we believe that the engagement quality reviewer should be an individual who was not previously assigned to the engagement. If the engagement quality reviewer is a former engagement partner, we believe that a cooling-off period should be required. However, there are challenges with determining an appropriate period, as we believe that threats to objectivity are a function of both time and the extent of the former engagement partner’s familiarity with and role in developing key decisions and audit approaches.

103	Yes\Other	<p>In theory, a cooling-off period makes sense provided the ASB does not now or ever require engagement partner rotation. Mandatory engagement partner rotation in addition to the cooling-off period would create an untenable situation for many firms.</p> <p>The cooling-off period requirement alone, however, appears to be an appropriate response to the self-review threat. Although a one-year cooling-off period would be more reasonable, we agree that the additional inconvenience created by a two-year period is not significant enough to warrant a divergence from international standards.</p> <p>We believe that the impact of this requirement will be greatest on smaller firms with limited resources that may be forced to hire an outside party to perform the EQR function. While hiring an outside party is not in and of itself a negative, it will increase the firm’s costs and add to the perception that the AICPA is in effect encouraging small firms to exit the auditing business.</p> <p>The impact is not solely driven by firm size. The cooling-off period could present issues for medium size firms in addition to small firms. For example, even medium size firms often do not have three employee benefit plan experts. In addition, requiring firms to outsource the EQR function could create bottlenecks within the profession. For some high-risk engagements (the ones that should be subject to EQR), the pool of professionals with the needed expertise may not be particularly deep. Firms may have difficulty finding an outside party with both the experience and the time to perform the EQR.</p> <p>Assuming the two-year cooling-off period is required, we would suggest providing an example to ensure that the application of the time period is done consistently. For example, if Mary serves as the engagement partner for the 12/31/20 audit, will she be eligible to serve as the EQ Reviewer for the 12/31/22 audit (two years after the audit date) or 12/31/23 (two full years of audits with no involvement)? We believe the answer would be 12/31/23 but the requirement could be interpreted differently without clear guidance.</p>
134	Yes\Other	<p>We support requiring a cooling-off period for former engagement partners. However, we are concerned about requiring a specific two-year cooling-off period without considering the scalability of this requirement or flexibility for smaller firms. We note that in AS 1220, Engagement Quality Reviews, the PCAOB provides an accommodation for smaller firms based on the exemption under Rule 2-01(c)(6)(ii) of Regulation S-X, which states the following:</p> <p>Any accounting firm with less than five audit clients that are issuers (as defined in section 10A(f) of the Securities Exchange Act of 1934 (15 U.S.C. 78j-1(f))) and less than ten partners shall be exempt from paragraph (c)(6)(i) of this section provided the Public Company Accounting Oversight Board conducts a review at least once every three years of each of the audit client engagements that would result in a lack of auditor independence under this paragraph.</p> <p>Since peer review is required every three years, we recommend the Board consider a similar accommodation. Otherwise, we recommend application guidance indicating that a cooling-off period of at least one year is generally appropriate. The application guidance could also discuss how firms may establish protocols that are reasonable for the nature of their practices.</p>
142	Yes\Other	<p>We support the requirement for a two-year cooling-off period before a former engagement partner can serve as an engagement quality reviewer on that engagement. However, similar to the self-inspection provision discussed in Question #7 above, there</p>

could be operational challenges for firms with a small number of partners/principals. Therefore, we suggest the ASB consider an exception to the cooling-off provision for firms with less than 10 audit partners/principals, similar to the partner rotation exemption provided by the Securities and Exchange Commission (SEC) 3, provided the firm is subject to a peer review at least once every three years.

3 See Regulation S-X, Section 210.2-01 (c) (6) (ii).

146	Yes\Other	Yes, but perhaps only for firms which are PCAOB registered firms or firms that do not also provide services under the IAASB standards.
158	Yes\Other	Yes, a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement and the minimum cooling-off period should be two years for all firms. However, we recognize that smaller firms may not have the resources to accommodate a two-year cooling-off period and, in those limited situations, we recommend that the firm may use a one-year cooling-off period if additional safeguards are implemented to lower the objectivity threat to an acceptable level.
003	No	Additionally, the “cooling off period” only adds to this dilemma.
005	No	Similarly, while a cooling-off period might be a good practice for Engagement Quality Review (EQR) in a larger practice with more complex engagements with a public interest, there seems to be little reason to burden a smaller practice with such a requirement, particularly in view of the added unintended risk that such a cooling-off period might actually prevent the input of the person who best knows the intricacies of a particular client. Here, again, is where scalability should come into play in determining whether there is a need for any EQR cooling-off period at all and, if so, whether it should be for two years as proposed or more realistically for one year.
006	No	Our current firm policy requires all attest reports and engagements be subject to a full and comprehensive engagement quality review (EQR). Not all of the partners have been designated to complete EQRs.

PART 6 – OTHER ISSUES

We strongly disagree with the proposed “cooling off period” as it relates to EQR. This will be difficult to perform for firms our size and nearly impossible to perform for smaller firms. Safeguards related to objectivity include our professional standards already in place, including ethics and integrity that resonates across our practice. In our firm, where quality is of the utmost importance, from our chief executive down to our interns, no partner completing our EQRs will risk the reputation of our firm or risk having a negative peer review result, let alone risk the threat of legal action. Other mitigating factors include the oversight by our peer review firm and ultimately Boards of Accountancy.

The amendments include a risk assessment process to quality management, which we strongly support; however, reducing the number of people qualified to do an EQR (if they have to stand down in a “cooling off period) is counter intuitive to producing better-quality audits.

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		Our firm currently requires an EQR on all attest engagements; an unintended consequence could be other firms change their definition of what requires an EQR, perhaps even eliminating the requirement for virtually all attest engagements. This defeats the purpose of the intended amendments.
010	No	We agree with the guidance in the Proposed Standards that a cooling-off period of two-years be required before a former engagement partner can serve as an engagement quality reviewer on that engagement. This is consistent with the relevant requirement in the corresponding international quality management standard and is necessary to lower the objectivity threat.
014	No	See responses to questions 3 and 7 – same issues – this places an undue burden on smaller firms – the same safeguards as number 7 should be sufficient.
020	No	The other major objection is the 2 year cooling off period for EQ reviewers. We have 3 partners. How would we be able to logistically handle that? Every partner at our firm at least glances at the financial before it is issued. Would we have to reduce our quality so one partner is able to do the engagement in 2 years?
025	No	The introduction to the proposed changes talks about tailoring the system to the complexity of the firm and its clients, but apparently still removes the firm’s judgement and requires an additional level of review on all engagements before they can be released and requires a 2-year “cooling off” period in all situations. This puts a large and unwarranted burden on small firms and their clients. The proposed changes do not recognize that an audit can be performed effectively and efficiently by a small firm for a small client. Most of our firm’s audit clients are nonprofits that are required to have audits due to state regulations. The concern about the “familiarity threat” implies that there is fraudulent activity that the auditor is either blind to or complicit in. I believe being familiar with small clients is an advantage in identifying irregularities and being able to effectively assist the client in meeting its reporting requirements. These proposed changes appear to be another push to force small firms out of the practice of performing audits.
033	No	I am writing regarding the proposed Quality Management Standards. I am the managing partner of a small CPA firm. We have 2 CPAs and 2 non-CPA accountants on staff. Our firm does not perform audits, however we do perform review engagements and, of course, have the ability to engage in other assurance services. The proposed new measures that would eliminate the self-inspection and the implementation of a two year cooling-off period would cause a burden on small firms like mine. The profession is one of integrity. We’ve even created a self-regulation system to ensure the quality of work performed by our profession. Adding these new rules will only add cost to already low margin engagements and will result in lost revenue to smaller firms who will now need to engage others to do the inspection of the engagements and will need to turn away existing clients due to new proposed cooling-off period.
		Please consider these points as this initiative moves forward. I believe the profession has adequate measures already in place to address the concerns these 2 things are meant to address.
039	No	Cooling Off Period for EQR - Firms already submit to a peer review every 3 years and the quality of work is reviewed by a 3rd party. Most engagements are not complex enough to warrant an independent reviewer. Standards are in place to currently address independence with clients. If a firm feels that their engagement review quality is not sufficient they can use their judgement to find an additional reviewer. If their Peer Reviewer finds their EQR is not sufficient then they can prescribe a

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		remedy for the individual situation. However a blanket review of all engagements is not necessary and has no additional benefit for the majority of engagements.
045	No	However, Change 2 would be difficult on smaller firms, especially during a retirement type situation whereby the most qualified EQCR replacement would be from the Audit Division and therefore, require the smaller firm to “farm out” most all of their audits. Would impact the tax division too in like manner. Therefore, we oppose the two year cooling off period for EQCR Reviewers.
046	No	The EQR and inspection requirements in the new QM standard will set many small firms up for failure. I believe it is onerous on many to need to go to an outside firm for EQR (and in many cases for annual inspections), and unwarranted in some cases. I know firms that the main A&A partner is a peer reviewer (or qualified to do so if he wanted to perform such reviews), and would better qualified to objectively “look back” at his/her engagements when performing inspection than going to an outside firm.
048	No	There should be no cooling-off period for private company engagements or set reasonable thresholds for such action.
049	No	Specifically, the prohibition of self-monitoring and the partner cooling off requirement, will prevent most rural, main street accounting firms and all sole practitioners from being able to achieve compliance with the proposed standard without the aid of an outside firm for even the most straight forward and simple of attest engagements, and for its overall risk assessments for the management of their practices.
055	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 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.
055	No	The Committee does not believe that a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement. In a similar argument to the response for #3, the Committee members reiterate that a prescriptive approach of specifying a defined cooling-off period may be counterproductive. A risk-based approach would accomplish the same objectives, by specifically identifying the requirements of the industry, complexity of the work, and audit expertise needed for the inspection.
061	No	View 1 – Remove Provision for Cooling-Off Period from SQMS No. 2 In this view, CRI suggests that paragraphs 19, A16, and A17 be removed from SQMS No. 2. The primary factors supporting this view are as follows: The threat to objectivity created by an individual serving as the engagement quality reviewer after previously serving as the engagement partner is viewed as not being a significant threat, because:

The significant judgments made in periods when the engagement quality reviewer was the engagement partner would have been subjected to an appropriate level of scrutiny through an engagement quality review at that time.

A firm’s system of quality control should place the responsibility for engagement quality with the engagement partner who should not be unduly influenced by an engagement quality reviewer that is promoting an unsupportable position.

Significant benefits to audit quality through enhanced competency of the engagement quality reviewer may result from having a recent engagement partner serve as engagement quality reviewer as that individual should be expected to have extensive knowledge of the client’s business and the related audit risks and therefore could provide valuable insight as an engagement quality reviewer.

The cooling-off period requirement might disproportionately affect smaller firms as they may not be able to identify qualified people resulting in fewer engagement quality reviews being performed – an unintended negative consequence.

064	No	Secondly, it is near impossible for an engagement partner to practice the suggested "cooling off" period as an EQ reviewer due to labor constraints and the general makeup of a boutique firm.
067	No	Cooling off period for EQCR: I would argue that the best person to do the EQCR is the engagement partner coming off the job, as they know the job the best. I can also see if this is implemented that firms will actually configure their QM to do less EQCRs, as it is their risk the way they lay it out, and that is not good for the overall quality of the engagement. I do not see the benefit of having a cooling off period and again hurting smaller firms. Strongly against prohibiting self-inspection
069	No	<p>We do not believe the cooling-off requirement is necessary for an EQR. Our experience has been that this situation rarely comes up in practice, even at large firms. A partner who relinquishes a client usually does so because he/she is retiring and is therefore, unlikely to take on a technical role. In cases where a retiring-partner is passing the practice on to his/her children or younger partners at the firm, it may be beneficial to have that partner’s experience during the transition period.</p> <p>The act of transferring a client to a new engagement partner alone should suffice in reaching an objective mind state. The former engagement partner’s familiarity with a client would provide for a more robust review to enhance engagement quality. There may also be a benefit to having a Partner with prior experience with a client, not involved in the current engagement, perform an engagement quality review. As long as the partner does not contribute to the current year engagement, there should not be a threat to their objectivity as EQR.</p> <p>For sole proprietors and small firms, a cooling-off period of a week or two between the completion of the engagement and the issuance of the report would allow a sole proprietor or engagement partner a period of time to step away from the engagement prior to a required final review of the engagement and prior to issuance could serve as a safeguard. A cooling-off time period would allow the sole practitioners and engagement partner to have time to gather a fresh perspective prior to a review of the report and final statements prior to issuance.</p>

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070	No	A quality reviewer needs to be knowledgeable not independent. This makes a cooling off period unnecessary. The independence issue is between the client and the firm. If any quality reviewer's review is sub-par upon Peer Review, then there is an existing process to follow.
071	No	<p>The Group does not believe a 2- year cooling off period is required and does not believe a 2-year cooling off period will improve audit quality. The Group identified the following safeguards that it believes would reduce the risk to an acceptable level:</p> <p>The passage of time. The time between engagements for a particular client, especially for SFSPs, is close to a full year, giving the engagement professionals time to provide objectivity in their new engagement role;</p> <p>The engagement quality reviewer could make use of checklists or other practice aids in the first year in that role in order to provide some objectivity in the engagement quality review process</p> <p>The roles of the engagement partner and the engagement quality reviewer are sufficiently distinct to enable a fresh perspective for the audit professional moving to a new role on the engagement.</p>
075	No	<p>As previously stated, we support the requirements around EQR except for a mandatory cooling off period. We do not believe that a familiarity risk or long-association risk automatically exists. The AICPA Code of Conduct sufficiently addresses these risks. A cooling off period is a safeguard responsive only to a familiarity risk. There are many reasons why an engagement partner would transition to another partner that do not involve familiarity or long-association. We believe that a mandatory cooling off period is inappropriate and addresses a risk that may not exist, at the expense of disqualifying someone who could perform an very effective EQR.</p> <p>We also believe that anyone performing an EQR, regardless of previous involvement with the engagement, should be objective as well as qualified. A better alternative would be to add language to paragraphs 18, A11 and/or A12 of SQMS 2 to make it clearer that anyone who lacks appropriate objectivity would not be qualified to perform an EQR.</p>
076	No	NO
076	No	We are professionals and we have ethics and can look at former audit clients objectively w/o a "cooling off" period
079	No	<p>The cooling off period in order to be qualified to perform EQCR. (1) Implementation of a rule requiring a mandator cooling off period is totally inconsistent with a risk based approach to quality firm management as it bars the firm from applying its own professional judgment. (2) On its face this mandatory cooling off period is a requirement that might affect 1% of the firms in the US, and lacks the scalability premise of SQMS 1. (3) in the smaller firm environment, where an engagement partner may serve as engagement partner on dozens of engagements each year the familiarity threat is totally different than in large firms where an engagement partner may only serve in that role for one or two clients. In small firms the requirement for a cooling off period is both unreasonable and unnecessary. (4) Through my own experience as a Big 4 audit partner in an earlier phase of my career, I know partners who only had one client. In such instances, a cooling off period probably makes sense. Somehow the profession got comfortable that such a partner was independent when said partner never was. His or her livelihood was totally dependent on keeping that client, but if the firm had some safeguards the firm was deemed to be independent, and the AICPA</p>

was satisfied. Then along came Enron and that myth was busted. Still, we keep on with the view that firms with single clients bringing in millions in fees a year are independent because to think otherwise would undercut the premise that such firms can be audited and the auditors can be independent. The point is that as a profession we make rules that suit the economics of the situation as well as address principles we hold dear. (4) Cooling off can make sense in a risk assessment model of quality firm management, but as a presumptive requirement doesn't make sense economically and is based on another false premise.

080 No In our case it would mean pulling a great field auditor from our 10 SOC audits so that they can perform QC work. Taking that auditor off the audit in fact could diminish the quality of the audit, which defeats the idea of quality control. The idea of hiring a third party is going to be extremely expensive and time consuming.

086 No The committees believe that the proposed cooling-off period in SQMS No. 1 that prohibits partners rotating off an engagement from serving as the engagement quality reviewer for a period of time would unduly penalize firms that require such engagement quality reviews (EQRs). Given the lack of qualified resources, a required cooling off period could present a significant compliance hurdle for firms with rigorous EQR policies. As the proposed standard continues to allow firms considerable latitude for determining which engagements will undergo an EQR, firms could respond to this new cooling-off period by revising their EQR policies to be less restrictive, which would work contrary to the objective of enhancing audit quality. In theory, involving another engagement quality control (EQC) reviewer may provide another perspective to the engagement, and therefore minimize the self-review threat, typically those firms engaging an EQC reviewer are performing high-quality engagements. The committees believe that any standard that discourages the use of an EQC reviewer would be contrary to high audit quality objectives. The committees do not support this change without definitive research that a cooling-off period for the EQC reviewer improves audit quality.

089 No We are in favor of no required cooling-off period, and instead recommend that firms be required to identify the fact that they have a threat to objectivity, evaluate the risk, and identify safeguards to not have a cooling-off period, considering the specific nature of the firm's engagements and practice. It is sometimes advantageous to audit quality to involve aprior party who is familiar with judgments that were made in the past, for example, when transitioning partners. For the standard to be scalable, some judgment is required, rather than definitive requirements where there is not sufficient cost-benefit.

Examples of engagement review safeguards identified by the committee include a technical review "cold read" of the financial statements. This is sometimes done by the EQ reviewer, but as a safeguard, in situations where the EQ reviewer was formerly involved in judgments made, a different partner could be assigned to do that "cold review".

093 No We do not believe the cooling-off requirement is necessary for an EQR. Our experience has been that this situation rarely comes up in practice, even at large firms. A partner who relinquishes a client usually does so because he/she is retiring and is therefore, unlikely to take on a technical role. In cases where a retiring- partner is passing the practice on to his/her children or younger partners at the firm, it may be beneficial to have that partner's experience during the transition period.

The act of transferring a client to a new engagement partner alone should suffice in reaching an objective mind state. The former engagement partner's familiarity with a client would provide for a more robust review to enhance engagement quality.

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There may also be a benefit to having a Partner with prior experience with a client, not involved in the current engagement, perform an engagement quality review. As long as the partner does not contribute to the current year engagement, there should not be a threat to their objectivity as EQR.

For sole proprietors and small firms, a cooling-off period of a week or two between the completion of the engagement and the issuance of the report would allow a sole proprietor or engagement partner a period of time to step away from the engagement prior to a required final review of the engagement and prior to issuance could serve as a safeguard. A cooling-off time period would allow the sole practitioners and engagement partner to have time to gather a fresh perspective prior to a review of the report and final statements prior to issuance.

094	No	Likewise, prohibiting partners from serving as the engagement quality reviewer and requiring a two- year cooling off period could eliminate or negatively effect many of our mid-size and regional firm members. This scenario seems untenable. Members point out, serving as an external reviewer is of little interest to many firms. Additionally, it's certainly not timely and responsive to the client's needs. This will undoubtedly negatively affect small firms' ability to remain in the AA space; as the licensed profession providing these services, this change will greatly affect smal firm's revenue stream and force them into providing already commoditized practice areas such as tax-only services.
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097	No	We don't agree with the cooling off period concept.
		Related to most of the concerns above, the cooling-off period fails to acknowledge small firms who do not have that luxury. A safeguard of lowering the objectivity threat is placing a higher reliance on peer reviewers as their purpose is to review our quality of work.

098	No	We do not believe the cooling-off requirement is necessary for an engagement quality review (EQR). Our experience has been that this situation rarely comes up in practice, even at large firms. A partner who relinquishes a client usually does so because he/she is retiring and is therefore, unlikely to take on a technical role. In cases where a retiring-partner is passing the practice on to others at the firm, it may be beneficial to have that partner's experience during the transition period through the performance of an engagement quality review. The act of transferring a client to a new engagement partner alone should suffice in reaching an objective mind state. It is our opinion, that in any scenario, the former engagement partner's familiarity with a client would provide for a more robust and effective review to enhance engagement quality.
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099	No	No. Small firms may have no one else available. Small firms and sole practitioners should be exempt8b
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100 TIC	No	TIC believes that a cooling-off period should only be required as a response to an identified risk for a specific engagement. This view is based on TIC's collective experience where there were changes in which individual was serving as the engagement partner for reasons other than risk. TIC identified several situations in which a cooling-off period for a previous partner should not be required: Some firms identify engagements which are lower-risk and have the engagement partner transition the engagement to a senior-manager level to provide them with experience serving in an engagement executive role, which better prepares them to
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become a partner.

Firms may choose to transition engagements to a newly promoted partner in order to provide that partner with a base client book of business, allowing the previous partner more time to pursue new clients.

Partners who are nearing retirement may begin to transition clients to other partners to ease the succession of client responsibilities.

Similar to the previous bullet point, when new partners are admitted to the firm, they may have clients transferred to them. In this situation, firms also may have policies that require an EQR for the first year after the partner joins the firm.

In the scenarios presented above, there is not a risk (i.e., familiarity) for which a cooling-off period would seem necessary. By requiring a cooling-off period in those scenarios, the previous partner would not be eligible to serve as an EQR on the engagement; however, that individual presumably has the most knowledge regarding the engagement. While TIC recognizes that there is no guidance which prevents the previous partner from remaining involved in the engagement, many smaller firms do not have the resources available to effectively have three different partners participate on engagements.

By removing the previous partner from the pool of potential EQRs, smaller firms may either choose an individual who is a less appropriate choice due to having less relevant SKE, or as we addressed above in our response to question 3a, making firm policy changes to modify which engagements require EQRs. Neither scenario likely would improve quality. The logistical challenges resulting from requiring a cooling-off period in these scenarios also may have the unintended consequence of firms choosing not to transition engagements to new partners. TIC views this outcome as potentially more harmful to quality over the long-term as it would deny new partners/senior managers opportunities to serve as engagement executives while being reviewed by the previous partners.

While the situations above would not warrant a cooling-off period, TIC does believe that when there is an identified quality risk for an engagement, firms should have a policy in place to require a cooling-off period as a response to that risk. The time of the cooling-off period would be determined based on firm policies in consideration of the objectivity/familiarity risks identified in the engagement. TIC believes that this risk-based approach is most consistent with guidance throughout auditing standards.

This approach could be implemented in two manners:

Modify the proposed standard to remove the requirement of a cooling-off period, replacing it with a risk-based evaluation, or
 Maintain that a cooling-off period should be the default assumption for all engagements but allow firms the ability to deviate if they can demonstrate the change is for reasons other than an identified risk.

While TIC believes that both approaches would be an improvement over the guidance in the proposed standard, our preference is for option a) above, as we believe that approach would be implemented most effectively.

100 TIC	No	TIC does not support inclusion of a mandatory cooling-off period for former engagement partners to serve as an EQR on that engagement. TIC believes a risk-based approach is more appropriate.
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Agenda Item 4E – QM Comment Letter Analysis: Cooling-off period

101	No	<p>The proposal also includes a cooling-off period for EQCR. I believe that efforts to enhance EQCR, while well intentioned, are counterproductive. The more difficult standards make it for a firm to perform EQCR on its engagements internally, the more likely that the firm will simply modify its EQCR criteria. Standards should be encouraging more EQCR or other second person reviews rather than discouraging them by making the rules for their implementation overly complex or costly.</p>
102	No	<p>The majority of the members of the Committee do not visualize a cooling off period as an issue for the small and medium sized firm.</p> <p>The members' engagement clients are usually ongoing and thus it is not visualized that a cooling off period will ever come to pass.</p> <p>A minority of the members disagree with this stance. Some firms as policy require engagement partner rotation and thus see this cooling off period as a detriment to maintain quality. These members recommend a carve-out provision for small firms.</p> <p>The Committee does recommend that a carve-out be allowed for a period not to exceed two engagement years for a retiring partner to act as the engagement quality reviewer. This will facilitate a better transition resulting in greater ongoing quality.</p>
109	No	<p>The Committee believes a cooling-off period would provide an undue burden on smaller and some medium-sized firms. As such, we do not think a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement.</p> <p>A firm's system of quality control should be sufficiently implemented to ensure all practitioners practice objectivity at all times on all engagements.</p> <p>We believe a better standard would be harsher punishment for those firms which continuously fail peer review and for those peer reviewers who do not perform their duties with professional due care.</p>
110	No	<p>We do not believe a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer. We believe that the proposed standards should maintain flexibility for firms to customize and tailor responses to quality risks. We do not believe additional constraints should be in place to restrict the use of an engagement quality review to address a specific risk since the criteria of who can perform an engagement quality review already has a self-review constraint built into it. We recommend that the Board consider making the cooling off period a recommendation rather than a requirement as it may discourage firms from performing an engagement quality review, which is a very useful and effective quality measure. Such a result would be in contradiction to the underlying goal of the proposed standards.</p>
111	No	<p>I also disagree with any changes in the cooling off period for the same reasons as above.</p>
113	No	<p>Proposed SQMS 2 requires a cooling-off period that prohibits partners rotating off an engagement from serving as the engagement quality reviewer for a minimum of two years. We question the effectiveness of this prohibition in enhancing audit quality.</p>

In many cases, an engagement team member from the previous one or two years may be the very best person to enhance audit quality due to their depth of knowledge of the client. Having the EQR performed by someone without experience may enhance audit quality or may detract from it. It seems best to leave that up to the judgment of the firm.

If a cooling-off period remains in the standard, our concern is that firms may feel the need to make EQR policies less restrictive. In other words, design their policies to make fewer engagements subject to EQR. This could result in a decline in quality, not an improvement.

We recommend that a mandatory cooling-off period be removed from the standard, allowing firms to retain flexibility for determining which individual within the firm is most likely to enhance audit quality as the engagement quality reviewer.

116 No

We agree with the observation of the ASB that no research exists to support the supposition that a cooling-off period of a former engagement partner improves audit quality. Accordingly, adoption of 100% of the provisions of International Standards may not be the best design for all industries of the accounting profession. Also, a complete lack of knowledge about a client and its historical financial activities could in fact result in lower audit quality.

The conclusion that a former engagement partner automatically presents an objectivity threat appears presumptive at best. A former engagement partner, in most cases, will have historical knowledge of a client’s financial activities that impact the entity’s financial statements. Examples of historical knowledge that a former engagement partner may have that could enhance audit quality include prior debt offerings and refinances, major capital asset additions and dispositions, known occurrences of fraud or abuse, related parties and related party transactions, information obtained from past analytical procedures, and other information that is deemed relevant to the financial statements and report opinion(s).

Furthermore, when implementing new standards, the prior experience of a client is more critical than ever. For example, knowledge of a former partner would be very helpful when implementing FASB ASC 660 or the lease standards. This knowledge would result in higher audit quality rather than having a partner with no or little prior experience of the client.

118 No

The proposed standards also propose a “cooling-off period” where the engagement partner could not perform the EQCR for a two-year period after rotating off the engagement. Small firms typically do not have enough partners to facilitate this “cooling-off period”. These firms would be forced to either engage outside individuals to perform the EQCR which dramatically increases the expense of the EQCR. Imposing this “cooling-off period” will only encourage firms to delay rotating partners off engagements, which is not beneficial to either the firm or the audit client.

119 No

We believe that the proposed cooling-off period in SQMS No. 1 that prohibits partners rotating off an engagement from serving as the engagement quality reviewer for a period of time would unduly penalize firms that require such engagement quality reviews (EQRs). Given the lack of qualified resources, a required cooling off period could present a significant compliance hurdle for firms with rigorous EQR policies. As the proposed standard continues to allow firms considerable latitude for determining which engagements will undergo an EQR, firms could respond to this new cooling-off period by revising their EQR policies to be less restrictive, which would work contrary to the objective of enhancing audit quality. In theory, involving another engagement

quality control (EQC) reviewer may provide another perspective to the engagement, and therefore minimize the self-review threat, typically those firms engaging an EQC reviewer are performing high-quality engagements. We believe that any standard that discourages the use of an EQC reviewer would be contrary to high audit quality objectives. We do not support this change without definitive research that a cooling-off period for the EQC reviewer improves audit quality.

120	No	<p>I believe this should not be a requirement, but should be part of the risk assessment. Ask the question, document the response and the rationale for not needing it, as applicable. Most often, I would think you might have a partner moving to more complex engagements, passing work on to a younger up and coming. Certainly in these instances having the former partner do the EQC for the subsequent year might make perfect sense. If he/she still has the requisite knowledge and experience, that may be an ideal situation since who would be in a better position to ensure the new partner has addressed key issues. On the other hand, if the client had on-going or contentious issues that former partner might be better in just a consulting position with a totally different EQ Reviewer. Certainly if the former partner was not effective in his engagement partner role or had multiple issues arise on prior years, he would probably not be a good choice. As standards setters looking for scalable and principle based, it is impossible to identify all scenarios. Firms need to be able to identify the risk and determine what is best in a given circumstance – but they need to document.</p>
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122	No	<p>I strongly oppose any cooling off period for engagement quality control reviewers in situations where the firm would need to go outside the firm to hire an engagement quality reviewer.</p>
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I want to start my discussion of this with an overview/indictment of the process the ASB is using to develop the proposed standards in their entirety. In the background section, the Board seems to treat the International Auditing and Assurance Standards Board (IAASB) as if their policies are universally "Godlike" and appropriate for audit firms of all sizes. I think that is an enormous mistake on the Board's part. From reading the IAASB statements, it's as if we are just cutting and pasting what the IAASB has already passed across the pond and subjecting all auditors to it.

The Chair of the IAASB is an individual named Mr. Tom Seidenstein. His resume', taken directly from the IAASB website, reads as follows (look for ANY evidence of an audit background):

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Why are we relying on an international committee led by a non-auditor with no real world experience to seismically change our audit landscape for local firms in the United States?

If you don't believe that he has no audit background, read the first paragraph of the following article posted on the IAASB website and see if it sounds like the IAASB plans to stop their audit regulatory changes at these same standards the Board is trying to push on all local firms. Also, note the very close wording the Board has given in its background section to propose radically transforming local firm audits for no evidenced reason.

With New Standards in Place, Proactive Quality Management Will Underpin the Next Era of Audit Transformation

Tom Seidenstein

Chair, International Auditing and Assurance Standards Board Published Sep 23, 2020

Last year, as a non-auditor, I joined the International Auditing and Assurance Standards Board (IAASB) with a firm conviction in the value of the audit profession. At its best, the audit profession should drive greater confidence and trust in our economy and the functioning of our markets. At the same time and despite the good work of many auditors, recent corporate failures have raised fundamental questions regarding the relevance and quality of audits. "Era of Audit Transformation". Seriously? What else is the Board willing to tag along with the IAASB on that you aren't yet disclosing? As a local practitioner in the UNITED STATES, I don't care that the Parmalat audit blew up across the pond. That's the big firm's problem. It's not something that should be leveraged to alter how firms of 20 people or less do their work in this country, where we live, and where our clients live. Tom makes no mention in his article of the impact on local firms. Our Chairman of the ASB called it a "heavy lift" for small firms in a meeting where CPE speaker, Jim Martin, attended virtually some months ago. At least his assessment is more transparent.

Once again, the Board may state they are in touch with local firm needs. See the indictment on the claim the TIC is made up of folks from small firms above. The Board itself is just as bad. Of the 12 committee members that worked on this proposal's task forces, 7 work for firms with 2,000 or more employees, 3 work for firms with 50 or more employees, 1 appears to be a sole practitioner specializing in the "blown up area" of ESP that I suggested you regulate further in my prior comment above and the other firm represented on the task force doesn't list a number of employees (but has 7 partners). Where is the true local firm representation of the other 45,500 firms with 20 or fewer employees? Once again, it is non-existent. Where is the proof that the IAASB models will even work? They are just a deliberately created group of thinkers with lots of ideas, but with no real world

results . By the time the dumpster fire gets going, the committee is long gone. By the time the fire is out, our local firms are greatly diminished. We have just as much of a right to provide these services to our clients as the big firms and should not be pushed out of providing these services when we provide quality work .

Why is a mandatory cooling off period a bad thing for local firms?

It invites a reduction in engagement quality reviews. As indicated in my earlier comment, if the firm will have to go outside its doors and hire a quality reviewer, the incentive is there to opt out of some quality reviews, which, of course, crushes the Board's intent to make the audit a better product.

It hinders training of up and coming partners. Who is going to review the engagement file of a new partner when the immediately past partner is barred from doing so, especially when the firm only has two partners qualified in the area? Once again, refer to the issues with external monitoring in my comment above.

Where is the empirical evidence, which major policy decisions should be based on, that having a former engagement partner review files within two years after being replaced on the engagement will damage the engagement on a local firm level? Where is the empirical proof it will improve it on a local firm level?

What is "cooling off" to a local firm anyway? Is the former partner allowed to still communicate with the client, advise them, go to church with them, attend their child's wedding, or do estate planning for them? In the world of the local firm, we do all that. In fact, the client stands to incur substantial harm if we suddenly have to shut up and move on from them for two years just because we aren't the engagement partner any longer.

It could encourage firms to "mislabel" the engagement partner on the job.

It probably constitutes a restraint of trade. It seems to me this is a trade organization (the AICPA), subject to antitrust laws such as the Sherman Act. How can the AICPA constrict my ability to do business while allowing firms of larger size to not be subject to the same requirement of having to go outside the firm to find a reviewer? Doing so would require my firm to pay extra fees and be subject to the market forces mentioned in the comment above while larger firms, such as the ones represented as the voting members on this proposal, are not subjected to that issue. This clearly stifles competition among firms and potentially costs me clients. That is the definition of an unreasonable restraint on trade.

My suggestion to solve this non-existent problem in local firms is to drop the proposition from the proposal, at least for local firms where it would require the use of an outside quality reviewer. Once again, local firms are being asked for ways to solve a problem it hasn't been proven even exists! The concept of being asked to prove a negative is simply unfair.

124	No	<p>The committee understands the proposed cooling-off period is a good way to get fresh eyes on an engagement and minimize the self-review threat. However, the committee is concerned that it could be contrary to high-quality objectives because it takes away an established knowledge base from the engagement. This is especially concerning as it relates to specialized industries. Requiring another engagement quality control reviewer who doesn't understand the industry just for the sake of a cooling-off period would be contrary to high audit quality objectives. The fact that smaller firms will lack the additional qualified resources to satisfy the requirement makes this even more challenging. The committee believes that the fresh look by a new engagement partner addresses quality concerns and that quality review by the prior engagement partner brings with it the knowledge that actually enhances engagement quality. Finally, why is it necessary to have a cooling-off period if there is no partner rotation requirement? If there is a cooling-off period, we believe such cooling-off period should not exceed one-year.</p>
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125	No	<p>SQMS 2 requires a determination as to when an engagement quality review (EQR) is required. We recognize that this is not a new requirement, as it is already included in the SQCS. Our major concern with the proposal is the potential limitation on a previous engagement partner to perform the EQR. This can be a costly change for a small firm. Consider a single partner firm that admits a new partner. In every situation we can identify, when this happens the existing partner transfers a portion of their clients to the new partner. Under the proposal, this would mean that engagements would have to go to an external individual for the EQR. Of course, this would depend on the firm's risk assessment as to when an EQR would be required. In this situation, it would not be unusual for the firm to conclude that some of the engagements under the responsibility of the new partner would become subject to an EQR solely due to the fact that the individual has new responsibilities; the engagement may not have met the criteria for an EQR if it was still being performed by the previous partner. Further, in a smaller firm, firms may not have the breadth of expertise among a number of partners when an engagement rotated. Therefore, firms may make a decision not to rotate work to avoid having to out-source the EQR, which inherently could elevate other threats to engagement quality, or worse, create a situation in which firms do not promote/admit new partners because the system of quality management would create additional costs. We understand that economic considerations should not play a factor into engagement quality, but it is quite real that the proposed changes could cause that to slip into decisions, even if subconsciously.</p>
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Further, the United States is a much more litigious country than many others around the world. Based on our own firm's experience finding external EQR is extremely difficult. By bringing in an external resource to perform the reviews subject those participants to litigation risks. Risk a firm, or their insurance companies, may not be willing to assume. There is already a shrinking pool of peer reviewers, which is the likely resource firms will look to in order to fill this role. Compound the problem of the limited pool of potential reviewers with the fact that the engagement deadlines for both the reviewer and the firm are more than likely the same, and with the existing staffing shortage, it becomes even more unlikely that potential EQR reviewers would be able to assume more work. Another way to look at this, even if it was agreed that an external EQR would be the solution for a small firm, or when a partner is subject to a cooling off period, the requirement becomes unfeasible if firms can't engage a reviewer.

We suggest that the limitation on the previous partner's ability to perform an EQR be removed from the final standard.

126	No	<p>I vigorously oppose any cooling off period for engagement quality control reviewers in situations where the firm would need to go outside the firm to hire an engagement quality reviewer.</p>
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129 No

I've recently moved from audit partner to managing partner. It's critical for the health of my firm and my clients that I maintain a watchful eye over the audit department and I intend to that by performing EQCR and peer reviewing the department annually during the inspection period. This year in particular it is critical for me to perform that task. I have stepped out of the engagement team but I still know all those clients well. While I'm curious to see what new approaches the engagement team will take and new risks they will identify, I know where the risks have always been and I want to know the team is covering them. I'll do that through EQCR for our highest risk clients, I'll spot check CPE records and independence forms, I'll review agendas for the audit department meetings and at the end of our next period I'll conduct the annual inspection (catching some engagements that were not selected for EQCR). It's most effective for me to perform the EQCR function the year after exiting as the audit partner. With a 2 year cooling off period I won't know what I know now and my knowledge is relevant to the audit. Also, I don't understand the point of the two year cooling off period. If I'm off the job for 2 years, but then perform the EQCR every year afterwards, doesn't this make me somewhat familiar with the client again? If it's that important to have no understanding or familiarity with the client, except what's written in the file, why wouldn't the rule be that you could only perform the EQCR every two years? Not that I'm recommending that!!

Also I have issues with the recommendation that the inspection be performed by someone independent of the engagement team. I understand that this means the inspector can't be someone on any of the audit jobs. Exactly who would that be? The only people in our firm who aren't on any audit jobs (including me as EQCR) are tax accountants and bookkeepers. So they

definitely are not qualified. Even huge firms don't have auditors (or audit partners) who aren't on any audit jobs. Why would they?...and wouldn't they cease to be auditors if they aren't on any engagements?...and wouldn't they cease to have the expertise to perform inspection if they aren't on any audit engagements for the entire year? Please let me know if you think I have misunderstood this requirement.

It seems as though the AICPA is removing the most important parts of monitoring from the firms' responsibility and placing it on an outside party. When these firms then choose the cheapest inspector possible (and you know they will) or ask their tax partner to do it and still fail peer review it will be the peer reviewers who get the blow back.

So would it include a requirement that the firm doing inspection pass scheduling with the AE's? Otherwise you know as well as I do that people are going to start by asking their tax partner (or lowest bid) to do inspection then they're going to hire an unqualified inspector.

130	No	This is not necessary for smaller firms that serve smaller clients. There is a benefit to having the knowledge of the systems, background and other matters that are learned by an individual serving as engagement quality reviewer; and that same benefit may serve a client best if that engagement partner is the best choice to serve as engagement quality reviewer the subsequent year. While there is an appropriate trade-off with the 'fresh set of eyes' that comes with cooling off periods for publicly traded entity audits, firms that serve such clients are generally larger and have a larger pool of audit partners to rotate in and out of the required periods. Smaller firms do not have the same sized pool of audit partners nor does the risk associated with the objectivity threat outweigh the cost (number of partners, disruption to client etc.) for the smaller, less complex non publicly traded clients.
130	No	We believe there should be no cooling off period
132	No	I do not. As discussed previously these provisions would seriously penalize firms, primarily small firms, which may not have the extent of qualified professional human resources. This immediate and extraordinary change to implement not only a cooling-off period, but set at two years is a significant burden with far-reaching complications and unintended consequences. Just as a significant number of firms withdrew from providing services to public companies when the PCAOB was launched, leaving hundreds-to-thousands of smaller public companies having to obtain new auditors at a significantly higher costs, the implications to smaller private companies could be even more impactful when the cost of compliance exceeds the benefits.
135	No	We agree with the observation of the ASB that no research exists to support the supposition that a cooling-off period of a former engagement partner improves audit quality. Accordingly, adoption of 100% of the provisions of International Standards may not be the best design for all industries of the accounting profession. Also, a complete lack of knowledge about a client and its historical financial activities could in fact result in lower audit quality.

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quality include prior debt offerings and refinances, major capital asset additions and dispositions, known occurrences of fraud or abuse, related parties and related party transactions, information obtained from past analytical procedures, and other information that is deemed relevant to the financial statements and report opinion(s).

Furthermore, when implementing new standards, the prior experience of a client is more critical than ever. For example, knowledge of a former partner would be very helpful when implementing FASB ASC 606 or the lease standards. This knowledge would result in higher audit quality rather than having a partner with no or little prior experience of the client.

137	No	<p>Cooling Off Period: We are concerned that requiring a two -year cooling off period will be challenging for small and some medium size firms. Available qualified individuals, especially in specialized industries may create a significant challenge with limited or questionable benefit to quality. We are concerned that availability of willing outside assistance may be a significant hurdle. We suggest that the cooling off period be limited to one year and allowance of alternate safeguards that individually or collectively result in mitigating the risk to quality.</p>
139	No	<p>Cooling-Off Period</p> <p>The arguments against the proposed cooling-off period in SQMS No. 1 as presented in the explanatory memorandum seem to be more compelling than achieving convergence with IAASB. The ASB noted that the AICPA Code of Professional Ethics does not require a cooling-off period but the International Ethics Standards Board for Accountants does. In addition, the ASB noted that there is no research to support the supposition that a cooling-off period improves audit quality. A prescriptive requirement should not be promulgated that has not shown to improve audit quality.</p> <p>The ASB also noted that small firms might have difficulty identifying qualified personnel to perform this review which would lead to the unintended consequence of fewer engagement quality reviews being performed. We believe this argument should not be overlooked and is highly likely.</p>
141	No	<p>would think any qualified partner that is not involved the current engagement could be an engagement quality reviewer on that engagement. I think that person’s involvement would be a positive by his/her understanding of the entity and its environment. I think the new engagement partner is part of the safeguards in place. Also, if the firm considers that a risk, they can assess as such and make determinations and processes as needed.</p>
144	No	No
147	No	<p>We do not believe a cooling-off period should be an absolute requirement for eligibility of an engagement quality reviewer.</p> <p>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.</p>

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.

148	No	No current substantial research exists that provides evidence that the implementation of a cool-off period of a former engagement partner improves audit quality. The addition of this new standard would only increase compliance and financial burdens on sole-practitioners and smaller firms engaged in EQR.
149	No	I don’t have any specific comments on this particular issue as I am a sole practitioner and my comments would be similar to those posed for the self inspection issue. It seems odd that with the IAASB exposure draft that only 17% of the respondents commented that there should be a requirement for a specific cooling-off period and that was a high enough percentage to include the requirement in the final standard. Unfortunately that shows me that respondent comments will be made but that the ultimate direction of the standard will be what the specific policy board wants it to be in the end. It is surprising that within the no cooling off period option the document states that the ASB members noted that no research exists to support the supposition that a cooling-off period improves audit quality. However the final proposed standard includes the same 2 year cooling off period that the IAASB standards include in order to result in full convergence with the IAASB standards which the document states is consistent with the ASB’s strategy. It seems a bit odd that the ASB strategy is to create a document that is for all extensive purposes the same as another standard setting board. I would ask the question again as to why the standards are the correct way to go simply because another board has? In addition, I am sure there is a large majority of individuals and firms that never perform audits that as subject to international auditing standards so why then are the standards so geared toward them?
150	No	We are not in favor of a required cooling off period. In the small firm context, it is not practical or feasible. Additionally, if the engagement partner is responsible for the engagement and is independent of the client, why wouldn't they be the one to assess the quality of the engagement? The safeguard is that the engagement partner knows his client and is independent of the client as it applies to attestation engagements. Additionally, they are responsible for every aspect of the engagement including quality of the engagement. The engagement partner is objective, otherwise they shouldn't be accepting the engagement in the first place.
155	No	We understand the reasoning for a cooling-off period before a former engagement partner can serve as an engagement quality reviewer on that engagement. However, we also believe that the quality of an engagement quality review is impacted principally by the qualifications and objectivity of the engagement quality reviewer, which depending upon the facts and

circumstances of a particular situation, may or may not be a former engagement partner. To establish such a requirement may actually have a negative impact on audit quality depending upon the resources available in certain situations.

160 No

Appointment and Eligibility of Reviewers - The objective stated “this limitation is necessary to make sure that the engagement quality reviewer is in a position to objectively evaluate and, where appropriate, challenge the significant judgments made and the exercise of professional skepticism by the engagement team” is appropriate in so far as increasing objectivity. However, I believe consideration should be given to negative aspects of such a limitation. Those negative aspects may outweigh the benefits of any perceived increase in objectivity.

The notion that allowing the previous engagement partner to serve as the engagement quality reviewer creates a lack of objectivity can be disputed. It is true that judgements are likely carried forward from year to year. However, it is the new partner’s responsibility to consider those judgements and whether they continue to be appropriate. If those judgements had been subjected to an EQR previously, they should have already been vetted.

The conduct of an audit has significantly changed since the extant standards were developed. At the beginning of every audit the engagement team meets and goes through the current issues facing the client and the audit. Every significant step is questioned as to whether it is appropriate for the current year, whether it is accomplishing what is needed, and whether anything should change based on the current environment. The new partner takes responsibility for this assessment and “owns” the audit. The former partner would have little if any influence on those current decisions. The firm’s system of quality management should insure this takes place. If it does not, the other elements of the system have not been properly designed or implemented.

The former partner on a client likely knows more about that client, the risks, and the complexities, than anyone else. If the current partner changes a significant judgment made in response to their assessment of those elements, there is a considerable benefit to having someone who knows the history to be there to question the new assessments. It is the current partner that is responsible for the engagement, they would be able to use that valuable knowledge and come to their own conclusions.

To assume the EQR partner would have undue influence indicates there are more issues in the firm, such as tone at the top. We should assume the system is designed to prevent that for the reasons noted above.

For smaller firms, there may not be a choice but to go outside the firm. This would likely result in small firms designating very few engagements as being subject to EQR, since it is up to them which engagements would be subject to EQR. This would be contrary to the intent of the profession, which is to get an objective and timely review when needed or wanted.

There is a significant difference between engagements with a public interest and those without. The PCAOB addresses most of those engagements in the United States. The matter of objectivity of an EQR partner is largely perception, as noted above, versus the very real benefits of having the former partner involved at this level.

While the ASB has the public interest in mind as its primary consideration, the concept of scalability should be applied consistently and not require a cooling-off period for engagements not having a public interest.

162 No No. The primary bases for our response are as follows:

We believe such a cooling-off requirement may erode audit quality in many firms, particularly those outside the top 10 firms. Such a cooling-off requirement will unintentionally focus on incremental objectivity at a disproportionate expense of technical competence and thus, on a net basis, erode audit quality. Many firms have limited subject matter specialists in each industry capable of appropriately performing the EQR in particular industries. Thus, for many firms, the cooling-off period would create unnecessary cost in excess of the potential benefit

As noted in the Explanatory Memorandum, the cooling-off requirement combined with the requirement prohibiting self-inspection, would mean that some firms would need one person performing the inspection and another person performing the EQR. Many firms do not have a sufficient number of personnel that are subject matter experts in the same industry.

To avoid the potential erosion audit quality in the bullets above and the recordkeeping and monitoring costs, a number of firms may just choose to have no EQR at all or to have an “EQR-light,” that is where a firm picks and chooses the components of the EQR requirements that are appropriate for the firm, but does not have a formal EQR. While such may be appropriate in certain circumstances, we believe the cooling-off requirement, as proposed, may unintentionally erode audit quality.

Overall, we recommend no such mandatory cooling-off period.

163 No

We are strongly opposed to this requirement from SQMS 2:19. It will do the opposite of its intent. We do not believe the cooling-off requirement is necessary for an EQR. This is usually a consideration when a partner is retiring or when a new partner is promoted, and engagements are being handed off to the new partner. In cases where a retiring-partner is passing the practice on to other partners at the firm, it would almost always actually be beneficial to have that partner’s experience during the transition period. If the partner is passing the engagement to a former manager/senior manager who is now a partner, the same holds true. The act of transferring a client to a new engagement partner alone should suffice in reaching an objective mind state. The former engagement partner’s familiarity with a client would provide for a more robust review that actually enhances engagement quality due to cumulative knowledge of client. Being brand new to an engagement, there is so much to know that a reviewer cannot possibly pick up on everything. Someone that already knows where the skeletons are so to speak would do a far more thorough job of EQR.

This step also puts an undue burden on smaller firms that do not have the volume of high-level attest senior managers or partners to spread around engagements to. Then all the same issues are raised as noted in the general commentary section.

However, this is less critical than the fact that this requirement out of all of them is simply unnecessary and will cause less effective reviews.

165	No	The former engagement partner has a level of knowledge about the engagement that make them the most qualified party to perform the EQCR. Their role as reviewer is much different than engagement partner and we must trust the integrity of both the new engagement partner and former engagement partner to strive to perform a quality engagement. By instituting the cooling-off period, the potential to diminish audit quality exists due to the loss of knowledge and expertise that the former engagement partner possesses. Due to their size, many firms will need to hire someone for the EQCR and as mentioned above, qualified reviewers (with availability) are increasingly hard to find. Even if they can find an outside party, some firms have multi-year agreements on fees and will not be able to recover these costs from the client.
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One potential unintended consequence of this change is that some firms will merely change the criteria for an EQCR, eliminating the need for many of these. They will not do so to circumvent the system but will do so to allow the most-knowledgeable person (the former engagement partner) to be the second reviewer. If firms make this change, there will be no benefit in the imposition of the cooling-off period.

166	No	For many firms, I don't believe the prescribed cooling off period is feasible. I don't understand why there would be a requirement for a cooling off period when there is no proof that it improves audit quality. I don't understand the cooling off period exemption offered by PCAOB, it seems like firms with fewer than 10 partners and fewer than 5 issuer clients would be at greater risk of poor audit quality, much in the way that firms performing a small number of single audits or employee benefit plan audits are at greater risk of poor quality audits. This exemption casts doubt that the cooling off period requirement provides any real benefit.
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One of the reasons for the cooling off period listed was that partners who are penalized for errors in audits that are issued may not be objective when reviewing an engagement. In my view, the incentive pay or penalty for audit quality is a bigger problem than not being far enough removed from the engagement. Monetary incentives may be set up for good purposes but they also incentivize manipulation and lack of transparency.

167	No	We believe this standard would be burdensome to small firms, with a limited pool of EQ reviewers. Further, it could have a negative impact on audit quality. See our response in question #2 above.
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171	No	Under the current QC standards, a firm is required to establish policies and procedure for EQCR and establish criteria for when the significant assumptions and conclusions on certain engagements (e.g., a new industry or engagement type for the firm) should receive an objective evaluation by a qualified individual outside of the engagement team. The proposed QM standards have a similar requirement for engagement quality review (EQR).
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However, the current standards have no "cooling-off period" for when an engagement partner who rotates off an engagement can become eligible to perform the EQCR for that same engagement. He or she only needs to be independent of the

engagement (that is, not part of the current engagement team) and meet certain other qualifications (i.e., knowledge and experience, continuing education, etc.). The proposed QM standards call for a two-year cooling-off period for such instances.

Like the IAASB, the ASB believes that the ability of an engagement quality reviewer to perform an objective evaluation of significant judgements is affected when the individual was previously involved with such judgments as the engagement partner. Thus, to create an appropriate safeguard, the ASB believes a cooling-off period of two years is necessary to help protect the public interest. As a result, smaller firms with fewer individuals capable of performing EQRs may be required to engage individuals outside their firms to perform these evaluations.

Roundtable 4-27-21	No	Grace Singer (Berdon): focused industries (EBPs, HUDs) only have one or two partners, struggle with cooling off periods and prohibition of self-review.
Roundtable 4-27-21	No	<p>How do we address the challenge of objectivity?</p> <p>Jeremy Dillard (SingerLewak): Focus on competency. Is it a 'should' or a 'must'</p> <p>Sara response - it is 'should', no 'musts' in the QM standards</p> <p>Jeremy Dillard: If small firms or sole practitioner, when trying to get an EQR from outside, technology and licenses makes it very hard. Is there a sample document agreement that the ASB can provide for firms to use with these logistical issues? For example, should they pdf specific workpapers to review and send securely?</p> <p>Jon: May reduce the usage of EQRs if there are other ways to address quality risks, to avoid cooling off periods and engaging external EQRs.</p>
Roundtable 4-29-21	No	<p>Bill Berry - If I needed an EQR, I probably shouldn't have taken the engagement. Thinks there may need to be a third set of standards for these small firms.</p> <p>Alan Holmberg - Basically impossible for small firms, and no real benefit.</p> <p>Rick Haley - Thinks the firms should be able to determine the cooling period and monitoring guidelines.</p> <p>Sean Weaver (Allen Gibbs Houlik) - If people don't follow existing guidance, there is peer review oversight and boards of accountancy oversight to take care of that.</p>
Roundtable 5-20-21	No	<p>What was the thought process for cooling off and why that time period?</p> <p>ASB Taskforce comment letter to IAASB focused on standards being principles based. IAASB issued hard rule. Did not have a great basis for diverging. We do not want to be ISA-</p>

Agenda Item 4E – QM Comment Letter Analysis: Cooling-off period

(RSM Alliance)		ASB should look into/consider State/district requirements (i.e. California district with a 1 year cooling off)
Roundtable 5-25-21	No	<p>Cooling-off period</p> <ul style="list-style-type: none"> o EQR is meant not to be involved in the engagement, which makes sense with this requirement. § Riskier engagements need cooling off periods. o Logistical constraints with smaller firms. o Discourages rotation and promotion in smaller firms.
Roundtable 6-10-2021	No	<p>Cooling-off period</p> <p>It depends on clients.</p> <p>If clients are same year to year, cooling-off periods make sense.</p> <p>New standards or changes causing review, someone familiar with client will have better insights.</p> <p>Objectivity falls on reviewer and their mindset.</p> <p>Who is selected to review is critical.</p> <p>You're not objective if they continue to follow your plan.</p> <p>Consistency between standards can be beneficial.</p> <p>Difficulty with specialized industry.</p>
Roundtable 6-17-2021	No	Trade-off between competency and objectivity
Roundtable 6-24-2021	No	<ul style="list-style-type: none"> o There are advantages of using someone familiar with the review. § Difficulty when handing off engagements to junior partners in smaller firms or areas with less expertise. § Smoother transition for client service reasons. o There are advantages when someone steps away from the engagement they gain fresh sets of eyes. § Retain same set of biases as engagement teams. § Become an independent reviewer. o May cause people to not perform EQR that are not mandatory and cause overall quality to go down. § Many firms are not currently performing EQR regardless of their policies – as few as 5% they see perform EQR. o May not be as large of an issue for smaller firms as they do not roll off engagements as frequently.
Roundtable 7-12-2021	No	<ul style="list-style-type: none"> o Retiring partner would not be allowed to pass on EQR. § If there is low risk, use technical review. § Exclusion could be issue when selling the business.
Roundtable 7-13-2021	No	<ul style="list-style-type: none"> · Cooling-off Period o Difficult even for large firms, will be more difficult for smaller firms o As rotation is voluntary, prescription is contradictory o Already required to fix mistakes, so adding the requirement seems unnecessary o Impractical for partners without knowledge to review

Agenda Item 4E – QM Comment Letter Analysis: Cooling-off period

- o Competency in area should be more important than objectivity
- § Not all partners know area, industry, type of entity
- § Already required to
- o Could be a cascade effect
- § No current requirement of rotation, whereas a cooling-off would coincide with a rotation requirement

Roundtable No
7-14-2021

- Cooling-off Period
- o There is significant value in transitioning to a new engagement partner to be able to do QC review for a few years after transitioning
- o Concerns for those beginning a retirement track
- § The best person to complete the review in the firm could be the previous engagement partner
- o Forces additional cost in small firms or in specialized areas when these firms may be otherwise able to handle this

Roundtable No
7-27-2021

- Cooling-off period
- o This makes sense because the former partner may influence or have conflict when being open or objective to the engagement teams' work
- o Agree with the philosophy
- § Usually when the engagement partner comes off they retire
- § Difficult for small firms and specialized industries
- o Don't want to see EQCR's stop because of cooling-off
- o Small firms may be boutique or do local high-risk engagements and clients

Roundtable No
7-29-2021

- Cooling-off period
- o Even for a mid-size firm, this would be difficult
- o If the standards are principles based, this is too prescriptive
- § You should be able to evaluate your risks and safeguards
- o Difficult in niche areas where few partners are involved
- o Person who is technician can be of value
- o Finding the right EQR is helpful for quality

Roundtable No
8-16-2021

- Cooling-off period
- o Should be a tiered situation
- o If you have the ability and resources, it is a good idea
- o Difficult for smaller firms
- o Transitioned firm from generalists to focus areas, but needed to utilize former partners for EQCR during the transition
- o Reviewer should have requirements to have CPE in the respective area to prevent unqualified partner reviewing
- o A small firm may never experience this issue when the client is long-term with no change in the engagement partner
- o Rotation and cooling off periods have not been shown effective in the European studies
- o If you have a cooling off period, then you risk losing the institutional knowledge that could HELP in determining the risks, whether they were properly audited (or reviewed), etc.

Agenda Item 4E – QM Comment Letter Analysis: Cooling-off period

- o The principle behind these concepts is really our objectivity to review the files or perform the objective EQCR review.
- § As a profession that we are being faced with challenges on our objectivity and our ability to self-regulate
- o Risk based - need to be able to justify why using the former engagement partner is acceptable or actually preferable.
- § There should be a benefit other than cost
- o Ignores the independence safeguards Firm's employ when performing attest engagements over an extended period of time

Roundtable No
8-19-2021

- Cooling-off period
- o One year would be better
 - o There is an easy workaround – don't undergo EQR
 - § There are other quality initiatives that a firm may take instead of EQR
 - o This may make small firms stop completing A&A services

Exhibit F, Implementation Period

Number	Position	Coded Text
055	Agree	The Committee agrees that an 18-month implementation period is appropriate and sufficient. However, the exposure draft is not sufficiently explicit about early implementation and making that explicit to allow for early implementation will ease the transition for some audit firms.
065	Agree	Yes
077 ¹	Agree	18 months should provide sufficient time to complete the design and implementation of a new or enhanced system of quality management.
083	Agree	We agree that an 18-month implementation period is appropriate.
090	Agree	We agree that the implementation period is appropriate.
128	Agree	We support the proposed 18-month implementation period. We concur that it is in the public interest for the Proposed QM Standards to be effective as soon as possible; however, this should be balanced with appropriate time to effectively implement the Proposed QM Standards. As such, we agree that a minimum of 18 months between the issuance of the final standards and their effective dates is appropriate.
143	Agree	D&T is supportive of the 18-month implementation period. As noted in AICPA's Executive Summary – Project Level accompanying the exposure draft, it is clear that planning for the implementation of the new quality management standards should commence without delay. It is therefore our perspective that firms will have been given sufficient time to prepare.
146	Agree	Yes, the 18-month implementation period is appropriate. We believe it may be helpful to allow firms which are not also PCAOB registered firms, or firms that do not also provide services under the IAASB standards, to allow for an additional one year for implementation. This will provide additional time for risk assessment, development of practice aids, and internal training. It will also provide for some refinement of application and implementation materials as we anticipate additional application guidance will be forthcoming as firms start to implement these new standards.
150	Agree	an 18-month implementation period should be adequate.
159	Agree	Yes
166	Agree	I feel that the 18 month implementation period is appropriate.
168	Agree	Yes, the 18-month implementation period is appropriate. The Committee believes it may be helpful to allow firms who are not also PCAOB registered firms, or firms that do not also provide services under the IAASB standards to allow for an additional one year for implementation. This will provide additional time for risk assessment, development of practice aids, and internal training. It will also provide for some refinement of application and implementation materials as we anticipate additional application guidance will be forthcoming as firms start to implement these new standards.

¹ Shaded cell indicates multiple responses from same respondent with different position

Number	Position	Coded Text
005	Delay	Finally, I wish to say that the proposed effective dates are unrealistic and should be postponed by at least a year to enable CPA firms to learn more about the standards and to be able to take action to begin implementing them. First of all, nobody really knows when the proposed standards, as finally amended, will be approved and issued. After that occurs, there will be a distinct need to develop CPE for practitioners and there will also be a major need for providers of practice aids to develop and release revised documents for their customers. This will not happen overnight and will most likely be delayed by publishers' production cycles. Expecting practitioners to understand, adapt to, and properly implement new standards too soon is unrealistic and would be a recipe for an increase in the number of CPA firms who may not be able to pass their peer reviews.
006 #6	Delay	The proposed December 2023 date requiring compliance for 2024 projects is overly burdensome. We strongly support the majority of the new SQMs; however, suggest they be delayed 12 months from the current dates included in the exposure draft. Having to completely rewrite quality manuals, revise processes and procedures, train all employees and have ample time to monitor and re-change policy within the current dates is of concern.
047	Delay	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.
061	Delay	CRI believes that the 18-month implementation period for the proposed QM standards may be difficult to achieve given similar implementation timelines for the following proposed standards: SAS No. 143, Auditing Accounting Estimates and Related Disclosures, and the proposed SAS Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement. In addition, the implementation of the QM standards will include the development of new methodology and practice aids that will, for smaller firms, be performed by vendors; and, these smaller firms will generally have limited control over the timeframes within which the vendors complete the development of these resources. We recommend that the implementation date of the proposed QM standards fall on a date later than December 15, 2023, for the reasons mentioned above. The next most likely implementation date would be December 15, 2024.
069	Delay	Given the disruption caused by the recent pandemic including related demands on the time of firm management, we believe the proposed implementation date should be delayed a year or two to give firm management more time to focus on required changes.

Number	Position	Coded Text
070	Delay	<p>If the primary issue that has been raised by Peer review is that new standards are not timely implemented, then maybe it requires having implementation periods being four years for new standards. This would allow at least one Peer Review during the standard implementation period and allow for prospective remediation without jeopardizing a "pass" rating.</p> <p>The proposed dates are clear but raise an issue regarding the concerns expressed in the background information on page 7. Smaller firms rely on third party intellectual resources to provide material for their quality control systems. I suspect that larger firms also use this third-party information. Apparently, someone at the AICPA thinks that's an issue. It is very confusing. The proposed standard wants smaller firms to outsource quality review to a third party but has a problem with smaller firms using third party quality control materials. What is a smaller firm supposed to do to comply with the timeline requirement? Unlike the larger firms, smaller firms do not have a staff of policy and procedure writers.</p>
071	Delay	<p>The requirements of the Proposed Standard are complex and detailed guidance is needed. If implementation guidance, practice aides and other material is not readily available when the Proposed Standard is issued it will be difficult for firms to comply. Firms will not effectively be able to implement the Proposed Standard and the objective will not be achieved. Extending the implementation period to December 15, 2024, would allow firms to get through their busy seasons. while allowing the ASB adequate time to provide implementation guidance, practice aides, frequently asked questions, best practices, and other material to comply with the Proposed Standard or decide if they want to continue to provide such services.</p> <p>The Group does not believe the implementation period is sufficient for a change of this magnitude. The Group notes that it can take up to 12 months to update a quality control document, and the proposed standards will require significant revisions to a firm’s quality control document. Additionally, firms will need ample time to revise processes and practices, and to train engagement teams. Further, firms that are undergoing required peer review in the anticipated year of implementation will have further constraints on their time and ability to effectively implement the proposed standards. The Group notes that in its comment letter to the IAASB on its proposed quality management standard, the AICPA indicated that a minimum of 24 months for implementation “is necessary for the intended benefits of the Proposed Standards to be achieved, and not create potential unintended consequences related to audit quality.” We concur with that statement.</p>
074	Delay	<p>While no substantive changes are needed for the TN Department of Audit due to our existing quality management policies, procedures, and practices, we agree with allowing audit organizations a minimum 18-month period (but preferably 24-month) to establish or modify their quality management policies, procedures, and practices for transitioning to those new policies, procedures, and practices. The proposed standard will require audit organizations to completely document the processes they currently use, in addition to new ones they create. The information and communication provisions of this ED may require firms to modify their processes for capturing and analyzing data. The proposed 18-month period assumes organizations have the resources, including IT capacity, for beginning implementation immediately. That is generally not the case, especially in terms of IT capacity. We again suggest a</p>

Number	Position	Coded Text
		longer implementation period (with encouraging early implementation) would allow sufficient time for planning, development, testing and implementation.
092	Delay	<p>No, we believe the implementation period should be at least 24 months given the other auditing standards firms will need to implement during this time frame.</p> <p>Please provide additional details regarding your response, and, if applicable, explain what implementation period would be more appropriate.</p> <p>We believe the design, implementation, and evaluation of a system of quality management that complies with these proposed standards will be a significant undertaking for all firms. As most firms have yet to assess their current states, we believe that it is difficult to determine currently whether this implementation period is appropriate. Our suggestion is that, if the proposed guidance becomes effective, the ASB follow up with a sample of firms at a point during the implementation period to determine whether the implementation period should be re- evaluated.</p>
093	Delay	Given the disruption caused by the recent pandemic including related demands on the time of firm management, we believe the proposed implementation date should be delayed a year or two to give firm management more time to focus on required changes
095	Delay	Depending on the final effective date of the proposed requirements, the committees think that the 18-month implementation date may be too short. It will take time for practice aids to be developed and the firm’s documentation to be updated for the new requirements. The committees think that a minimum of 24 months may be necessary to obtain practice aids and to update the firm’s quality management system and documentation.
098	Delay	Given the disruption caused by the recent pandemic including related demands on the time of firm management, we believe the proposed implementation date should be delayed a year or two to give firm management more time to focus on required changes. There are several new standards that become effective during this period. There should be a minimum of two years from the time that the standards affecting, leases in financial statements, employee benefit plan accounting and reporting, and revenue recognition before the implementation of the new quality management standard. This will allow smaller firms to have a path to success in adhering to and implementing the new quality management standard.
100	Delay	TIC is concerned that the volume of criteria and guidance included in the proposed SQMS will be daunting for many firms to determine how they should start implementing the guidance. We believe that this will be especially true for areas of the proposed SQMS which are not already included in extant guidance, such as the risk assessment process described in paragraphs 24-28. While the guidance that is included in the application and other explanatory material is helpful in understanding the requirements, TIC believes that it would be challenging for firms that do not have significant resources available to dedicate solely to implementing the standard. To address this concern, TIC suggests the development of a practice aid that would assist firms with clear steps on how to implement this portion of the guidance. Ideally, that practice aid would start with a less complex accounting firm that, for example, only performs compilations and reviews. Starting with a practice aid for a firm without high-risk engagements would provide the most useful resource to build upon. The

Number	Position	Coded Text
		<p>AICPA could then add additional modules to the base practice aid for more complex situations. This would have the dual benefit of being accessible without being overwhelming for less complex firms and customizable based on the nature of engagements performed.</p> <p>While the risk assessment guidance is where TIC believes many smaller firms will have the largest obstacles in implementation, the other areas of the quality management system, which have been modified from extant guidance and require a change to existing quality control processes, also will be challenging for many firms to identify given the volume of changes made in the proposed SQMS. As firms already have a quality control process in place based on extant guidance, TIC suggests that the Board and/or the AICPA create a guide which clearly links concepts in extant guidance with where they appear in the new guidance. This sort of document would provide the clearest pathway for understanding both how existing processes fit into the new requirements as well as help identify where there are gaps in the system which must be addressed in order to be in compliance.</p> <p>From experience with past standards, TIC is aware that, in many cases, smaller firms ultimately rely upon practice aids and implementation guidance provided by third parties or which have trickled down to them from larger firms. While both of these resources can be helpful and have many benefits, they are not a substitute for similar resources which are provided directly by the Board and/or AICPA.</p>
100	Delay	<p>While TIC acknowledges the need to implement the practices included in the exposure draft as soon as practicable, to enhance quality and serve the public interest, TIC does not believe that an 18-month implementation period is sufficient to implement such an extensive standard.</p> <p>As previously discussed in this letter, many smaller firms operate with limited resources available to implement new standards. While we recognize that page count of a new standard does not always equate with complexity of implementation of a standard, as of the date of this letter, there are issued SASs which are not yet effective that comprise over 1,100 pages of standards for practitioners to understand and implement. That total excludes the proposed quality management standards which are an additional 200 pages. As our comment letters have indicated over the past several years, while TIC supports the efforts of the ASB to improve standards, the volume of new guidance which has been issued and is not yet applicable verges on becoming overwhelming for firms which do not have the ability to dedicate extensive resources exclusively to implementation of these standards.</p> <p>For many smaller firms, a primary source of information both to inform and educate regarding upcoming changes to standards, as well as provide resources for implementation, are third-party resource providers. Given the volume of additional guidance which already is slated for implementation prior to the proposed quality management standards, TIC is concerned that the resource providers also will experience a resource crunch, delaying their issuance of implementation resources used by many smaller firms to assist them in adoption of the proposed standards.</p>

Number	Position	Coded Text
		<p>An extension of the implementation period beyond 18 months also would serve to increase the opportunity for the peer review function to be included in the education process in a more comprehensive manner. TIC has heard feedback that many smaller practitioners gain significant knowledge and insights regarding upcoming standards directly from their peer reviewers. By extending the implementation period, more firms would have the opportunity to discuss implementation of the new standards with their peer reviewers which would aid both in the ease of adoption as well as increase quality through learning of best practices being considered by other firms.</p> <p>While TIC understands that the Board has been working with peer review to ensure that they are operating in lock-step with regards to how quality management implementation issues will be evaluated as part of peer review, TIC remains concerned that a rushed implementation period could have additional unintended consequences in the form of peer review deficiencies. TIC would like to see an acknowledgement that quality management is a continual process of evaluation and enhancement and that firms will not be penalized for being in earlier stages of that process than others. Additional time being allotted for implementation of the standard would alleviate those concerns.</p> <p>TIC believes that the key to successful implementation of the quality management standards will depend on the availability of quality educational, implementation, illustration, and best practice resources. Delay of the proposed effective date would provide additional time for these resources to be developed, whether by the Board, the AICPA, 3rd party providers, or peer review, which would result in a more effective and efficient implementation of the standards.</p> <p>Lastly, delay of the proposed effective date would allow time for firms that are not implementing IASB ISQMs to learn from those that are.</p>
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		our smaller firm members sufficient time to learn the proposed standards and effect the changes to their quality systems without sacrificing engagement quality in the short-term as scarce resources are re-tasked toward implementation. We are also concerned that the smallest of firms, with the scarcest of resources, will decide to renounce the provision of assurance and attest services entirely. While some believe that small firms should not be in the assurance and attestation business at all, there are many, very small firms, who perform high quality engagements, and some are considered experts in certain industries. It would be detrimental to the profession if a standard forced these firms out of the attest business.
104	Delay	Earlier this summer an effective date of December 15, 2023, seemed reasonable as it appeared the effects of the pandemic were lessening. However, the increased anxiety and numbers as of late is creating challenges for businesses and firms alike. As CPAs, our obligation is to our clients, especially guiding them through this uncertainty. Not to lessen the necessity of improvements to our quality management system as noted by this proposal, but the current system is still adequate for the time being. A delayed effective date should be implemented, likely one additional year.
109	Delay	<p>The Committee is concerned the 18-month implementation period may be insufficient to create the guidance necessary for proper implementation while allowing at least one cycle/year of engagements to be performed before a firm is subject to a peer review following these guidelines. In addition, peer reviewers would need some time to adjust how they perform peer reviews to ensure they can adequately evaluate the scalability sections in these standards.</p> <p>The Committee recommends a 30-month implementation period to allow firms at least two years to prepare for a peer review subject to these new guidelines. We feel the need to re-think how a system of quality management functions under a quality risk format may take longer than expected. This feeling is from the experience of how long it has taken auditors to fully implement a risk-based audit approach and the peer review team's ability to accept judgments that, while well documented, do not always match the risks they feel might have existed in an audit.</p>
110	Delay	We believe the proposed implementation period should be increased by two years, from December 15, 2023 to December 15, 2025. This is because there will be (a) a need to develop and attend CPE on the proposed standards; (b) resource providers will need to update and rollout materials to assist in the risk assessment and response; (c) standards fatigue; and (d) limited resources at some firms that will impact the successful rollout of the proposed standards. Additionally, due to the increased costs associated with implementing these proposed standards, some firms with a smaller attest practice than our own may decide to eliminate certain service offerings because they will no longer provide a viable business model for them going forward. An extended implementation period would allow those firms sufficient time to evaluate and transition their practices. We believe that this is aligned with the spirit of the changes contained in the proposed standards and is focused on quality improvement.
112	Delay	The major problem with the proposed quality management standard is timing. The CPA profession at the local level is presently experiencing a “crisis” that I’m not sure the AICPA is aware of. This proposal, in and of itself, would lead one to believe that the AICPA is completely unaware of this crisis. The crisis is a dire shortage of quality

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		<p>help, at every level. Small to medium sized CPA firms, simply cannot find staff, and staff members are leaving the profession at an alarming rate.</p> <p>Also, this proposal comes at a time when we are working in the middle of a pandemic, struggling to get people to work in the office or dealing with the challenges of having staff work remotely. In addition, the governments at the Federal, state and local level are continually changing the laws and the due dates for tax returns, and inventing things like the Paycheck Protection Program, Economic Injury Disaster Loans, Recovery Rebates, Employee Retention Credits, etc., that cause small businesses and individuals to turn to their accountants for help and advice.</p> <p>Also looming is a massive number of practitioners who are near, at or past their retirement age and are desperately looking to transfer their practices to similar-sized practitioners. Unfortunately, there are few firms, if any, who have the excess staffing to take on any new work. This is even more true at the peer review level. Many peer reviewers are unable or unwilling to take on additional work, and many are giving up that type of work to make time for their regular clients.</p> <p>This framework is NOT a time to impose new Quality Standards on the profession, especially since the standards involve independent reviews by reviewers who are not involved in the engagement. Most firms will need to hire an outside reviewer to do that work but, again, there is no one in the profession who has “free” time to take on that additional work.</p> <p>Even though the effective dates revolve around December 15, 2023, there would be a lot of time required in the year 2022 to get ready for these major changes.</p>
113	Delay	<p>Learning about the new quality standards and then designing and customizing a system of quality management will be a considerable project for firms and will ideally involve deep and thoughtful consideration. But firms are already in the midst of implementing multiple major accounting and auditing standards that were delayed due to the pandemic. The implementation dates in the proposed Statements do not seem reasonable based on the current environment.</p> <p>We suggest either a delay in the proposed effective dates of one or two years, or a staggered implementation based on firm size.</p>
116	Delay	<p>While the effective dates are clear, they do not take into consideration the strain the A&A community is currently experiencing due to implementing FASB 606 for certain clients due to COVID-19 delays, preparing to adopt the significant FASB standards that are effective for the 2022 year, and implementing SAS 134-137 over the next year. All of this is in addition to dealing with the significant effects of COVID-19 on internal processes and procedures, and all the new legislation as a result of COVID-19.</p> <p>Standard-setting bodies should consider the real-world impact of the pandemic on delays in providing A&A services and accordingly determine any effective dates from the perspective of A&A professionals that are providing services to the public.</p> <p>An 18-month implementation will be too short. This standard will force small to mid-size full- service CPA firms to consider whether they can afford to continue to provide</p>

Number	Position	Coded Text
		<p>audit services under these new standards. It is impossible for the small to mid-size firms to address all the other pending standards and implement the significant changes to the quality management standard within the current time frames. The AICPA should acknowledge the fatigue of the profession and take proactive steps to help reduce the burden on its members. Otherwise, audit quality will continue to suffer.</p> <p>It was also mentioned during one of the Quality Management Roundtables that the ASB is concerned if the effective date is extended too far, firms might not take any action now and scramble to implement the new requirements later. However, extending the effective date an additional 18 to 24 months will allow the following to occur:</p> <p>AICPA to develop implementation guidance and continuing education courses Third-party providers to develop practice aids and other materials Peer review team captains to discuss the new Quality Management Standards with firms undergoing peer reviews in the next couple years as part of their normal exit conference discussions on newer professional standards.</p> <p>All three of these items should help to ensure a more successful implementation of the new requirements.</p>
120	Delay	<p>TIMING OF IMPLEMENTATION</p> <p>It depends – smaller firms will need guidance, practice aids – how quickly will that all be available? System review firms are already familiar with the concept of risk assessment because they have it on their audits; engagement review firms, not so much. Engagement review firms can become system review firms – and if they are to become good ones, then they need a QM system. Let’s find a way to have this implemented properly up-front, so we won’t be in a situation where “we’ll catch it in peer review.” To me that comes back to some sort of required training to start.</p>
121	Delay	<p>We would encourage the ASB to consider an 18-24-month period between the issuance of the Proposed Quality Standards and the design and implementation effective dates. We note that smaller firms and firms not subject to the international quality management standards may be challenged with implementing the revised standards and may need additional resources, organization changes and adequate time to thoughtfully address the requirements of the new standards. Effective dates should be predicated on expectations for first time implementation material availability. All firms will need ample time to adopt the new standards from when the first-time implementation materials become available. Early adoption of all or individual components of proposed SQMS No.1 should be permitted. Early adoption of all or part of each of proposed SQMS No. 2 and proposed QM SAS should also be permitted.</p>
124	Delay	<p>The committee strongly opposes the 18-month implementation period. Substantial guidance is needed before firms can start defining policies resulting from these changes. Providers of practice aids will need time to amend and update existing guidance and practice aids in order to provide tools firms have relied on in the past to make such significant changes to quality management systems. Additionally, firms will need time to contract outside arrangements, consider and redraft their policies and</p>

Number	Position	Coded Text
		<p>procedures, and consult their insurance provider. Further, the scope of these changes will require significant revisions to peer review standards, interpretations, and guidance. The level of effort and understanding for redrafting the standards, firm policies/procedures, and peer review program manual/team captain checklists will require a more extended period than 18 months. The committee believes as long as substantial supporting guidance is issued, a minimum of a 24-month implementation period is needed from the point of issuance.</p>
125	Delay	<p>Specific to the implementation date of the standards. Honestly, we have struggled with whether we feel the implementation period (18-months) is appropriate. Although we believe that it is incumbent upon firms and practitioners to be able to implement new standards, whether these proposed standards, or any others, the reality is that for some firms, especially smaller ones, they will either not understand how this impacts them, or will miss it altogether. This is not an excuse not to keep to a shorter implementation period, but we believe there will be a significant number of firms that don't comply timely, and it won't be discovered until the peer review occurs. Accordingly, we believe there will be better compliance if the implementation period extends long enough that the peer review program can be an resource to educate firms that this is coming, as opposed to penalizing the firms when they haven't appropriately adopted the standards.</p>
130	Delay	<p>While many smaller firms (ours included), have relatively robust Engagement Quality and Quality Management processes already established, we do not believe an 18 - month period is sufficient to put into place the additional new requirements. This timeline is particularly troublesome for smaller firms that have less formal engagement quality and quality management processes in place. This timeline is overly aggressive and will be burdensome.</p>
132	Delay	<p>I do not believe that the implementation timetable is sufficient. CPAs & firms will need much more time to:</p> <ul style="list-style-type: none"> digest the meaning, application, and requirements, take CPE for ensuring understanding and clarity, evaluate, purchase, adopt, and implement technological and non-technological resources establish QM policies, identify qualified engagement reviewers and inspection persons, apply run throughs in evaluating the provisions and related control ensure proper transitions are set for the firm's peer reviews that might take place over the next 2 – 3 years, that the firm engagements match the requisite applicable standards, and allow firms to address their personnel resources in regards to complying with the standards

Number	Position	Coded Text
134	Delay	<p>As described in the body of our letter, we support the phased approach to the effective date. While we understand the desire for the proposed standards to be implemented as soon as possible, we have significant concerns that the proposed effective date, which is 18 months after the proposals are approved, would not allow sufficient time for firms to properly implement the standards and to properly address the new requirements, particularly firms that might not operate globally or adopt international standards. The short implementation period might lead to policies and procedures being implemented that do not fully address the proposed requirements and might be detrimental to audit quality in the short term. Therefore, we believe a longer implementation period is necessary.</p> <p>Based on our firm’s ongoing implementation of the ISQM standards, SQMS 1 would require the dedication of a significant number of resources to establish a risk assessment process. In addition, resources would be needed to update firms’ methodologies for the two other quality management standards that will become effective simultaneously. Many firms, regardless of size, would find it difficult to allocate additional resources and to commit the necessary time to simultaneously implement the proposed standards. If insufficient time is given for firms to implement SQMS 1 in particular, there is a risk that firms will take their existing system and make only minor adjustments to map the existing processes to the new requirements, rather than taking the necessary time to redesign the existing system to align with the fundamentally revised standards.</p> <p>Additionally, there are two other significant standards—SAS No. 143, Auditing Accounting Estimates and Related Disclosures, and SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement—with effective dates of periods ending on or after December 15, 2023. For a number of firms, the same pool of resources will be responsible for implementing all of these standards, for incorporating them into firm methodology, and for developing accompanying training. For firms to implement changes for five standards, four of which would likely represent significant changes, practically simultaneously may actually have an adverse impact on audit quality. Therefore, we believe that the effective date of the standard should be no less than 24 months from its approval.</p> <p>While we support the phased approach to the effective date, we are significantly concerned that the proposed effective date of 18 months from approval would not allow sufficient time for firms to properly implement and properly address the new requirements, particularly for those firms that might not operate globally or adopt international standards. The short implementation period might lead to policies and procedures being implemented that do not fully address the proposed new requirements and might impact audit quality in the short term.</p>
135	Delay	<p>With the backlog of work that exists in providing A&A services and the extended peer reviews, an 18-month implementation could be too short for some firms. The standard-setting committee will need to obtain information from firms on the amount of A&A backlog and extended peer reviews prior to determining an implementation date. Firms should have a 12-to-18-month extension available. Once the number of peer reviews on extension falls to pre-pandemic levels, it could be an indicator that the backlog of A&A engagements has been completed.</p> <p style="text-align: center;">The AICPA should acknowledge the fatigue of the profession and take proactive steps</p>

Number	Position	Coded Text
		<p>to help reduce the burden on its members. Otherwise, audit quality will continue to suffer.</p> <p>It was also mentioned during one of the Quality Management Roundtables that the ASB is concerned if the effective date is extended too far, firms might not take any action now and scramble to implement the new requirements later. However, extending the effective date an additional 18 to 24 months will allow the following to occur:</p> <p>AICPA to develop implementation guidance and continuing education courses Third-party providers to develop practice aids and other materials Peer review team captains to discuss the new Quality Management Standards with firms undergoing peer reviews in the next couple years as part of their normal exit conference discussions on newer professional standards.</p> <p>All three of these items should help to ensure a more successful implementation of the new requirements.</p>
136	Delay	<p>While the effective dates are clear, they do not take into consideration the strain the A&A community is currently experiencing due to implementing FASB 606 for certain clients due to COVID-19 delays, preparing to adopt the significant FASB standards that are effective for the 2022 year, and implementing SAS 134-137 over the next year, in addition to dealing with COVID-19 internally.</p> <p>Extending the effective date an additional 18 to 24 months will allow the following to occur:</p> <p>AICPA to develop implementation guidance and continuing education courses Third-party providers to develop practice aids and other materials Peer review team captains to discuss the new Quality Management Standards with firms undergoing peer reviews in the next couple years as part of their normal exit conference discussions on newer professional standards.</p> <p>All three of these items should help to ensure a more successful implementation of the new requirements.</p>
137	Delay	<p>Deferral of Proposed Implementation Date: We ask that you consider delaying the implementation of the final statement. Peer reviewers frequently educate firms on new standards. Deferring the implementation to allow all firms a peer review cycle will allow all firms the benefit of this resource. Staggered implementation dates could be considered, allowing smaller firms with limited resources more time to implement. We also believe that delayed implementation will allow third party practice material providers time to develop comprehensive materials and much needed training courses.</p>
139	Delay	<p>The proposed effective date of 18 months from the date the proposed standard becomes final seems to be too short. The ASB has said that it will issue guidance and we believe the ASB will need time to prepare such guidance. In addition, practice aids will need to be developed which will require implementation guidance from the ASB.</p>

Number	Position	Coded Text
		<p>The Peer Review Board will need to develop new standards and checklists to address the changes made by this proposed standard.</p> <p>We believe that a staggered approach to implementation as suggested by the AICPA Peer Review Board makes good sense. Larger firms could begin implementing the proposed standard first. This approach would allow smaller firms more time to prepare for the transition.</p>
141	Delay	<p>I think 18 months is not enough time. There’s much to digest here and we are still going through other standards updates and change implementations. I would prefer an additional 24 months – implement on December 15, 2025 but at a minimum would highly recommend at least another 12 months to December 15, 2024.</p>
142	Delay	<p>Implementation of the Proposed Quality Management Standards will require firms to bear considerable resources and costs to effectively adopt, and we believe the overall success of adoption could be negatively impacted by a compressed implementation timeframe. Sufficient time is needed to provide firms of various sizes and composition to evaluate, design, and implement the proposed standards, including the development of sufficient post-adoption monitoring processes. Therefore, we do not believe an 18-month implementation period is appropriate and recommend that the implementation period should not be less than 24 months from the issuance of the final standards.</p> <p>Furthermore, regardless of the implementation timeframe, we encourage the ASB perform a post- implementation economic analysis to better understand the benefits and challenges in adopting the Proposed Quality Management Standards.</p>
144	Delay	<p>18 months seems like the minimum for a firm my size considering the level of communication that will be required. For firms without full-time dedicated personnel in the “quality” space, I’d like to see a longer timeframe so that implementation can occur while also doing their “day-to-day” work. Smaller firms might also benefit from the implementation lessons learned by larger firms.</p>
147	Delay	<p>We believe the proposed implementation period and associated effective dates should be lengthened by an additional 12 to 24 months given the following:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

Number	Position	Coded Text
		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.
148	Delay	<p>An 18-month implementation period is not sufficient for firms to adhere to the newly proposed standards. Due to the delays of COVID-19 and the backlog in auditing and attestation services firms provide, KyCPA requests an extension to the implementation period. Providing for an extension period of up to 18 – 24 months would allow firms additional time to review and implement compliance to the proposed standards.</p> <p>Any time period of 12 months or shorter would not be sufficient relief to firms that are continuing to recover from the COVID-19 pandemic economy.</p>
155	Delay	<p>We believe that an 18-month implementation is too short of timeline to implement for most firms. Firms will have a significant amount of work when going through the exercise of identifying, formalizing, and documenting policies as well as developing new policies where gaps exist. If the standard is finalized and issued in the fall of 2021, and education and training is provided during calendar year 2022, that would give firms limited time for implementation. The level of awareness of the significance of this standard among firms will vary, and in order to implement all the aspects of the standard in the proposed timeline, firms would need to start as soon as the standard is issued, which would be prior to when education and training would be available. Additional time will be needed for implementation materials to be developed as well as third-party practice aids. Also, a longer implementation period would allow for small to medium size firms to benefit from the experience of larger firms that are adopting the IAASB standards.</p> <p>Also, we believe the standard should be clearer regarding consideration of whether early adoption is disallowed</p>
158	Delay	<p>An 18-month implementation period may not be appropriate for all firms and we recommend an implementation period 24 months. Our concern is smaller firms do not prepare their own quality materials or methodology but instead rely on service providers (such as, AICPA, Thomson Reuters, or larger firms that license their quality materials or methodology). It will take time for the publishers of methodology to review, prepare and release the updates, and smaller firms that subscribe will have to review the changes, develop their adoption plan, and implement the new system of quality management.</p>
162	Delay	<p>No. We do not believe the 18-month implementation period is appropriate. While we believe that many firms already apply some of the various risk-based elements of the proposed quality management standards, we believe there are multiple factors that make an extended implementation period appropriate:</p> <p>Much of the current procedures in place were not documented or structured with the proposed SQMS contemplated. As such, a large amount of time may be spent documenting compliance with the SQMS standards,</p> <p>The current worldwide situation with COVID 19 and related changes to workplaces is still in flux. A project such as implementing the proposed SQMS is likely to be time</p>

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		<p>intensive and may unintentionally divert resources from audit quality initiatives, which may erode audit quality, and not be in the public interest,</p> <p>Considering the large amount of time global firms have reportedly incurred on implementation of the corresponding international quality management standards; many non-global firms may not have the resources to effectively implement in an 18-month time frame,</p> <p>The need for more time for the AICPA to develop appropriate materials, to the extent not already in proposed application guidance, similar to the IAASB first time implementation guides, to assist firms,</p> <p>The need for more time for third-party vendors to develop appropriate materials to assist firms, and</p> <p>To allow for the PCAOB to come out with its version of the quality management standards, thus allowing firms and third-party vendors to develop materials that address the various sets of quality management standards.</p> <p>We recommend the following alternatives be considered:</p> <p>That the effective date be on a rolling basis based on the respective firm’s peer review year with all firms’ implementation starting the year after their next peer review. We heard this alternative mentioned publicly. While we recognize this adds to communication efforts and the development of application material, we believe this staggered approach will allow (1) firms to learn from one another, and (2) the ASB to obtain useful information to issue interpretive guidance ahead of most firms’ implementation.</p> <p>A staggered implementation with the top-10 firms implementing as indicated in the proposed standard and the remaining firms implementing on the timeline in the bullet below.</p> <p>Extend the effective date two additional years beyond what the proposed SQMS indicates for all firms: audits or reviews of financial statements for periods beginning on or after December 15, 2025, and other engagements in the firm’s accounting and auditing practice beginning on or after December 15, 2025 Systems of quality management in compliance with proposed SQMS No. 1 would be required to be designed and implemented by December 15, 2025, and the evaluation of the system of quality management required by proposed SQMS No. 1 would be required to be performed within one year following December 15, 2025.</p>
163	Delay	<p>Given the disruption caused by the recent pandemic including related demands on the time of firm management, and other standards that firms need to implement during this time, we believe the proposed implementation date should be delayed at least two more years to give firm management more time to focus on required changes.</p>

Number	Position	Coded Text
164	Delay	<p>The proposed standard will require audit organizations to completely document all of the processes they currently use for risk assessment, resources, information and communication and monitoring and remediation, in addition to new ones they create. The information and communication provisions of this ED may require larger organizations to re-tool their processes for capturing and analyzing data. The proposed 18-month period assumes they have the time and resources, including IT development capacity, for beginning implementation immediately. In our experience that is not always the case, especially in terms of those requiring information technology department capacity.</p> <p>We suggest the Board consider extending the time for these changes for an additional 12 months beyond that envisioned, to allow sufficient time for planning, documentation, development, testing and implementation.</p>
167	Delay	<p>The implementation period is not appropriate for small firms with limited resources. We believe it could take 2-3 years to fully implement these standards, particularly if firms need to arrange for the involvement of outside resources for roles that were previously performed by internal personnel.</p>
007	Never	<p>In looking over the above referenced exposure draft, it seems that once again small CPA firms would be required again to change its system of quality control. I really feel like the AICPA does not recognize the amount of time and effort that small firms will need to implement these changes. This past year dealing with COVID and right before that the change in revenue recognition, I just don't feel like most small firms can handle changes at this time and to be honest, I don't really see where in the long run the changes would make a significant change in the quality of the work we perform on a day to day basis. I would love the AICPA to have GAAP tailored specifically to the small firm, who are dealing with the mom & pop shops and other small businesses that cannot afford to pay for the fees we have to charge to meet these principles which are designed for companies with a full blown audit and accounting department, that is not the case with a majority of our clients.</p>
076	Never	<p>We are opposed to any changes to existing QC guidance so any implementation is unneeded in our opinion.</p>
014	Only with implementation guidance	<p>The only way the effective dates make sense will be if they are preceded with appropriate education and implementation guidance that is widely available to ALL firms effected.</p>
077	Only with implementation guidance	<p>We recommend the Board strongly encourage firms in the importance of starting the implementation process for designing and implementing a new or enhanced system of quality management. There are many new requirements which have not yet been required to be documented or tested. These new activities may take a significant amount of time and resources to complete. Any changes or remediation will also take time to complete.</p>
081	Only with implementation guidance	<p>If the proposed standards are made more scalable to sole proprietors and smaller firms, we believe the proposed 18-month implementation period is appropriate. Otherwise, if the proposed standards as they relate to monitoring, self-inspection, and eligibility of engagement quality reviewers are not made more scalable to sole proprietors and small firms, these firms will need additional time to evaluate their current accounting and auditing practice and determine 1) if these outsourced functions are available, particularly in the case of specialized industries and 2) if the</p>

Number	Position	Coded Text
		additional financial burden of these outsourced services justify maintaining their accounting and auditing practice.
089	Only with implementation guidance	Most committee members found the 18-month implementation period appropriate, provided that application materials, non-authoritative guidance and training are made available sufficiently in advance of the effective date. A minority opinion of the committees expressed that additional time should be provided for engagement review firms who will be receiving oversight of their quality management systems for the first time (requesting one full peer review cycle.)
102	Only with implementation guidance	<p>The majority of the Committee believes the proposals is overly complex and will be difficult for small and medium sized firms to understand and implement.</p> <p>The majority's reasons for this belief are as follows:</p> <p>There is concern among the members that the language required to understand and implement the management system is not clearly defined and is very subjective. This could result in a wide divergence in how each system is operated by small and medium sized firms. This divergence in practice could result in future disagreements between firms. See risk assessment below.</p> <p>Members believe there will be an undue burdensome cost to initially implement and then maintain the proposed management system. A cost that the small firms will not be able to pass onto its clients.</p> <p>Larger firms with multiple partners and managers already have QC systems in place and/or an appropriate staffing infrastructure that implementation of the new QCM standards will be less burdensome and implementable with minimal if any additional costs. Smaller firms will find it necessary to seek outside parties to achieve compliance with the standards, costs that they will have to absorb.</p> <p>Small firm members are concerned about the amount of time needed to both properly implement and maintain the management system. In addition to providing client service managing, members of small and medium size firms typically have administrative responsibilities. Implementation of a new QC system, including drafting new firm policies, determining how a firm will obtain compliance with the new standards and the myriad of other matters that will arise during the course of development and implementation will consume significant time. Many firms do not believe sufficient time has been provided to properly implement and ensure ongoing compliance. Since the belief is the quality management system will be complex there may not be enough time to implement and maintain the system in accordance with standards.</p> <p>Small firm members believe the standards will be hard to implement and that compliance in accordance with standards will be hard to document. See further comments below.</p> <p>As an example of the complexity faced by a small firm, as set forth in paragraph A113 third party resources used by a firm will require the firm to determine whether a resource from a service provider is appropriate for use in the firm's system of qualify</p>

Number	Position	Coded Text
		management or performing engagements . This will require the firm to obtain information about the resource provider from a number Of sources. For small and medium sized firms this could be an overly complex exercise in obtaining and documenting the required information. There is concern that this requirement will result in no added value to the Firm if it properly performs engagements.
138	Only with implementation guidance	An 18-month implementation is appropriate if implementation guidance and tools are provided at the start of the implementation period. More specifically, guidance and tools for smaller firms that are not currently working towards the ISQM1 implementation.
156	Only with implementation guidance	We believe 18 months is an appropriate implementation period only with associated implementation guidance. We have spent considerable time reading and working to apply the proposed standard as well as those of the IAASB. We found the implementation materials the IAASB has issued so far (e.g., webinars, practice aids) to be extremely beneficial in furthering our understanding of the standard and how to apply it in our practice. Thus, issuance of nonauthoritative tools is a key element to promote comprehension and proper implementation of these standards and should be available at the beginning of the 18-month implementation period. Thus, we suggest the implementation period take into effect the AICPA’s timeline to issue additional nonauthoritative guidance.
086	peer review concern	<p>The proposed standards would require quality management systems to be designed and implemented as of a specific date and evaluated one year later. Is the intent to create a uniform peer review and monitoring period for all firms? The committees do not support requiring firms to change their monitoring procedures. There are many variables that go into determining an optimal year-end for monitoring, including the composition of the firm’s engagements and year-ends and the availability of qualified quality management staff. For example, a niche firm that primarily performs employee benefit plan audits would not want to choose a Dec. 31 year-end as many of the engagements are not completed until Oct. 15. Thus, the monitoring of those engagements would be delayed.</p> <p>If a new monitoring period is being established by this proposed standard, how does the Auditing Standards Board expect firms to address partial-year monitoring and peer review periods?</p> <p>The committees support a transition process that is effective for a firm’s monitoring period that begins after a specified date.</p>
119	peer review concern	<p>The proposed standards would require quality management systems to be designed and implemented as of a specific date and evaluated one year later. Is the intent to create a uniform peer review and monitoring period for all firms? We do not support requiring firms to change their monitoring procedures. There are many variables that go into determining an optimal year-end for monitoring, including the composition of the firm's engagements and year-ends and the availability of qualified quality management staff.</p> <p>For example, a niche firm that primarily performs employee benefit plan audits would not want to choose a Dec. 31 year-end as many of the engagements are not completed until Oct. 15. Thus, the monitoring of those engagements would be delayed.</p> <p>If a new monitoring period is being established by this proposed standard, how does the Auditing Standards Board expect firms to address partial-year monitoring and peer review periods?</p>

Number	Position	Coded Text
		<p>We support a transition process that is effective for a firm's monitoring period that begins after a specified date.</p> <p>Effective Date</p> <p>Given the enormity of a transition to this new approach, we recommend an effective date of at least 30 months after the standards are final.</p> <p>Early adoption is unrealistic, as there are no supporting peer review systems (e.g., checklists, PRIMA changes, reports, etc.).</p> <p>The AICPA Peer Review Board suggests staggered implementation dates based on firm size, with the larger firms going first. We support this suggestion. It would alleviate some of the pressure on the quality control resources and allow more time for the smaller firms to prepare for the transition.</p>
Roundtable 6-10-2021	Roundtable	<p>Implementation</p> <p>For smaller firms, samples would be helpful as they will face difficulty implementing this.</p> <p>If you put out an example, firms are going to take and run with it even if it doesn't apply, so practice aids may be more helpful with their questions and guidance.</p> <p>Similar to flow chart, interactive yes/no questions.</p> <p>Let service providers put out examples to their niche.</p> <p>We are early in the process, and it will be difficult for service providers to find balance in guidance.</p> <p>Cannot simply "drop a document" into a system.</p>
Roundtable 6-24-2021	Roundtable	<ul style="list-style-type: none"> o Add early implementation permittance language in SQMS 1 as separate suite of standards.
Roundtable 7-13-2021	Roundtable	<ul style="list-style-type: none"> o Worry regarding hours needed to implement – would be a full time job in current projections § Current projections show thousands of hours of work needed for changes
Roundtable 8-16-2021	Roundtable	<ul style="list-style-type: none"> · Implementation o Some firms have a few months to implement before their peer review while others have years o Create a tiered implementation timeline o Tie effective dates to peer review o need to be additional time for education on the standards themselves before implementation date o Need plenty of implementation guidance
Roundtable 8-16-2021 menti	Roundtable	<p>Implementation</p> <ul style="list-style-type: none"> o Implementation - what is the mechanism for helping firms implement and ensuring qualified inspectors exist. I realize implementation is not an ASB concern as much, but for something this foundational it should be o We need simplification.
Roundtable 8-16-2021 menti	Roundtable	<ul style="list-style-type: none"> · Implementation o How will firms handle when they have to implement in their PR year when others might have multiple years to implement before having PR? o Do you think that peer reviewers will essentially establish rules on how detailed the implementation is? o What thoughts have been given to the ability of engagement review firms to implement and how/if that will be monitored ultimately? o What's the impact of not implementing? o How will firms not having a system review be monitored for compliance? What is

Number	Position	Coded Text
		<p>the impact of noncompliance?</p> <ul style="list-style-type: none"> o What would be your best advice to peer reviewers performing reviews in evaluating the system of quality control at the reviewed firms in light of the exposed standard?
<p>Roundtable 8-19-2021</p>	<p>Roundtable</p>	<p>Implementation</p> <ul style="list-style-type: none"> o Timing concerns – this seems like it could be someone’s full time job to continuously monitor and remediate the SOQM § Smaller firms do not have the resources to devote to a full-time individual to monitor systems
<p>102</p>	<p>Wait for PCAOB</p>	<p>In addition to the proposed carve-out provisions the Committee recommends three items with regard to timing.</p> <p>The first is the recommendation that any proposed standard related to the Quality Management System be deferred until the PCAOB finalizes its standard(s) on the Quality Management System required of PCAOB firms. The PCAOB is presently deliberating those standard(s). That way there will be no need to adjust for any conflicts arising for firms in having to implement two different sets of standards.</p> <p>The second recommendation is that the implementation date be staggered between large firms and small firms. It is recommended that a one or two year deferral be put in place for small firms after implementation by larger firms to enable the small firms to gain best practices from larger firms. The Committee recommends that the ASB consider the three bucket approach detailed above to determine the levels of each firm. Firms in buckets 2 and 3 referred to above would be eligible for a deferral for implementation and maintenance of the system.</p> <p>The third is that the December 15, 2023 will be a hardship for all firms to implement. Some small firms are still recovering from the business impact of the pandemic. Staffing shortages has magnified the workloads for remaining staff. Due to the complexity a lot of training will be required with little available time.</p> <p>It is recommended that the implementation date in SQMS #1 be pushed back at least one year to December 15, 2024. Some members have advocated that the implementation date be pushed back two years. The push back of the SQMS # 1 effective date will further necessitate the push back of the SQMS #2 effective date to coordinate with the implementation date. The reason for these requests are related to the learning curve that this standard will require.</p> <p>There will also be downstream changes that will result from adoption of the standards. The downstream effects of the standard once adopted will require changes to peer review standards, Yellow Book standards, ethics standards and other standards. The Committee recommends that all affected updates be coordinated with the implementation date of the standard.</p> <p>The new OMS standards are highly judgmental. Thus the roll out of the Quality Management System standards will require extensive training. No standard should be finalized until a full cost effective educational program is promulgated and implemented. One member of the Committee cited the learning curve on the present</p>

Number	Position	Coded Text
		<p>risk assessment standard as an example of the learning curve that all small and medium sized firms will face with this standard. This extensive training is also a reason to push back the implementation date.</p> <p>The Committee members point out that small and medium sized firms will bear the brunt of training for this new standard, without the capacity to pass along these costs to clients, particularly for the firms that work with NFPs. NFPs are already feeling squeezed for contributions and are extremely fee sensitive.</p> <p>The educational program must include implementation standards as to how the Quality Management Standards will be interpreted under Peer Review Standards.</p>
161	Wait for PCAOB	<p>Additional considerations relevant to finalizing the proposed standards</p> <p>We believe there are interactions that need to be taken into account before the proposed standards can be finalized as described in our responses to Questions 1, 3, and 8. In particular, we believe the ASB’s decisions in finalizing SQMS No. 1, including its effective date, should also take into account the PCAOB’s progress on its quality management standards, given the ASB’s strategic objective of avoiding unnecessary differences between the ASB’s standards and those of the PCAOB. It would be unhelpful for the ASB to finalize proposed SQMS No. 1 and then potentially reopen it in response to developments in the PCAOB’s standards. Similarly, the need for further actions by the PEEC, in relation to both the definitions of PIEs and discussion of the cooling-off period for engagement quality reviewers, may suggest the proposed standard should not be finalized before the PEEC’s deliberations on these matters. Finally, consideration of how a firm’s annual evaluation of its SoQM may relate to the triennial peer review for firms enrolled in the AICPA Peer Review Program and the conclusions that are made public (e.g., the peer review ratings of pass, pass with deficiencies, and fail) by the ASB and the AICPA Peer Review Program is necessary before proposed SQMS No. 1 is finalized.</p> <p>With regard to the proposed QM SAS, as noted in our response to Question 4, we believe there will be practical considerations for group audits in applying the proposed QM SAS that will need to be addressed. Accordingly, the ASB should defer finalization of the proposed QM SAS until its efforts to update AU-C section 600 are nearing completion.</p> <p>Need for a longer implementation period</p> <p>Regardless of when the proposed standards are finalized, given the effort needed by firms to achieve the objectives of a top-down, risk-based approach to the firm’s SoQM, we believe an implementation period of at least two calendar years from the date of the issuance of the final SQMS No. 1 will be necessary. Building in this extra time would allow the ASB the opportunity to seek real-time feedback from firms on implementation experiences as well as to potentially understand how firms are developing and documenting their quality objectives, risks, and responses. Understanding such feedback will enable the ASB to consider whether additional guidance would be helpful to supplement the application material in the standard. Due to the interaction between proposed SQMS No. 1 and proposed SQMS No. 2, we</p>

Number	Position	Coded Text
		believe their effective dates should continue to be aligned.
		With regard to the proposed QM SAS, we believe the ASB should make the proposed QM SAS and the future revisions to AU-C section effective concurrently, similar to how the ASB approached the revisions to AU-C sections 540 and 315. Our initial view is that an 18-month period may not be sufficient given the potential impacts to methodology. We do not believe it is critical that the proposed QM SAS becomes effective at the same time as proposed SQMS No. 1.

Exhibit G: Dating of report when EQR performed

Number	Position	Coded Text
137	EQR date Y or N	Audit Report Dating and EQCR: Our Committee considered this requirement and did not have any reason for opposition, but we were also unsure that this represents an issue. As a result, we are unsure why this change is recommended.
Roundtable 8-16-2021	EQR date Y or N	<ul style="list-style-type: none"> · Dated before EQR o Some audits are completed right with the regulatory due dates or loan covenants § If substantive work is complete, but EQR not available for a week, you have trouble § May have to recheck with lawyers, get new representation letters, etc. o Changes in management that aren't as willing to comply timely o We do EQCR before issued. Partner review before date of report. o An EQCR is NOT something that is done in most cases o confusing a pre/post issuance review that is not an EQCR o Dating is sadly affected by the client signing rep letters - sometimes a day before the report is "releasable" o This rule may require amendment or consideration of date signed in sub events note and representation letters, etc. o If EQCR have to be done by outsider, then getting it done becomes less practicable. o That is as much an audit planning/management issue as a client issue o How is a legit EQCR done (and meeting standards) if it is after the report is issued § Isn't that ordinary monitoring?
010	Before report is dated	We agree with the guidance in the Proposed Standards that the engagement quality review be required to be completed before the report is dated, rather than before the report is released. This is consistent with the relevant requirement in the corresponding international quality management standard and is appropriate given the completion of the engagement quality review is necessary for the engagement partner to determine whether the audit has been performed in accordance with the standards before dating the audit opinion.
047	Before report is dated	<p>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.</p> <p>An engagement quality review could identify issues that might require additional audit procedures.</p> <p>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.</p>
048	Before report is dated	The report should be dated after the quality review.

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Number	Position	Coded Text
055	Before report is dated	The Committee members concur with the proposal to formalize the requirement that engagement quality reviews be completed before the report is dated. The members believe this usually happens in practice and appreciates the ASB effort to clarify that in the standard.
061	Before report is dated	CRI agrees that the engagement quality review should be required to be completed before the report is dated.
065	Before report is dated	My former firm requires that the engagement quality review be completed before the report is dated and, as a result, in substantially all cases report date and report release date coincide. Requiring that the engagement quality review be completed before the report is dated makes sense since the engagement quality review is an integral part of the engagement and so it is incomplete until the engagement quality review is completed-i.e., the reviewer's concerns, questions and other comments have been satisfactorily addressed by the engagement team (with timely involvement by the engagement partner in significant issues and matters raised by the reviewer) and the reviewer has signed off.
069	Before report is dated	In cases where engagement quality review is required by the firm's quality management document, 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 performed.
070	Before report is dated	Quality reviews should be completed prior to the report date. It is common sense to do so.
077	Before report is dated	An engagement quality review is typically a firm's final control and opportunity to identify whether any deficiencies exist within the performance of the audit. Any matters identified by the engagement quality review would indicate that an audit is not complete thus precluding the dating of the audit report. Therefore, we believe an engagement quality review, when required, should be completed before the report is dated.
089	Before report is dated	We believe that the engagement report should not be dated any earlier than the completion date of the engagement quality review. The purpose of the EQR is to identify any issues the engagement team may have missed; the engagement partner cannot conclude that the engagement has been performed in accordance with professional standards until the uncertainty created by the requirement for EQR has been addressed.
092	Before report is dated	Yes. CLA currently requires the engagement quality review to be completed before the report is released.
093	Before report is dated	In cases where engagement quality review is required by the firm's quality management document, 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 performed. In the rare case we engagement an external EQR, we do not issue the audit report until the EQR has completed their review.
098	Before report is dated	In cases where engagement quality review is required by the firm's quality management document, 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 performed.

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Number	Position	Coded Text
100	Before report is dated	Yes, TIC agrees that completion of the EQR should be required before the report is dated. The necessity of an EQR is a response to an identified risk for an engagement; therefore, completion of the review by the EQR is considered an essential part of completing the engagement.
103	Before report is dated	<p>We do not have any significant objections to this change other than to note a potential logistical issue. The engagement quality review should be completed prior to the release of the report to the client, which is some period of time after or on the report date. In non-issuer clients, the report is generally dated at the date the financial statements are available for issuance. Financial statements are available to be issued when “they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained.” (ASC 855-10-20). This guidance indicates that the date of the report should be the last date by which the engagement quality review is completed to ensure that procedures such as updating legal responses and management representations are included in the engagement quality review on a timely basis.</p> <p>If the EQR is performed by someone outside the firm, the firm is sometimes unable to provide the reviewer with real time access to the files. In those cases, the paper files or a laptop may need to be shipped back and forth between the reviewer and the firm. This scenario could present dating issues with obtaining legal responses and management representations, which the EQR reviewer would also need to review.</p>
109	Before report is dated	The Committee does not object to this proposed change. Dating the report after the ECR is completed is a common practice and would not significantly impact current practice.
110	Before report is dated	Miller Cooper currently requires all engagement quality reviews to be completed before the report is dated and we believe that engagement quality reviews under the proposed standards should be completed as of the report date and not the report release date. We believe that conducting the engagement quality review during significant milestones (e.g., planning, opening balance sheet procedures, accounting and auditing consultations, post- fieldwork, review of deliverables, finalization) provides the best approach to ensure risks identified by the firm are appropriately addressed in a timely manner and before the report is dated. The report date should be reflective of the date the engagement team and engagement quality reviewer have completed their review.
116	Before report is dated	Requiring that the EQR be completed before the report is dated presents the best opportunity to improve engagement quality.

Number	Position	Coded Text
120	Before report is dated	<p>At our firm we would never date the report prior to completion of the current EQCR – it is an essential part of the engagement and whether there is anything to be addressed or not, we just do not believe the report is ready to be finalized until we get that EQCR completed. I have however done EQCR for other firms, and I have seen EQCR for smaller firms done by outside parties where the report is dated prior to the EQCR completion. This would normally because the firm just does not intend to address all the issues that arise or because they were required to make changes, made changes, but the reviewer had scheduling conflicts that did not allow for timely review of revisions. Perhaps a challenge in certain circumstances, but should be dated subsequent to completion.</p> <p>Additionally, I believe this proposed standard puts the responsibility for follow-through on EQR on the engagement partner, which is exactly where it should be. It needs to be clear that an outside EQ Reviewer is NOT a part of the firm and cannot force the firm to address issues that they identify. I believe it will be increasingly difficult to find outside reviewers. Many firms have already ceased offering that service. I also think it is important for firms to recognize that EQR is NOT supposed to be a training ground for you to do an audit. I know a number of reviewers, myself included, that have spent countless, unpaid hours working with firms on peer review assigned pre-issuance or on an EQCR. These firms thought they could do an audit, but clearly could not. They did not need an EQC Reviewer; what they needed was much more detailed guidance.</p>
121	Before report is dated	<p>Yes, in our view the engagement quality review should be completed before the report is dated. This includes all material issues being resolved to the engagement quality reviewer’s satisfaction before the report date.</p> <p>In addition, as best practice, we believe the report should be released as soon as possible after the report is dated. Currently, our report date and issuance date are intended to be very close, and the engagement quality control reviewer is required to complete their review and sign-off prior to issuance.</p>
128	Before report is dated	<p>We support full convergence of SQMS 2 and QM SAS with the IAASB Quality Management Standards that require an engagement quality review to be completed before the report is dated on the basis that circumstances in the United States do not warrant divergence. However, we recommend clarifying guidance in circumstances when an engagement quality reviewer (EQR) is assigned to an engagement after the report has been dated and/or issued due to a subsequent event or transaction. For example, a firm may have a quality process to assign an EQR should the client enter a transaction requiring inclusion of the previously issued financial statements in a public filing. Application guidance addressing this type of situation would be helpful to acknowledge engagement quality reviews may take place after the report is dated in certain circumstances.</p>
135	Before report is dated	<p>Requiring that the EQR be completed before the report is dated presents the best opportunity to improve engagement quality.</p>

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Number	Position	Coded Text
141	Before report is dated	Yes, I think the engagement quality review should be required to be completed prior to the report date. This will allow for timely completion of the EQCR as well as capturing any issues within the engagement instead of after the fact.
142	Before report is dated	We believe the engagement quality review (EQR) should be completed before the report is dated, rather than before the report is released. Furthermore, we are not aware of reasons that would justify a difference from the IAASB's standards.
144	Before report is dated	Yes Our firm requires that EQRs be completed before the report is dated. The alternative might lead to management representation letters becoming stale while the EQR is completed and engagement teams that are less receptive to EQR comments because the client signed the management representation letter already and thinks that the engagement is complete.
146	Before report is dated	Yes, we believe that engagement quality reviews should be required to be completed before the report is dated, rather than before the report is released. Currently there is no consistency in practice. Some of our firms require the EQR to be completed before the report is dated and others do not.
155	Before report is dated	We agree that the engagement quality review should be required to be completed before the report is dated, rather than before the report is released, which we also believe is either consistent with current practice, or if not, a change that will not be difficult to implement. The clarity provided is helpful so that firms know what the expectation is regarding work that must be completed prior to the dating of the reports.
156	Before report is dated	We support convergence with the IAASB on this matter. Having the engagement quality review completed prior to the report date supports the concept of having sufficient, appropriate evidence to support the auditor's opinion. We support consistency among the standards on this matter. Currently, our firm requires the engagement quality review to be completed prior to issuance of the report which is consistent with extant guidance.
161	Before report is dated	Engagement quality reviewers are involved at appropriate stages during the engagement so that significant matters may be promptly resolved to their satisfaction before the audit report is dated. We believe the EQR is more effective when phased throughout the audit cycle, with efforts commencing early in the audit process to allow for any questions to be dealt with appropriately. We are therefore supportive of the ASB's approach to converge with the IAASB's requirements, and effectively require the completion of the EQR before the audit report is dated.
162	Before report is dated	Yes, we believe the engagement quality review should be required to be completed before the report is dated, rather than before the report is released. Such will emphasize the importance of the engagement quality review as a part of the auditor's quality management.
166	Before report is dated	I believe the quality review should be completed before the report is dated, because it may not be clear that we have all of the evidence needed to issue an opinion until the engagement quality review is complete.

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Number	Position	Coded Text
071	Before report is released	The Group believes engagement quality reviews should be completed as determined by professional judgement and firm policy.
076	Before report is released	This seems to be common sense, performing any review after the release of the report would provide no benefit.
079	Before report is released	As long as the EQCR is completed prior to issuance, that is sufficient.
083	Before report is released	We disagree that the engagement quality review should be required to be completed before the report is dated. We believe the current existing requirement that the engagement quality review be completed before the report is released and the existing guidance to redate the report when the engagement quality review results in additional procedures continue to be appropriate. We believe this could potentially have the unintended consequence of some firms adopting policies requiring fewer engagement quality reviews due to time constraints. In addition, it embeds the quality monitoring process into the audit process, almost in an additional supervisory review form, and does not allow for a complete evaluation of the engagement partner's judgment as it relates to taking responsibility for quality and significant decisions at the end of the audit (e.g. evaluating the sufficiency and appropriateness of audit evidence). The outcome-based objectives could still be attained by having the review completed before the report issuance, which would allow for a more complete assessment of the audit and personnel.
090	Before report is released	<p>We disagree that the engagement quality review should be required to be completed before the report is dated, as this would require an ongoing relationship between the reviewer and the engagement team. This would affect the reviewer's objectivity and, in effect, make the reviewer a part of the engagement team, in opposition to the requirements in paragraph A20. Paragraph A104 states that the auditor's report is not dated earlier than the date when sufficient appropriate audit evidence is obtained. If the date of the audit report is dependent on the completion of the engagement quality review, this implies the engagement quality review is necessary to obtain sufficient appropriate audit evidence. Essentially, the reviewer is part of the engagement team. Additionally, paragraph A105 states that for an engagement quality review to be conducted timely, the reviewer may assist the engagement team in resolving matters related to the review throughout the engagement. These duties of the reviewer imply that the engagement partner is not able to determine when sufficient appropriate evidence has been obtained or appropriately supervise staff and review their work.</p> <p>We believe paragraph A119 should retain the original wording in which the engagement partner is precluded from releasing the auditor's report until the completion of the engagement quality review. Additional guidance should be included when the engagement quality reviewer determines that the audit evidence is not sufficient or conclusions are not appropriate, requiring the report date be modified to reflect when sufficient audit evidence is obtained.</p>

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Number	Position	Coded Text
095	Before report is released	Both committees support a requirement that an engagement that meets firm criteria for an EQR should be completed before the audit report is issued, but not necessarily by the date on the audit report. This would prevent the logistical issues that would occur by the EQR not being completed until deadlines imposed by outside regulatory entities, such as obtaining new management representation letters, lawyer inquiries and subsequent event evaluation.
095	Before report is released	However, the committees think reliance on an outside reviewer to complete an EQR prior to issuance of the audit report may place undue pressure on smaller firms regarding the timing of the issuance of multiple reports with the same issuance deadline. The committees understand that the ASB is attempting to require the engagement quality review be performed as an audit activity rather than a post audit activity, due to the frequency of risk assessment deficiencies that occur as a result of peer review. However, increasing the regulation burden instead of focusing on firms that have repeated risk assessment offenses is not beneficial to the profession.
097	Before report is released	We always thought the review was to be completed before the release of the report. We are playing with semantics at this point.
099	Before report is released	before the report is released
102	Before report is released	The Committee members in the great majority of engagements performed indicated that with rare exceptions that the engagement quality reviews were completed in advance of the issuance of the Report on the Financial Statements.
104	Before report is released	Requiring a cooling off period for an Engagement Quality reviewer is irrelevant for a small firm. Again, an EQ review requires the retention of an outside firm by a small firm. We agree that the engagement quality review should be completed before the report is released, but it is impractical to ask that the EQ review be performed before the report date due to the procedures and documentation required to be completed.
124	Before report is released	No. Delaying the report date creates an unnecessary time delay and complexity to engagement completion without benefit.
130	Before report is released	The restriction on the engagement partner being precluded from dating the engagement report prior to receiving notification from the engagement quality reviewer is common sense and need not be reduced to a formal rule/requirement. We have concern that as this requirement (and others) is expanded in greater detail, that it may be accompanied by additional, narrow, and possibly onerous requirements (e.g. nature and format of the documentation of the notification) that are unnecessary.
138	Before report is released	We believe the engagement quality review should be performed and all significant comments or questions arising from that review addressed before the report is dated, however, we think the engagement quality reviewer should be able to use judgment about when to provide permission to the

Number	Position	Coded Text
		<p>engagement partner to date the report. For example, if there are insignificant open questions or comments that will be addressed before report release, we don't think dating the report should be delayed until those insignificant matters are addressed.</p> <p>The firm has engagement quality review requirements, for engagements in which a review is required, the engagement quality review is performed before the report is dated. However, insignificant open items from that review do not prevent dating the report but do prevent release of the report. We believe additional guidance on the term "completed" in this context, should be provided. Would the review be considered complete if the review was performed and there are no significant matters open? Or would complete mean that all comments/questions, regardless of significance, are addressed by the engagement team and cleared by the engagement quality reviewer?</p>
138	Before report is released	We think the proposed standard could benefit from reconsideration of the report dating guidance as described above.
158	Before report is released	<p>While it is ideal for the engagement quality review to be completed before the report is dated (rather than before the report is released), it's common for audit engagements to not occur in a linear manner. For example, management may agree to the representation letter terms before the engagement quality reviewer's notes are resolved (or accepted by the engagement quality reviewer). Accordingly, we believe this requirement may be problematic.</p> <p>Our firm currently requires that the engagement quality review of a file is complete prior to issuance of the firm's report. This is to ensure any deficiencies in the performance of the engagement is addressed, thus lowering the risk for omitted procedures, or improper application of methodology. We feel this helps maintain a high level of quality within our engagements, as well as the industry.</p>
159	Before report is released	We believe it is appropriate for firms to have the flexibility to perform their engagement quality review at a date that is considerate of their risk assessment.

Number	Position	Coded Text
164	Before report is released	<p>No, it should not be a requirement that the engagement quality review be completed prior to dating the audit report. While our quality assurance monitoring process may perform both types of reviews (pre-dating and pre-issuance), depending on risk, we do not require the review to be completed before the report is dated. We understand having the review dated prior to the report date serves the outcome-based objectives of the proposed standards. It may also be more efficient in terms of finishing the audit and avoiding rework later, and in setting report delivery expectations with the client.</p> <p>However, requiring the review to be complete before the report is dated embeds the quality monitoring process into the audit process, almost in an additional supervisory review form, and does not allow for a complete evaluation of the engagement partner’s judgment as it relates to taking responsibility for quality and significant decisions during and at the end of the audit (e.g. evaluating the sufficiency and appropriateness of audit evidence). The outcome-based objectives could still be attained by having the engagement quality review completed before report issuance, which would allow for a more complete assessment of audit quality and personnel.</p>
Roundtable 4-27-21	Before report is released	<p>Jeremy Dillard: Is it 'done' or is it 'signed off'? Looking for further clarification, specifically what is allowed in this space in regards to the file assembly guidelines in which some documentation can be completed after release of report.</p>



Agenda Item 4H: Quality Management

Additional background

Note: The following slides are intended to provide additional context for the discussion paper, and present how the issues being discussed fit into the broader system of quality management.

Background – Quality Management Discussion Paper

A Firm's System of Quality Management

QM Area	Issue
The firm's risk assessment process	<ul style="list-style-type: none">Specified responses to identified risks may include EQR. If EQR is a specified response, SQMS 2 applies (including cooling-off and dating of report).
Governance and leadership	
Relevant ethical requirements	
Acceptance and continuance	
Engagement performance	
Resources	
Information and communication	
Monitoring and remediation	<ul style="list-style-type: none">Inspections of completed engagementsSelf-inspectionsEQR used as a monitoring procedure

Note: The issues related to EQR (cooling-off, dating of report) and self-inspection discussed in the issues paper relate to these aspects of the system of quality management

Background – Quality Management Discussion Paper

Relationship between SQMS 1 and SQMS 2

Note: The SQMS 2 topics of cooling-off and performance and dating of EQ review (discussed in the issues paper) apply when an EQ review will be performed.

SQMS 1:



Specified responses to risks identified include EQ reviews:

- Required by law/regulation
- Engagements firm determines that EQ review is an appropriate response to address one or more quality risk(s)

Is EQ review incorporated as a risk response?

SQMS 2:



SQMS 2 does not apply



SQMS 2 applies, including:

- **Appointment and eligibility of EQ reviewer (“cooling-off”)**
- **Performance and dating of EQ review**
- Documentation of EQ review

Issue #1 in Discussion Paper: Self-inspections

The below indicates the potential relationship between peer review, self-inspection (if not prohibited) and other monitoring procedures.

Inspection of completed engagements required annually¹ (With Peer Review on a 3-Year Cycle)

Year 1	Year 2	Year 3
<ul style="list-style-type: none">• Inspections can be done by peer reviewer hired as external inspector• Self-inspection <u>not</u> prohibited if firm doesn't have resources to avoid self-inspection and other safeguards* are in place	<ul style="list-style-type: none">• Inspections can't be done by peer reviewer: PR independence rule• Self-inspection <u>not</u> prohibited if firm doesn't have enough resources and other safeguards* are in place	<ul style="list-style-type: none">• Peer review substitutes for inspection of completed engagements

*Safeguards may include items listed in proposed paragraph 169B in the Discussion Memo

¹ Other monitoring procedures performed (e.g., EQRs when done as monitoring) are considered in determining the number and frequency of completed engagements to be inspected.

EQR can be monitoring if:

- Review is comprehensive
- Results are evaluated with other monitoring procedure results

Issue #2 in Discussion Paper: Cooling-Off Period for EQR

For additional background, the following provides context relating to objectivity

AICPA Standards	Engagement Partner	EQR
<ul style="list-style-type: none">Objectivity required by the Code of Professional Conduct	Yes	Yes
<ul style="list-style-type: none">Required rotation	No	No
<ul style="list-style-type: none">Cooling off period	No	ED proposed two year cooling off period for those who transition from Engagement Partner

PCAOB Standards	Engagement Partner	EQR
<ul style="list-style-type: none">Objectivity required by the Code of Professional Conduct	Yes	Yes
<ul style="list-style-type: none">Required rotation	Yes	Yes
<ul style="list-style-type: none">Cooling off period	No	Two year cooling off period, with exemption for small firms with fewer than 5 issuer audit clients and fewer than 10 partners provided they are inspected at least once every 3 years

Issue #2 in Discussion Paper: Cooling-Off Period for EQR

Concerns raised and whether removing cooling-off period addresses concern

Concerns about EQR Cooling off	Does <u>removing</u> cooling-off of EQR address issue?
1. Practice of moving soon to be retired partner that served as engagement partner to EQR would be prohibited	Yes
2. Not enough people to serve as EQRs	Partially
3. Specialized services/ industries or new industries (leads into issue of “not enough people” and limited experts in certain areas, such that “objective” person may not be as competent)	Partially, but there is a broader issue related to resources (#2).

Discussion Memorandum and Issues: Group Audits

I. Objectives of Agenda Item 5

To discuss a draft of proposed AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* based on the draft of proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* that was discussed at the September 2021 International Auditing and Assurance Standards Board's (IAASB) meeting.

II. Members of the Group Audits Task Force

Dora Burzenski, Chair; assisted by Lauren Kolarik
Mike Bingham
Monique Booker
Harry Cohen
Heather Funsch
Clay Huffman
Maria Manasses
Staffed by Judith Sherinsky

III Background

In April 2020, the IAASB issued an exposure draft of proposed ISA 600 (Revised) to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction of ISA 600 with the other ISAs, including ISA 220 (Revised) *Quality Management for an Audit of Financial Statements*, ISA 315, *Identifying and Assessing the Risks of Material Misstatement*, and ISA 330, *The Auditor's Responses to Assessed Risks*.

Extant AU-C 600 provides the group auditor with the option of making reference to the component auditor in the auditor's report on the group financial statements (i.e., "making reference") or assuming responsibility for the work of a component auditor (i.e., "assuming responsibility"). At its June 2021 meeting, the ASB agreed to retain this option in proposed AU-C 600. Proposed ISA 600 (Revised), like extant ISA 600, does not include an option for the group engagement partner to make reference to the work of a component auditor because this is not allowed under the ISAs. In addition to adding the paragraphs on making reference from extant AU-C 600 and clarifying when a requirement is applicable only to assuming responsibility or only to making reference, the other changes that have been made to the September 2021 draft of proposed ISA 600 (Revised) are the following:

- Certain changes agreed upon by the IAASB during its September 2021 meeting
- Changes to reflect differences that currently exist between extant AU-C 600 and extant ISA 600, unrelated to making reference
- If needed, changes to the requirements to reflect the uniqueness of the US environment
- If needed, the addition or deletion of application material to reflect the uniqueness of the US environment
- Changes to reflect ASB drafting conventions (e.g., replacing shall with should)
- Limited, minor editorial changes.

Additionally, references back to extant AU-C 600 requirements have also been included, in order to facilitate the understanding of those paragraphs from extant AU-C 600 that have been carried over to proposed AU-C 600.

In September 2020, the ASB provided the IAASB with a comment letter on the ED, and in March, June, and September 2021, the ASB and the International Auditing Standards Task Force (IASTF) provided input to the AICPA's IAASB representative on the March, June, and September 2021 drafts, respectively.

The objective of the Task Force is to develop an exposure draft of proposed AU-C 600 that the ASB will be able to vote on at its March 2022 meeting, and then issue for exposure.

With that in mind, Dora Burzenski, Chair of the Task Force and a correspondent member of the IAASB's ISA 600 Task Force, will lead the ASB in a paragraph-by-paragraph review of the requirements of proposed AU-C 600 (Agenda Item 5A), with discussion on the application material as needed. (Note that Appendix 2 of proposed AU-C 600, which contains illustrative reports, will not be discussed during the ASB meeting.)

IV Agenda Materials

- | | |
|----------------|---|
| Agenda Item 5 | Discussion Memorandum and Issues: Group Audits (Please note that given the inter-connectedness of Agenda Item 5 and 5A, it is highly recommended that you have read Agenda Item 5A in preparation for reading Agenda Item 5.) |
| Agenda Item 5A | Proposed AU-C 600 marked from the IAASB's September 2021 draft of proposed ISA 600 (Revised), as originally posted for the IAASB meeting. |
| Agenda Item 5B | Clean draft of proposed AU-C 600 |

Issues Related to Introducing the Option in ISA 600 for the Group Auditor to Make Reference to the Work of a Component Auditor

As indicated in the discussion memo, extant as well as proposed AU-C 600 provide the group auditor with the option of (1) making reference to the audit of the component auditor in the auditor’s report on the group financial statements (i.e., “making reference”) or (2) assuming responsibility for the work of component auditors (i.e., “assuming responsibility”). Proposed ISA 600 (Revised) and extant ISA 600 do not allow the auditor to make reference (unless required by law or regulation). To respond to the ASB’s July 2021 decision to retain the option of making reference in proposed AU-C 600, the Task Force made the following changes to the September 2021 IAASB draft of proposed ISA 600 (Revised) (as posted for the IAASB meeting):

- Added the paragraphs from extant AU-C 600 that are specific to making reference to the draft.
- Determined whether the paragraphs in the September 2021 draft of proposed ISA 600 (Revised) are applicable (1) when assuming responsibility *and* when making reference (2) *only* when assuming responsibility, or (3) *only* when making reference.
- Revised the language in those paragraphs or added text to reflect the determination that was made in item “b”.
- Updated for discussions/decisions that occurred during the September IAASB meeting related to paragraph A8AA and paragraphs A27-A31.

Key Issues

The Task Force considered how or whether certain terms, phrases, and concepts included in proposed ISA 600 (Revised) could be adapted to situations in which the group auditor is making reference. The following are the more significant issues the Task Force encountered when introducing the option of making reference in the September 2021 IAASB draft of proposed ISA 600 (Revised):

1. Applicability of the Concept of “Involvement by the Group Auditor in the Work of Component Auditors” When the Group Auditor is Making Reference

Proposed ISA 600 (Revised) requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors. The Task Force considered the applicability of the concept of “involvement” by the group auditor in the work of component auditors when the group auditor is making reference.

The following are some of the key introduction and requirement paragraphs in proposed ISA 600 (Revised) that refer to involvement of component auditors or to phrases with derivations of the word *involvement* (involve, involved, involving) (note that these are not all the paragraphs in proposed AU-C 600) that refer to involvement.

3B. ISA 220 (Revised) requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner.¹ In a group audit, such resources may include component auditors. Therefore, this ISA requires the group auditor to determine the nature, timing, and extent of involvement of component auditors.

4. Audit risk is a function of the risks of material misstatement and detection risk. Detection risk in a group audit includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this ISA requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, this ISA explains the matters that the group auditor takes into account when determining the nature,

¹ Paragraph 25 of proposed QM SAS ,

timing and extent of the direction and supervision of component auditors and the review of their work.

8. The objectives of the auditor are to:

- (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and

12. In applying ISA 220 (Revised), the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner shall:

- (b) Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement.

17A. In applying ISA 300, the group auditor should establish, and update as necessary, an overall group audit strategy and group audit plan that includes a determination of:

- (b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are involved.

18. In establishing the overall group audit strategy and group audit plan, the group engagement partner shall evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor.

37. When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shall communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.

Key Judgment

The Task Force concluded the following:

- Involvement by the group auditor in the work of component auditors is relevant and required when assuming responsibility and also when making reference because paragraph 13 of the proposed QM SAS, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (which revises AU-C 220), requires the engagement partner to take overall responsibility for managing and achieving quality on the audit engagement. In order to fulfil that responsibility, the group auditor would need to be involved in the work of component auditors, whether assuming responsibility or making reference. The group auditor therefore determines the involvement of the component auditor (in this case, they determine whether to involve the component auditor by making reference to the report of the component auditor).
- The nature, timing, and extent of the group auditor's involvement in the work of the component auditors will be different depending on whether the group auditor is making reference or assuming responsibility.

One possible way forward is to add an additional paragraph (likely in the introductory section) that would describe the differences in "involvement" in the two scenarios. An example might be:

The group auditor's involvement in the work of the component auditor will differ when the group auditor is assuming responsibility for the work of a component auditor as compared to when the

group auditor is making reference to the work of a component auditor; therefore, what constitutes sufficient and appropriate involvement in the work of the component auditor will also differ accordingly. For example, when the group auditor is assuming responsibility for the work of a component auditor, sufficient and appropriate involvement includes directing and supervising the work of the component auditor and reviewing their work. This proposed SAS differentiates the group auditor's involvement in the work of the component auditor when the group auditor is assuming responsibility for the work of a component auditor from the group auditor's involvement when the group auditor is making reference to the work of a component auditor.

Questions for the ASB 1. Does the ASB agree with the conclusion that involvement by the group auditor in the work of component auditors is relevant and required when the group auditor is assuming responsibility and also when making reference?

2. Is the ASB in favor of drafting language that further describes the differences in involvement by the group auditor in the work of the component auditor, consistent with the example provided above?

2. Component Auditor Involvement in All or Only Certain Phases of the Group Audit

In proposed ISA 600 (Revised), the group auditor may involve component auditors in all phases of the group audit or in only certain phases. The Task Force considered whether the concept of involving component auditors in all phases of the group audit or in only certain phases of the group audit is relevant when the group auditor is making reference.

The following are paragraphs from proposed ISA 600 (Revised) that contain such references:

3C. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this ISA. Component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit.

A33H. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase.

A72C. The initial expectations about the potential risks of material misstatement take into account the auditor's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group auditor may, and often will, involve component auditors in risk assessment procedures as they have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

When a group auditor makes reference to the audit of a component auditor in the auditor's report, the component auditor has already issued an auditor's report on the financial statements of the component. As part of the audit of the component's financial statements, the component auditor has performed all aspects of an audit for that component, including the planning, risk assessment, control testing, substantive procedures, concluding, and reporting, in order to issue an audit report. However, the distinction in this scenario is that the group auditor would not direct and supervise the component auditors, and review their work, in the same manner as the group auditor would if the group auditor were assuming responsibility. Rather, the component auditor is involved in the group audit through the required communications that relate to their activities (e.g., paragraph 44 of proposed AU-C 600).

When a group auditor is assuming responsibility, the extent of the component auditor's involvement depends on the extent to which the group auditor "requests" or "instructs" the component auditor to be involved. The group auditor is responsible for determining the nature, timing, and extent of the work that the component auditor will perform on the component financial information. On one end of the spectrum (when the group auditor is assuming responsibility), the component auditor may perform

much of the audit of the financial information of a component (in which case the component auditor would be involved in “all phases of the audit”) and on the other end of the spectrum, the component auditor may only perform certain limited procedures at the component, as instructed by the group auditor, in which case the component auditor would only be involved in “certain phases of the audit”.

Key Judgment

The Task Force made a key judgment that the concept of involving component auditors in all phases of the group audit or in only certain phases of the group audit is relevant *both* when the group auditor is assuming responsibility and also when making reference, and allows for the use of the phrase “involve component auditors in the group audit” (or some derivative of the phrase) both when the group auditor is assuming responsibility and when making reference.

The Task Force also made revisions to proposed AU-C 600 to clarify that when the group auditor involves component auditors in specific phases of the audit (for example, when the group auditor asks the component auditor to perform risk assessment or to test the operating effectiveness of controls), the group auditor would likely be assuming responsibility for that work and the component auditor would be reporting back to the group auditor on that work.

Question for the ASB

3. Do you agree with the Task Force's views on the interpretation of involvement?

3. Group Auditor's Direction and Supervision of Component Auditors and Review of Their Work

The definition of group auditor in paragraph 9(h) of proposed ISA 600 (Revised) is as follows:

Group auditor – The group engagement partner and members of the engagement team other than component auditors who are responsible for:

- i. Establishing the overall group audit strategy and group audit plan;
- ii. Directing and supervising component auditors and reviewing their work;
- iii. Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

Also, paragraph 23 of proposed ISA 600 (Revised) states, “In applying ISA 220 (Revised), the group engagement partner should take responsibility for the nature timing and extent of direction and supervision of component auditors and the review of their work...”

The Task Force considered the applicability of the concept of “the group auditor's direction and supervision of component auditors and review of their work” when the group auditor is making reference.

Key Judgment

The Task Force made a key judgment that the responsibility for the group auditor to direct and supervise component auditors and review their work is only relevant and required when the group auditor is assuming responsibility. In Issue 1 of this paper, which discusses involvement by the group auditor in the work of component auditors, the Task Force concluded that when component auditors are involved in the group audit, the group auditor will always be involved in the work of component auditors; however, the group auditor's involvement will vary depending on whether the group auditor is assuming responsibility or making reference. Paragraphs 29-34 of ISA 220 (Revised) address the engagement partner's responsibility for the direction and supervision of the members of the engagement team and the review of their work. The Task Force concluded that the actions required by paragraphs 29-34 of ISA 220 (Revised) related to direction, supervision and review generally are not performed when making reference under extant AU-C 600.

As a result, the Task Force added language throughout proposed AU-C 600 to explicitly clarify that the group auditor's direction and supervision of component auditors and review of their work is only relevant when the group auditor is assuming responsibility for the work of component auditors. An example of this is the following revision to the first sentence of paragraph 23.

When the group auditor is assuming responsibility for the work of a component auditor, in applying proposed ISA 220 (Revised) the group engagement partner shall...

Question for the ASB

4. Do you agree with the Task Force's views that requirements specifically related to direction, supervision, and review in proposed AU-C 600 are only applicable when assuming responsibility?

4. Definition of the Terms *Engagement Team* and *Group Auditor*

Definition of Engagement Team

The definition of *engagement team* in ISA 220 (Revised) as well as in International Standard on Quality Management (ISQM) 1 is the following:

All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external specialist⁵ and internal auditors who provide direct assistance on an engagement."

The majority of the Task Force took the preliminary view that component auditors that the group auditor makes reference to are still "performing audit procedures" for purposes of the group audit because their audit procedures result in an audit report that is used by the group auditor. For this reason, the Task Force preliminarily concluded that component auditors are part of the engagement team, and therefore, the Task Force has not adjusted the wording of the definition of engagement team.

As component auditors are members of the engagement team under proposed ISA 600, this means that the requirements of ISA 220 (Revised) that relate to the engagement team are applicable to component auditors. Although the Task Force was able to adjust the wording in Issue 3 above as it relates direction, supervision, and review of component auditors when the group auditor is making reference, there are concerns about how the entirety of proposed QM SAS, *Quality Management for an Engagement Performed in Accordance with Generally Accepted Auditing Standards* (which is the AU-C version of ISA 220 (Revised)) will be applied in scenarios in which the group auditor is making reference. For example, ISA 220 (Revised), paragraph 14, contains the following requirement:

14. In creating the environment described in paragraph 13, the engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behavior of engagement team members, including emphasizing:
- (a) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
 - (b) The importance of professional ethics, values and attitudes to the members of the engagement team;
 - (c) The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
 - (d) The importance of each engagement team member exercising professional skepticism throughout the audit engagement.

Consider the following scenario:

- The group auditor is making reference to the audit of a component auditor in the auditor's report

- The group auditor is performing only the procedures as required by proposed AU-C 600
- The audit by the component auditor that the group auditor will make reference to is completed prior to the commencement of the audit of the group.

In such a scenario, it may not be possible for the group auditor to appropriately comply with ISA 220 (Revised) paragraph 14, especially as the audit of the component has been completed before the group audit has begun. As ISA 220 (Revised) was not developed with an acknowledgement of the option for the group auditor to make reference, it may not be clear how to apply other requirements that relate to the engagement team in such circumstances.

Question for the ASB

5. In previous ASB discussions, the ASB indicated that it had no desire to fundamentally change the current practice of how the group auditor makes reference to a component auditor. In light of the requirements in the proposed QM SAS, the Task Force is seeking the ASBs views on the following options:

- Explore the idea of modifying the definition of engagement team, so that when the group auditor is making reference to the audit of a component auditor in the group auditor's report, such auditors would not be considered part of the engagement team.
- Do not modify the definition of engagement team, in which case all the requirements of the proposed QM SAS would be applicable to the component auditors that the group auditor is making reference to. (Note that if this path is taken, the scope of the project would need to be expanded to consider and address the application of the requirements in the proposed QM SAS when making reference.)

5. Requests by Group Auditor for Component Auditor to Perform Work

Proposed ISA 600 (Revised) uses terminology such as "at the request of the group auditor," "the group auditor shall request the component auditor to," or "work requested by the group auditor." In certain scenarios, the work performed may not have been performed specifically for the purpose of the group audit or specifically at the request of the group auditor (e.g., when a group has an investment accounted for using the equity method, and a component auditor has performed an audit of the investees financial statements). Therefore, The Task Force considered whether terminology related to the group auditor "requesting" the component auditor to perform work is applicable when the group auditor is making reference.

In a scenario in which the group auditor is using audit evidence from an audit performed for another purpose as audit evidence for the group audit, the group auditor may not necessarily have "requested" the component auditor to perform such work; however, once the group auditor has decided to use that work as audit evidence for the group audit, the group auditor will then need to "request" that the component auditor perform certain incremental work or activities for purposes of the group audit. For example, although the group auditor is making reference to a component auditor, the group auditor is required to request that the component auditor communicate certain matters to the group auditor. The group auditor would have to "request" or instruct the component auditor to communicate those matters. The component auditor would only perform those activities (communicate) because the group auditor requested that they do so for the purpose of the group audit.

Key Judgment

The Task Force made a key judgment that use of this terminology is generally appropriate when assuming responsibility and also when making reference. The work that the group auditor might request the component auditor to perform and the method of "requesting" such work may vary depending on whether the group auditor is making reference or assuming responsibility;

nevertheless, it is generally appropriate to use the requesting terminology when assuming responsibility and also when making reference.

As a result, however, the Task Force has made the following edits throughout proposed AU-C 600:

- Added language to explicitly clarify when the group auditor's request for the component auditor to perform certain work would only be relevant when assuming responsibility.
- Replaced language such as "work requested to be performed" with "work performed" when such work is from an audit for which the group auditor will make reference to.

In addition, the Task Force concluded that eliminating this wording does not lessen or somehow imply that the group auditor is not leading and taking responsibility for the audit.

Question for the ASB

6. Do you agree with the Task Force's conclusions on this matter?

6. Determining Whether to Act as the Group Auditor

In extant AU-C 600 (and in extant ISA 600), the objective of the section includes the following:

10. The objectives of the auditor are to determine whether to act as the auditor of the group financial statements and....

In addition, the following requirement and related application material is in extant AU-C 600:

15. The group engagement partner should evaluate whether the group engagement team will be able to obtain sufficient appropriate audit evidence through the group engagement team's work or use of the work of component auditors (that is, through assuming responsibility for the work of component auditors or through making reference to the audit of a component auditor in the auditor's report), to act as the auditor of the group financial statements and report as such on the group financial statements.

A18. Relevant factors in determining whether to act as the auditor of the group financial statements include, among other things, the following:

- The individual financial significance of the components, as determined in accordance with the guidance in paragraph .A6, for which the auditor of the group financial statements will be assuming responsibility
- The extent to which significant risks of material misstatement of the group financial statements are included in the components for which the auditor of the group financial statements will be assuming responsibility
- The extent of the group engagement team's knowledge of the overall financial statements

Proposed ISA 600 and proposed AU-C 600 do not include this objective and the related requirement (i.e., the group auditor is not required to determine whether they can act as the auditor of the group financial statements). The reasoning for the change in objective is partly because the overall structure of the standard is different, and is designed (if applied appropriately) to allow the group auditor to be sufficiently and appropriately involved in the work of the component auditor; and if this is the case, then there is no need for a discrete decision as to whether the auditor can act as the group auditor.

Question for the ASB

7. Given that proposed AU-C 600 includes the concept of making reference, the Task Force would like input from the ASB as to whether any additional consideration needs to be given to re-instating this requirement.

7. Group Auditor Instructions to Component Auditors

The application paragraphs in proposed ISA 600 (Revised) contain the concept of “group auditor instructions to component auditors.” The Task Force considered the applicability of the concept of group auditor instructions to component auditors when the group auditor is making reference. The following is an example of a paragraph from proposed ISA 600 (Revised) that addresses group auditor instructions to a component auditor that is relevant when the group auditor is assuming responsibility:

A50. If component auditors are from a firm other than the group auditor’s firm, the firm’s policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network. For example, in relation to the form, content and timing of communications with component auditors, including the use of group auditor instructions to component auditors. ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.²

Key Judgment

The Task Force made a key judgment that the concept of group auditor instructions to a component auditor is relevant when the group auditor is assuming responsibility and also when making reference. Similar to the conclusion reached in Issue 6, when the group auditor plans on using work performed by component auditors as audit evidence for the purposes of a group audit, the group auditor may provide instructions to a component auditor even when making reference, for example, to instruct the component auditor to communicate certain matters to the group auditor.

The Task Force noted that in extant AU-C 600, the term *instructions* is only used in the context of the group auditor assuming responsibility, and in proposed ISA 600 (Revised), the term is often used when the group auditor would likely be assuming responsibility. As a result, the Task Force has added language throughout proposed AU-C 600 to explicitly clarify certain scenarios in which the group auditor’s instructions to component auditors would only be relevant when the group auditor is assuming responsibility.

Question for the ASB

8. Do you agree with the Task Force’s conclusions on this matter?

8. Component Auditor Audit Documentation

The following is the definition of *audit documentation* in ISA 230 and in AU-C section 230, *Audit Documentation*:

The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as working papers or workpapers are also sometimes used).

As proposed ISA 600 (Revised) uses the term audit documentation, the Task Force considered the applicability of that term when the group auditor is making reference to the audit of a component auditor in the auditor’s report.

When the group auditor is making reference, there are certain communication requirements that are relevant, including for example the following:

44. The group auditor should request the component auditor to communicate matters relevant to the group auditor’s conclusion with regard to the group audit.

² Paragraph A24 of proposed QM SAS ,

- (a) Regardless of whether reference will be made in the auditor’s report on the group financial statements to the audit of a component auditor, such communication should include:
- (i) Identification of the financial information on which the component auditor is reporting

Therefore, even when making reference, there is audit documentation from the component auditor related to the results and conclusions of the component auditor’s work, that is relevant to the group auditor.

Key Judgment

Based on the definition of audit documentation (above) in proposed ISA 600 (Revised) and AU-C 600, the Task Force made a key judgment that the use of the term audit documentation is generally appropriate when the group auditor is assuming responsibility and also when making reference. However, the Task Force has added language throughout proposed AU-C 600 to explicitly clarify certain scenarios in which the component auditor’s audit documentation would only be relevant when the group auditor is assuming responsibility.

Question for the ASB

9. Do you agree with the Task Force’s conclusions on this matter?

9. Governmental

There are certain paragraphs within proposed AU-C 600 related to considerations specific to governmental entities, as follows:

- 1A.2
- A10.2
- Paragraph after A12
- Paragraph after A16B
- Paragraph after A33F
- A80

Question for the ASB

10. Does the ASB agree with the inclusion of these paragraphs, which were from extant AU-C 600, and are there any further changes to the proposed SAS that are necessary to reflect governmental considerations?

10. Appendices and Exhibits

Extant AU-C 600 has three appendices and three exhibits. The right side of the following table explains how the appendices and exhibits have been addressed in proposed AU-C 600.

Extant AU-C 600	Proposed AU-C 600
Appendix A — Understanding the Group, Its Components, and Their Environments — Examples of Matters About Which the Group Engagement Team Obtains an Understanding	This appendix is not needed, as the content has been incorporated into the application material in Proposed AU-C 600. In proposed AU-C 600, a new appendix has been created to provide examples of matters related to internal control that may be helpful in

	obtaining an understanding of the system of internal control in the context of a group environment; it is <i>Appendix 3, Understanding the Group's System of Internal Control</i> .
Appendix B — Examples of Conditions or Events That May Indicate Risks of Material Misstatement of the Group Financial Statements	This appendix is now <i>Appendix 4, Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements</i> The content is generally consistent with extant AU-C 600.
Appendix C — Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction	This appendix had not been included in proposed AU-C 600 (and also is not included in proposed ISA 600(Revised)) as it is more consistent with "implementation guidance". Therefore, the suggestion is to exclude it from the proposed SAS and consider including it in implementation guidance.
Exhibit A — Illustrations of Auditor's Reports on Group Financial Statements	This exhibit has been included as Appendix 2 in proposed AU-C 600. Depending on AU-C conventions, this may be changed to an exhibit in future drafting (versus being an appendix).
Exhibit B — Illustrative Component Auditor's Confirmation Letter	This exhibit had not been included in proposed AU-C 600 (and also is not included in proposed ISA 600 (Revised)) as it is more consistent with "implementation guidance". Therefore, the suggestion is to exclude it from the proposed SAS and consider including it in implementation guidance.
Exhibit C — Sources of Information	This exhibit had not been included in proposed AU-C 600 (and also is not included in proposed ISA 600 (Revised)) as it is more consistent with "implementation guidance". Therefore, the suggestion is to exclude it from the proposed SAS and consider including it in implementation guidance.

For purposes of the October ASB discussion, we will not be discussing Appendix 2, which are the illustrative reports.

Question for the ASB

11. Does the ASB agree with how the Task Force has proposed to address appendices and exhibits?

11. Making Reference Paragraphs

The making reference section of proposed AU-C 600, has currently been placed after paragraph 26C

of the proposed SAS, under the heading “Considerations When Component Auditors Are Involved.”

Question for the ASB

12. Is the ASB comfortable with this placement?

12. Structure of the Standard

Extant AU-C 600 is structured such that the paragraphs 1-50 are applicable both when making reference and assuming responsibility, and paragraphs 51-65 are only applicable when assuming responsibility. The Task Force explored whether proposed AU-C 600 could be structured in a similar manner. However, given how proposed ISA 600 is structured, the Task Force decision was that it would be disruptive to the flow of the standard to attempt to “extract” out paragraphs only applicable when assuming responsibility, and place them in a separate section.

Question for the ASB

13. Is the ASB comfortable with this decision?

13. Investments Accounted for using the Equity Method

Consistent with extant AU-C 600, investments accounted for using the equity method (i.e., EMIs) are considered components, and therefore subject to the scope of proposed AU-C 600. Currently, proposed AU-C 600 includes application material related to EMIs in paragraphs A27-A31. Additionally, A8AA provides guidance on how the group auditor may use the work of an audit that has already been completed, which sometimes occurs with EMIs. The IAASB is still discussing the application material related to EMIs, and so it’s unclear at this point in time if additional application material will be included in proposed ISA 600.

Of note, is that the PCAOB standards provide a more explicit acknowledgement of the ability to use the financial statements of the EMI that have been audited by an auditor (“investee’s auditor”) whose report is satisfactory, as sufficient appropriate evidence; in this scenario, there are some other required procedures related to confirming independence and competence of the investee’s auditor). Proposed AU-C 600 takes the approach of acknowledging in paragraph A8AA that there may have been work done on a component for purposes of another audit (which could include a completed audit of an EMI), but that the requirements of the proposed SAS still apply.

Question for the ASB

14. Is the ASB comfortable with the current direction of how EMIs are treated in proposed AU-C 600? Is there additional requirements or application material that is needed in proposed AU-C 600?

Proposed ~~Statement on Auditing Standards~~ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (Marked from September 2021 IAASB Meeting)

AU-C <u>ISA 600</u> Requirement	Application Material
Introduction	
Scope of this Proposed SAS <u>section</u> ISA	
<p>1. The International Standards on Auditing (ISAs) <u>Generally accepted auditing standards (GAAS)</u> apply to an audit of group financial statements (a group audit). This proposed statement on auditing standards (SAS) <u>section</u> addresses <u>ISA</u> deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this proposed SAS <u>section</u> ISA refer to, or expand on, the application of other relevant AU-C sections <u>ISAs</u> to a group audit, in particular proposed QM SAS, Quality Management for an Engagement Performed in Accordance with Generally Accepted Auditing Standards <u>section</u> ISA 220 (Revised),¹ section <u>ISA 230</u>,²</p>	<p>Scope of this Proposed SAS <u>ISA</u> (Ref: Para. 1–1B)</p> <p>A1. This proposed SAS <u>ISA</u> also deals with the special considerations for the group engagement partner or group auditor, as applicable, in applying the requirements and guidance in proposed QM SAS-ISA-220 (Revised), including for the direction and supervision of component auditors and the review of their work.</p> <p>A2. Proposed ISQMS <u>1</u>⁶ addresses the engagements for which an engagement quality review is required to be performed. Proposed ISQMS <u>2</u>⁷ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer’s responsibilities relating to performing and documenting an engagement quality review, including for a group audit.</p>

¹ [Proposed QM SAS](#) ~~ISA 220 (Revised)~~, *Quality Management for an ~~Engagement Performed in Accordance with Generally Accepted Auditing Standards~~ Audit of Financial Statements*

² [AU-C section](#) ~~ISA 230~~, *Audit Documentation*

⁶ ~~International Standard~~ [Proposed Statement](#) on Quality Management ~~Standards~~ (ISQMS) 1, *~~A Firm’s System of Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements~~*

⁷ [Proposed](#) ~~ISQMS~~ 2, *Engagement Quality Reviews*

AU-C ISA 600 Requirement	Application Material
<p>section ISA 300, <i>Planning an Audit</i>,³ SAS No. 145, <i>Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment</i>section ISA 315 (Revised 2019),⁴ and section ISA 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>.⁵ (Ref: Para. A1–A2)</p>	
<p>1A. Group financial statements include the financial information of more than one entity or business unit through a consolidation process, as described in paragraph 9(k). The term consolidation process as used in this proposed SASsection ISA refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions. (Ref: Para. A2A–A2B, A16A)</p> <p><u>1A.2. Government entities frequently prepare group financial statements. The AICPA Audit and Accounting Guide, <i>State and Local Governments</i> provides guidance to assist auditors in auditing and reporting on those financial statements in accordance with GAAS, including the requirements of this section. [Extant AU-C 600.04]</u></p>	<p>A2A. An entity or business unit of a group may also prepare its own group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a subgroup). This proposed SAS ISA applies to an audit of the group financial statements of such subgroups performed for statutory, regulatory or other reasons.</p> <p>A2AA. A single legal entity may be organized with more than one business unit, for example, a company with operations in multiple locations, such as a bank with multiple branches. When those business units have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger) and the financial information is aggregated in preparing the single legal entity's financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.</p> <p>A2B. In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation</p>

³ [AU-C section ISA 300, *Planning an Audit of Financial Statements*](#)

⁴ [Proposed SAS No. 145 ISA 315 \(Revised 2019\), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*](#)

⁵ [AU-C section ISA 330, *Performing Audit Procedures in The Auditor's Responses to Assessed Risks and Evaluating the Audit Evidence Obtained*](#)

AU-CISA 600 Requirement	Application Material
	<p>process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this <u>proposed SAS ISA</u>.</p>
<p>1B. As explained in <u>proposed QM SASsectionISA 220 (Revised)</u>,⁸ this <u>proposed SASsectionISA</u>, adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this <u>proposed SASsectionISA</u> may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service center at a remote location.</p>	
<p><i>Groups and Components</i></p> <p>3. A group may be organized in various ways. For example, a group may be organized by legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method). Alternatively, the group may be organized by geography, by other economic units (including branches or divisions), or by functions or business activities. In this <u>proposed SASsectionISA</u>, these different forms of organization are collectively referred to as “entities or business units.” (Ref: Para. A3A)</p>	<p><i>Groups and Components</i> (Ref: Para. 3–3A)</p> <p>A3A. The group’s information system, including its financial reporting process, may or may not be aligned with the group’s organizational structure. For example, a group may be organized according to its legal structure, but its information system may be organized by function, process, product or service (or by groups of products or services), or geographic locations for management or reporting purposes.</p>

⁸ [Paragraph A1 of proposed QM SASISA 220 \(Revised\)](#), paragraph A1

AU-CISA 600 Requirement	Application Material
<p>3A. The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group auditor uses professional judgment in determining the components at which audit work will be performed. This determination is based on the group auditor's understanding of the group and its environment, and other factors such as the ability to perform audit procedures centrally, the presence of shared service centers, or common information systems and internal control. (Ref: Para. A5–A6A)</p>	<p>A5. Based on the understanding of the group's organizational structure and information system, the group auditor may determine that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the group auditor may decide to treat these three legal entities as one component.</p> <p>A6. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service center. When such centralized activities are relevant to the group's financial reporting process, the group auditor may determine that the shared service center is a component.</p> <p>A6A. Another consideration that may be relevant to the group auditor's determination of components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework.⁹</p>
<p><i>Involvement of Component Auditors</i></p> <p>3B. Proposed QM SASSection ISA 220 (Revised) requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner.¹⁰ In a group audit, such resources may include component auditors <u>(that is, through assuming responsibility for the work of component auditors or through making reference to the audit of a component</u></p>	<p><i>Involvement of Component Auditors</i> (Ref: Para. 3B–4)</p>

⁹ See, for example, [FASB Accounting Standards Codification Manual \(ASC\) International Financial Reporting Standard \(IFRS\) 280, Operating Segments Reporting](#)

¹⁰ [Paragraph 25 of proposed QM SAS ISA 220 \(Revised\), paragraph 25](#)

AU-CISA 600 Requirement	Application Material
<p><u>auditor in the auditor's report</u>). Therefore, this <u>proposed SASsectionISA</u> requires the group auditor to determine the nature, timing and extent of involvement of component auditors.</p>	
<p>3C. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this <u>proposed SASsectionISA</u>. Component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit. (Ref: Para. A8AA)</p>	<p>A8AA. Component auditors may perform an audit of the financial statements of a component, whether for statutory, regulatory or other reasons, particularly when a component is a legal entity. When a component auditor is also performing or has completed an audit of the component financial statements, the group auditor may be able to use audit work performed on the component financial statements, provided the group auditor is satisfied that such work is appropriate for purposes of the group audit. In addition, some of the audit work requested by the group auditor may be able to be used by the component auditor for the separate audit of the component financial statements. Component auditors may also adapt the work they perform on the audit of the component financial statements to also meet the needs of the group auditor. In any event, <u>and regardless of whether the group engagement partner decides to make reference to component auditors in the group auditor's report or to assume responsibility for the work of component auditors,</u> the requirements of this <u>proposed SAS ISA</u> apply, including those relating to the direction and supervision of component auditors and the review of their work <u>when the group auditor is assuming responsibility for the work of component auditors.</u></p>

AU-C ISA 600 Requirement	Application Material
<p>4. Audit risk is a function of the risks of material misstatement and detection risk.¹¹ Detection risk in a group audit includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this proposed SAS sectionISA requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, when the group auditor is assuming responsibility for the work of component auditors, this proposed SAS sectionISA explains the matters that the group auditor takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A8A–A8B)</p>	<p>A8A. As explained in ISA AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards</i>,¹² detection risk relates to the nature, timing and extent of the auditor’s procedures that are determined by the auditor to reduce audit risk to an acceptably low level. Detection risk is a function not only of the effectiveness of an audit procedure but also the application of that procedure by the auditor. Therefore, detection risk is influenced by matters such as adequate planning, the assignment of appropriate resources to the engagement, the exercise of professional skepticism, and the supervision and review of the audit work performed.</p> <p>A8B. Detection risk is a broader concept than aggregation risk as described in paragraphs 9(a) and A11. In a group audit, there may be a higher probability that the aggregate of uncorrected and undetected misstatements may exceed materiality for the group financial statements as a whole because audit procedures may be performed separately on the financial information of components across the group. Accordingly, component performance materiality is set by the group auditor to reduce aggregation risk to an appropriately low level.</p>
<p><i>Professional Skepticism</i></p> <p>5. In accordance with AU-C sectionISA 200,¹³ the engagement team is required to plan and perform the</p>	<p><i>Professional Skepticism</i> (Ref: Para. 5)</p> <p>A9. Proposed QM SAS ISA 220 (Revised)¹⁴ provides examples of the impediments to the exercise of professional skepticism at the engagement level, including unconscious</p>

¹¹ ~~Paragraph A38 of AU-C section~~ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing International Standards on Auditing*, paragraph A34

¹² ~~Paragraph A49~~A45 of ~~AU-C section~~ISA 200, paragraph A45

¹³ ~~Paragraphs 17-18 and A24-A28 of AU-C section~~ISA 200, ~~paragraphs 15–16 and A20–A24~~

¹⁴ ~~Paragraphs A35–A36 of proposed QM SAS~~ISA 220 (Revised), ~~paragraphs A35–A36~~

AU-C ISA 600 Requirement	Application Material
<p>group audit with professional skepticism and to exercise professional judgment. The appropriate exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism. (Ref: Para. A9–A10)</p>	<p>auditor biases that may impede the exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Proposed QM SAS ISA 220 (Revised) also provides possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level.</p> <p>A9AA. It is important for all members of the engagement team, including component auditors, to exercise professional skepticism throughout the group audit. When there are a large number of components across multiple jurisdictions, it also may be important for the group auditor to remain alert for inconsistent information from component auditors, component management and group management about matters that may be significant to the group financial statements.</p> <p>A9A. The exercise of professional skepticism in a group audit also may be affected by matters such as the following:</p> <ul style="list-style-type: none"> • Component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject. • The complex structure of some groups may introduce factors that give rise to increased susceptibility to risks of material misstatement. In addition, an overly complex structure may itself be a fraud risk factor in accordance with AU-C section ISA 240, <i>Consideration of Fraud in a Financial Statement Audit</i>¹⁵ and therefore may require additional time or expertise to understand the business purpose and activities of certain entities or business units. • The nature and extent of intragroup transactions (e.g., transactions that involve multiple entities and business units within the group or multiple related parties), cash flows or transfer pricing agreements may give rise to additional complexities. In some cases, such matters may also give rise to fraud risk factors. • When the group audit is subject to tight reporting deadlines imposed by group

¹⁵ [AU-C section ISA 240, *The Auditor's Responsibilities Relating to Consideration of Fraud in an Audit of Financial Statements Audit*](#)

AU-C ISA 600 Requirement	Application Material
	<p>management, this may put pressure on engagement team members in completing the work assigned. For example, such demands may restrict the ability of the engagement team to make appropriate judgments, including in the review of the work performed, and appropriately question management's assertions.</p> <p>A9B. [Moved to paragraph A52A]</p> <p>A9C. The group auditor's direction and supervision of engagement team members, including component auditors, and the review of their work may help the group auditor in evaluating whether the engagement team has appropriately exercised professional skepticism.</p> <p>A10. Requirements and relevant application material in SAS No. 145-ISA 315 (Revised 2019),¹⁶ AU-C section ISA 540, Auditing Accounting Estimates and Related Disclosures (Revised)¹⁷ and other AU-C sections ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.</p>
<p><i>Scalability</i></p> <p>5A. This proposed SAS section ISA is intended for all group audits, regardless of size or complexity. However, the requirements of this proposed SAS section ISA are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely by the group auditor, some requirements in this proposed SAS section ISA are not relevant because they are conditional on the</p>	

¹⁶ ~~Paragraph A268A23 of SAS No. 145-ISA 315 (Revised 2019), paragraph A238~~

¹⁷ ~~Paragraph A11 of AU-C section ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures, paragraph A11~~

AU-CISA 600 Requirement	Application Material
<p>involvement of component auditors. This may be the case when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. The guidance in paragraphs A75A and A76 also may be helpful in applying this proposed SASsectionISA in these circumstances.</p>	
<p><i>Responsibilities of the Group Engagement Partner and Group Auditor</i></p> <p>6. The group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this proposed SASsectionISA. The term “the group engagement partner should take responsibility for...” or “the group auditor should take responsibility for...” is used for those requirements when the group engagement partner or group auditor, respectively, is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors. For other requirements, this proposed SASsectionISA expressly intends that the requirement or responsibility be fulfilled by the group engagement partner or group auditor, as applicable, and the group engagement partner or group auditor may obtain information from the firm or other members of the engagement team. (Ref: Para. A19)</p>	<p><u><i>Responsibilities of the Group Engagement Partner and Group Auditor</i></u> (Ref: Para. 6-6.1)</p> <p>A10.X447. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings or conclusions, the group engagement partner or the group engagement partner’s firm is responsible for the group audit <u>opinion regardless of whether reference will be made in the auditor’s report on the group financial statements to the audit of a component auditor.</u> [Moved from paragraph A117] [Extant AU-C 600.A13]</p> <p>A10.Y448. When the group audit opinion is modified because the group auditor was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor’s report on the group financial statements describes the reasons for that inability.¹⁸ In some circumstances, a reference to a component auditor may be necessary to adequately describe the reasons for the modified opinion, for example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management. [Moved from paragraph A118]</p>

¹⁸ Paragraphs 21 and 25 of AU-C section 705

<u>AU-CISA 600</u> Requirement	Application Material
<p>6.1 The group engagement partner should be responsible for <u>deciding</u>, individually for each component, to either</p> <p>(a) <u>assume responsibility for, and thus be required to direct and supervise the component auditor and review their work, insofar as that work relates to the expression of an audit opinion on the group financial statements, or</u></p> <p>(b) <u>not assume responsibility for, and accordingly make reference to, the audit of a component auditor in the auditor's report on the group financial statements. [Extant AU-C 600.08]</u></p>	<p><u>Considerations Specific to Governmental Entities</u> [Ref: Para. 6]</p> <p>A10.2. When the <u>group</u> auditor is engaged to express opinions on both the group financial statements and the separate financial statements of the components presented in the group financial statements, the auditor's reporting responsibilities with respect to the separate financial statements are the same as the auditor's responsibilities with respect to the group financial statements. [Extant AU-C 600.A14]</p>

AU-CISA 600 Requirement	Application Material
Effective Date	
7. This proposed SAS section ISA is effective for audits of group financial statements for periods beginning on or after December 15, 20 23 XX .	
Objectives	
<p>8. The objectives of the auditor are to:</p> <p>(a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements;</p> <p>(b) Identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks;</p> <p>(b-1) <u>(c) Determine whether to make reference to the audit of a component auditor in the auditor's report on the group financial statements; [Extant AU-C 600.10]</u></p> <p><u>(d)</u> Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and</p> <p>(d) <u>(e)</u> Evaluate whether sufficient appropriate audit evidence has been obtained from the audit</p>	

AU-CISA 600 Requirement	Application Material
<p>procedures performed, including from the work performed by component auditors, as a basis for forming an opinion on the group financial statements.</p>	
Definitions	
<p>9. For purposes of GAAS the ISAs, the following terms have the meanings attributed below <u>as follows</u>:</p> <p>(a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A11)</p> <p>(b) Component – An entity or business unit or a function or business activity, (or some combination thereof), determined by the group auditor for purposes of planning and performing audit procedures in a group audit. (Ref: Para. A12)</p> <p>(c) Component auditor – An auditor who, at the request of the group auditor, performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.¹⁹ (Ref: Para. A13–A14)</p> <p>(d) Component management – Management responsible for a component. (Ref: Para. A15)</p> <p>(e) Component performance materiality – An amount</p>	<p>Definitions</p> <p><i>Aggregation Risk</i> (Ref: Para. 9(a))</p> <p>A11. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, whether by component auditors or other members of the engagement team.</p> <p><i>Component</i> (Ref: Para. 9(b))</p> <p>A12. As noted in paragraph 3A, the group auditor uses professional judgment in determining components at which audit procedures will be performed, including whether certain entities or business units, functions or business activities will be considered together for purposes of planning and performing audit procedures. However, the group auditor’s identification and assessment of the risks of material misstatement of the group financial statements in accordance with SAS No. 145–ISA 315 (Revised 2019) encompasses all of the entities and business units whose financial information is included in the group financial statements.</p> <p><i>Considerations Specific to Governmental Entities</i> (Ref: Para. 9(b))</p>

¹⁹ [Paragraph 12 of proposed QM SAS ISA 220 \(Revised\), paragraph 12\(d\)](#)

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<p>set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.</p> <p>(f) Group – A reporting entity for which group financial statements are prepared.</p> <p>(g) Group audit – The audit of group financial statements.</p> <p>(h) Group auditor – The group engagement partner and members of the engagement team other than component auditors who are responsible for:</p> <p style="padding-left: 20px;">(i) Establishing the overall group audit strategy and group audit plan;</p> <p style="padding-left: 20px;">(ii) <u>Being involved in the work of component auditors, and when the group auditor is assuming responsibility for the work of component auditors, directing and supervising component auditors and reviewing their work;</u></p> <p style="padding-left: 20px;">(iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.</p> <p>(i) Group audit opinion – The audit opinion on the group financial statements.</p> <p>(j) Group engagement partner – The engagement partner²⁰ who is responsible for the group audit.</p>	<p><u>AXX. In audits of state and local governments, a component may be a separate legal entity reported as a component unit or part of the governmental entity, such as a business activity, department, or program. [Extant AU-C 600.A5]</u></p> <p><i>Component Auditor</i> (Ref: Para. 9(c))</p> <p>A13. References in this <u>proposed SAS ISA</u> to the engagement team include the group auditor and component auditors <u>(that is, component auditors for which the group auditor is assuming responsibility and component auditors for which the group auditor is making reference to in the auditor’s report)</u>. Component auditors may be from a network firm, a firm that is not a network firm, or the group auditor’s firm (e.g., another office within the group auditor’s firm).</p> <p><u>AXX. An auditor who performs work on a component when the group engagement team will not use that work to provide audit evidence for the group audit is not considered a component auditor. [Extant AU-C 600.A9]</u></p> <p>A14. In some circumstances, the group auditor may perform centralized testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor for purposes of this <u>proposed SAS ISA</u>.</p> <p><i>Component Management</i> (Ref: Para. 9(d))</p> <p>A15. Component management refers to management responsible for the financial information or other activity (e.g., processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group auditor considers the financial information of certain entities or business units together as a</p>

²⁰ [Paragraph 12 of proposed QM SASISA 220 \(Revised\), paragraph 12\(a\)](#)

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<p>(Ref. Para. A15A)</p> <p>(k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of this proposed SAS section ISA, a consolidation process includes <u>the following</u>:</p> <p>(i) Consolidation, proportionate consolidation, <u>inclusion [Extant AU-C 600.12]</u>, or an equity method of accounting;</p> <p>(ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but <u>[Extant AU-C 600.12]</u> are under common control or common management; or</p> <p>(iii) The aggregation of the financial information of entities or business units such as branches or divisions. (Ref. Para. A16–A16B)</p> <p>(l) Group management – Management responsible for the preparation of the group financial statements.</p> <p>(m) Group performance materiality – Performance materiality²¹ in relation to the group financial statements as a whole, as determined by the group auditor.</p>	<p>component or determines that a shared service center is a component (see <u>paragraphs A5–A6</u>), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component.</p> <p><i>Group Engagement Partner</i> (Ref. Para. 9(j))</p> <p>A15A. When joint auditors conduct a group audit, the joint engagement partners and their engagement teams collectively constitute the “group engagement partner” and “engagement team” for the purposes of <u>GAAS the ISAs</u>. This <u>proposed SAS ISA</u> does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor for purposes of the group audit.</p> <p><i>Group Financial Statements</i> (Ref. Para. 1A, 9(k))</p> <p>A16. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of combined financial statements. Examples of circumstances in which the presentation of combined financial statements may be permitted include entities that have no parent but are under common control or entities under common management.</p>

²¹ [Paragraphs- 9 and 11 of AU-C section ISA 320, Materiality in Planning and Performing an Audit, paragraphs 9 and 11](#)

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	<p>A16A. The term 'consolidation process' as used in this <u>proposed SAS-ISA</u> is not intended to have the same meaning as 'consolidation' or 'consolidated financial statements' as defined or described in financial reporting frameworks. Rather, the term 'consolidation process' refers more broadly to the process used to prepare group financial statements. Also see <u>paragraph 1A</u>.</p> <p>A16B. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.</p>
<p>10. Reference in this <u>proposed SASsectionISA</u> to "the applicable financial reporting framework" means the financial reporting framework that applies to the group financial statements.</p>	<p><u>Considerations Specific to Governmental Entities (Ref. Para. 1A, 10(k))</u></p> <p><u>AXX. In audits of state and local governments, the applicable financial reporting framework may be based on multiple reporting units. Therefore, the consolidation process may involve the inclusion, but separate presentation, of the financial statements of each reporting unit in the governmental entity. [Extant AU-C 600.A12]</u></p>
<p>Leadership Responsibilities for Managing and Achieving Quality on a Group Audit</p>	
<p>12. In applying <u>proposed QM SASsectionISA—220 (Revised)</u>,²² the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner <u>shouldshall</u>: (Ref. Para. <u>A19–A20</u>)</p> <p>(a) Take responsibility for creating an environment for</p>	<p>Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref. Para. 6, 12)</p> <p>A19. It may not be possible or practical for the group engagement partner to solely deal with all requirements in <u>proposed QM SAS-ISA 220 (Revised)</u>, particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, <u>proposed QM SAS-ISA 220</u></p>

²² [Paragraph of 13 of proposed QM SASISA 220 \(Revised\), paragraph 13](#)

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<p>the engagement that emphasizes the expected behavior of engagement team members. (Ref. Para. A20A)</p> <p>(b) Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors <u>as described by this proposed SAS</u>, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement.</p>	<p>(Revised)²³ permits the engagement partner to assign responsibilities for the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further. In such circumstances, <u>proposed QM SAS ISA 220 (Revised)</u> requires that the engagement partner shall<u>should</u> continue to take overall responsibility for managing and achieving quality on the engagement.²⁴</p> <p>A19A. <u>[Moved to paragraph A20A]</u></p> <p>A20. Policies or procedures established by the firm, or that are common network requirements or network services,²⁵ may support the group engagement partner by facilitating communication between the group auditor and component auditors and —, <u>when the group auditor is assuming responsibility for the work of a component auditor</u>, supporting the group auditor’s direction and supervision of those component auditors and the review of their work.</p> <p>A20A. In addressing the requirements in <u>paragraph 12(a)</u> of this <u>proposed SAS ISA</u>, direct communication with other members of the engagement team, including component auditors and leading by example in the group engagement partner’s personal conduct and actions helps to reinforce a commitment to quality. As explained in <u>proposed QM SAS ISA 220 (Revised)</u>,²⁶ a culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement. <u>[Previously paragraph A19A]</u></p>
<p>Acceptance and Continuance</p>	

²³ Paragraph 15 of proposed QM SAS ISA 220 (Revised), paragraph 15

²⁴ Paragraph 15 of proposed QM SAS ISA 220 (Revised), paragraph 15

²⁵ Paragraphs ~~498–532~~ of ISQMS 1, paragraphs 48–52

²⁶ Paragraph A28 of proposed QM SAS ISA 220 (Revised), paragraph A28

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<p>13. Before accepting or continuing the group audit engagement, the group engagement partner should<u>shall</u> determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained <u>through the group auditor’s work or use of the work of component auditors (that is, through assuming responsibility for the work of component auditors or through making reference to the audit of a component auditor in the auditor’s report [Extant AU-C 600.15])</u> to provide a basis for forming an opinion on the group financial statements. (Ref: Para. A21–A23)</p>	<p>Acceptance and Continuance</p> <p><i>Determining Whether Sufficient Appropriate Audit Evidence Can Reasonably Be Expected to Be Obtained</i> (Ref: Para. 13–14)</p> <p>A21. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained <u>(including when the group auditor is assuming responsibility for the work of component auditors or making reference to the audit of a component auditor in the auditor’s report)</u>, the group engagement partner may obtain an understanding of matters such as:</p> <ul style="list-style-type: none"> • The group structure, including both the legal and organizational structure. • Activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place. • The use of service organizations. • The use of shared service centers. • The consolidation process. • Whether the group auditor: <ul style="list-style-type: none"> ○ Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information; and ○ Will be able to perform necessary work on the financial information of the components when applicable. • Whether sufficient and appropriate resources are assigned or will be made available. <p>A21A. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group auditor’s jurisdiction because of cultural and language differences and different laws or regulations (e.g., regulations restricting access to audit documentation (see</p>

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	<p>paragraphs A129–A130)).</p> <p>A22. In the case of an initial group audit engagement, the group auditor’s understanding of the matters in paragraph A21 may be obtained from:</p> <ul style="list-style-type: none"> • Information provided by group management; • Communication with group management; • Communication with those charged with governance of the group; and • Where applicable, communication with component management or the predecessor auditor. <p>A23. For a continuing engagement, obtaining audit evidence may be affected by significant changes, for example:</p> <ul style="list-style-type: none"> • Changes in the group structure (e.g., acquisitions, disposals, reorganizations, or changes in how the group financial reporting system is organized). • Changes in components’ activities that are significant to the group. • Changes in the composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed. • New concerns the group auditor has with regard to the integrity and competence of group or component management. • Changes in the applicable financial reporting framework.
<p>14. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner should consider the possible effects on the group audit. (Ref. Para. A25)</p>	<p>A25. Restrictions may be imposed after the group engagement partner’s acceptance of the group audit engagement that may affect the engagement team’s ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:</p> <ul style="list-style-type: none"> • The group auditor’s access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group auditor) (see paragraph 16 and 17); or • The work to be performed on the financial information of components.

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	An inability to obtain sufficient appropriate audit evidence would need to be evaluated, in accordance with AU-C section ISA 705, <i>Modifications to the Opinion in the Independent Auditor's Report (Revised)</i> , ²⁷ in forming an opinion on the group financial statements. AU-C section ISA 705 (Revised) ²⁸ also addresses circumstances in which such restrictions may lead to withdrawal from the engagement, where withdrawal is possible under applicable law or regulation.
<p><i>Terms of the Engagement</i></p> <p>15. In applying AU-C section ISA 210, <i>Terms of Engagement</i>²⁹ the group auditor shouldshall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A26)</p> <p>(a) Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;</p> <p>(b) Additional information that the engagement team may request from group management and component management for the purpose of the group audit; and</p> <p>(c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.</p>	<p><i>Agreeing the Terms of Audit Engagements</i> (Ref: Para. 15)</p> <p>A26. AU-C section ISA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.⁴⁵ The terms of engagement identify the applicable financial reporting framework.⁴⁶ Additional matters <u>that may be included in the terms of a group audit engagement include whether reference will be made to the audit of a component auditor in the auditor's report on the group financial statements, when relevant, or arrangements to facilitate the following, such as:</u></p> <ul style="list-style-type: none"> • <u>Unrestricted C</u>ommunications between the group auditor and component auditors, should be unrestricted to the extent possible under <u>permitted by laws or regulations;</u> • <u>Important — c</u>ommunication <u>to the group auditor of important communications</u> between <ul style="list-style-type: none"> ○ component auditors and those charged with governance of the component or component management, including communications on significant deficiencies <u>and material weaknesses</u> in internal control, should be communicated to the group auditor;

²⁷ [AU-C section ISA 705 \(Revised\), *Modifications to the Opinion in the Independent Auditor's Report*](#)

²⁸ [Paragraph 13\(b\)\(ii\) of AU-C section ISA 705 \(Revised\), *paragraph 13\(b\)\(i\)*](#)

²⁹ [Paragraphs 6\(b\) and 8\(b\) of AU-C section ISA 210, *Agreeing the Terms of Audit Engagements*, *paragraphs 6\(b\) and 8\(b\)*](#)

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	<ul style="list-style-type: none"> ○ Communications between regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit; should be communicated to the group auditor; and • Permission for Tthe group auditor should be permitted to perform work, or request a component auditor to perform work, at the component. <u>[Extant AU-C600.A28]</u>
<p><i>Restrictions on Access Outside the Control of Group Management</i></p> <p>16. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner should<u>shall</u> consider the possible effects on the group audit. (Ref: Para. A27–A32)</p>	<p><i>Restrictions on Access to Information or People</i> (Ref: Para. 16–17)</p> <p>A27. Restrictions on access to information or people do not alleviate the requirement for the group auditor to obtain sufficient appropriate audit evidence.</p> <p>A28. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease. <u>Paragraph A130</u> describes how the group auditor may be able to overcome restrictions on access to component auditor audit documentation.</p> <p>A29. In some circumstances, the group auditor may be able to overcome restrictions on access to information or people, for example:</p> <ul style="list-style-type: none"> • If access to component management or those charged with governance of the component is restricted, the group auditor may request group management or those charged with governance of the group to assist with removing the restriction or otherwise request information directly from group management or those charged with governance of the group. <u>[previously last bullet paragraph A29]</u> • If the group has a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may be able to overcome restrictions by determining whether provisions exist (e.g., in the terms of joint venture

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	<p>agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity, and requesting management to exercise such rights.</p> <ul style="list-style-type: none"> If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, the group auditor may discuss with them the non-controlled entity's operations and financial status and obtain financial and other information available to them in their roles. [previously last bullet paragraph A29] <p>A29A. When the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people at the entity is restricted, the group auditor may still be able to obtain information to be used as audit evidence in respect of the entity's financial information, for example:</p> <ul style="list-style-type: none"> Financial information that is available from group management, as group management also needs to obtain the entity's financial information in order to prepare the group financial statements. Publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity. <p>It is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can overcome the restrictions to enable the group auditor to obtain sufficient appropriate audit evidence.</p> <p>A30. When the group auditor cannot overcome restrictions, communicating the restrictions to the group auditor's firm can assist the group auditor in determining an appropriate course of action. For example, the group auditor's firm may:</p> <ul style="list-style-type: none"> Communicate about the restrictions with group management and encourage group management to communicate with regulators. This may be useful when

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	<p>restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.</p> <ul style="list-style-type: none"> • Be required by law or regulation to communicate with regulators, listing authorities, or others, about the restrictions or how to overcome the restrictions.
<p><i>Restrictions on Access Imposed by Group Management</i></p> <p>17. If the group engagement partner concludes that:</p> <p>(a) It will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and</p> <p>(b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,</p> <p>the group engagement partner shouldshall either:</p> <p>(i) In the case of an initial engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, when re withdrawal is possible under applicable law or regulation; or</p> <p>(ii) When re the entity is required by law or regulation prohibit to have an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possibleaudit [Extant AU-C 600.16], having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group</p>	<p>A31. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group auditor may need to reconsider the reliability of group management’s responses to the group auditor’s inquiries and may call into question group management’s integrity.</p> <p>Effect of Restrictions on the Auditor’s Report on Group Financial Statements</p> <p>A32. AU-C section ISA 705 (Revised) contains requirements and guidance about how to address situations where the group auditor is unable to obtain sufficient appropriate audit evidence. Appendix 2 to this proposed SAS-ISA contains an example of an auditor’s report containing a qualified group audit opinion based on the group auditor’s inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.</p> <p>Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement</p> <p>A33. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. AU-C Section 210, addresses circumstances when an entity is required by law or regulation to have an audit.³⁰ In these circumstances, this proposed SAS-section the requirements in this ISA still applyes to the group</p>

³⁰ Paragraph .07 and A19 of AU-C 210.

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financial statements. (Ref: Para. A31–A33)	audit, and the effect of the group auditor’s inability to obtain sufficient appropriate audit evidence is addressed in ISA AU-C section 705 (Revised) . [Extant AU-C 600.A26]
Overall Group Audit Strategy and Group Audit Plan	
<p>17A. In applying AU-C sectionISA 300, the group auditor shouldshall establish, and update as necessary, an overall group audit strategy and group audit plan that includes a determination of: (Ref: Para. A33A–A33D)</p> <p>(a) The components at which audit work will be performed; and (Ref: Para. A33F)</p> <p>(a.1) Whether the auditor’s report on the group financial statements will make reference to the audit of a component auditor [Extant AU-C 600.18]; and</p> <p>(a)(b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved. (Ref: Para. A33G–A33J)</p>	<p>Overall Group Audit Strategy and Group Audit Plan</p> <p><i>The Continual and Iterative Nature of Planning and Performing a Group Audit</i> (Ref: Para. 17A)</p> <p>A33A. As explained in AU-C section ISA-300,³¹ planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. For example, due to unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, the group auditor may need to modify the overall group audit strategy and group audit plan, and the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risk. The group auditor may also modify the determination of the components at which to perform audit work as well as the nature, timing and extent of the component auditors’ involvement. ISA AU-C section 300³² requires the auditor to update and change the overall audit strategy and audit plan as necessary during the course of the audit.</p> <p><i>Establishing the Overall Group Audit Strategy and Group Audit Plan</i> (Ref: Para. 17A)</p> <p>A33B. In an initial group audit engagement, the group auditor may have a preliminary understanding of the group and its environment, the applicable financial reporting framework and the entity’s system of internal control based on information obtained from group management, those charged with governance of the group and, where applicable, communication with component management or the predecessor auditor.</p>

³¹ [Paragraph A2 of AU-C section](#)~~ISA~~ 300, [paragraph A2](#)

³² [Paragraph 10 of AU-C section](#)~~ISA~~ 300, [paragraph 10](#)

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	<p>In a recurring group audit engagement, the group auditor’s preliminary understanding may be obtained through the prior period’s audit. This preliminary understanding may assist the group auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant.</p> <p>A33C. The group auditor may also use information obtained during the engagement acceptance and continuance process in establishing the overall group audit strategy and group audit plan, for example, in relation to the resources needed to perform the group audit. [Previously paragraph A33E]</p> <p>A33D. The process of establishing the overall group audit strategy and group audit plan and initial expectations about the classes of transactions, account balances and disclosures that may be significant at the group financial statement level may assist the group auditor in developing a preliminary determination of matters such as:³³</p> <ul style="list-style-type: none"> • Whether to perform audit work centrally, at components or a combination thereof; and • The nature, timing and extent of audit work to be performed with respect to the financial information of a components (e.g., design and perform risk assessment procedures, further audit procedures, or a combination thereof). <p>A33E. [Moved to paragraph A33C]</p> <p><i>Components at Which to Perform Audit Work</i> (Ref. Para. 17A(a))</p> <p>A33F. The determination of components at which to perform audit work is a matter of professional judgment. Matters that may influence the group auditor’s determination include, for example:</p> <ul style="list-style-type: none"> • The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example: <ul style="list-style-type: none"> ○ Newly formed or acquired entities or business units.

³³ Paragraph 7 of ~~AU-C section~~ ISA SAS No. 145 ISA 315 (Revised 2019), paragraph 7

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	<ul style="list-style-type: none"> ○ Entities or business units in which significant changes have taken place. ○ Significant transactions with related parties. ○ Significant transactions outside the normal course of business. ○ Abnormal fluctuations identified by analytical procedures performed at group level, as required by SAS No. 145ISA 315 (Revised 2019).³⁴ <ul style="list-style-type: none"> ● The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions, at the location or business unit relative to the group financial statements. ● Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned. ● The nature and extent of misstatements or control deficiencies identified at the component in prior period audits. ● The nature and extent of common controls and whether, and if so, how, the group centralizes activities relevant to financial reporting. <p><u>Considerations Specific to Governmental Entities</u> (Ref: Para. 17A(a))</p> <p><u>AXX. In audits of governmental entities, matters that may influence the group auditor’s determination of components at which to perform audit work include, for example, the disaggregation of significant classes of transactions, account balances and disclosures (e.g., net costs or total budget) in the group financial statements across components, considering the size and nature of assets, liabilities and transactions, at the component unit, business activity, department or program location of business unit relative to the group financial statements. Qualitative considerations in audits of governmental entities may involve matters of heightened public sensitivity, such as national security issues, donor funded projects, or reporting of tax revenue. [Extant AU-C 600.A8]</u></p>

³⁴ Paragraph 14(b) of [ISA SAS No. 145 ISA 315 \(Revised 2019\)](#), paragraph 14(b)

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	<p><i>Resources</i> (Ref: Para. 17A(b))</p> <p>A33G. Factors that influence the group auditor’s determination of the resources needed to perform the group audit and the nature, timing and extent to which component auditors are to be involved are a matter of professional judgment and include, for example:</p> <ul style="list-style-type: none"> • The understanding of the group, the components within the group at which audit work is to be performed and whether to perform work centrally, at components or a combination thereof. • The knowledge and experience of the engagement team. For example, component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language and culture. In addition, the involvement of <u>specialists</u> experts may be needed on complex matters. • The initial expectations about the potential risks of material misstatement. • The amount or location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations. • Access arrangements. For example, when the group auditor’s access to a component in a particular jurisdiction is restricted, component auditors may need to be involved. • The nature of the components’ activities, including their complexity or specialization of operations. • The group’s system of internal control, including the information system in place, and its degree of centralization. For example, the involvement of component auditors may be more likely when the system of internal control is decentralized. • Previous experience with the component auditor.

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	<p>A33H. Component auditors may be involved throughout the different phases of an audit. Ffor example, <u>when the group auditor is assuming responsibility for the work of component auditors</u>, component auditors may:</p> <ul style="list-style-type: none"> • Perform risk assessment procedures; and • Respond to the assessed risks of material misstatement. <p><u> </u>The nature, timing and extent to which component auditors are to be involved depends on the facts and circumstances of the group audit engagement. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase. When the group auditor does not intend to involve component auditors in risk assessment procedures, the group auditor may still discuss with component auditors whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements.</p> <p>A33I. <u>AU-C section ISA 300</u>³⁵ requires the group engagement partner and other key members of the engagement team to be involved in planning the audit. The involvement of component auditors in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process. When component auditors are involved, <u>in the group audit and the group auditor is assuming responsibility for the work of component auditors</u>, one or more individuals from a component auditor may be key members of the engagement team and therefore involved in planning the audit. The group engagement partner uses professional judgment in determining which component auditors to involve in planning the audit. This may be affected by the nature, timing and extent to which the component auditors are expected to be involved in designing and performing risk assessment or further audit procedures.</p> <p>A33J. As described in <u>proposed ISQMS 1</u>,³⁶ there may be circumstances when the fee</p>

³⁵ Paragraph 5 of AU-C section ISA 300, paragraph 5

³⁶ Paragraph A78 of ISQMS 1, paragraph A74

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	<p>quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm’s ability to perform the engagement in accordance with professional standards and applicable legal or regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a special consideration by the firm for group audit engagements. For example, in a group audit the firm’s financial and operational priorities may place constraints on the determination of the components at which audit work will be performed, as well as the resources needed, including the involvement of component auditors. In such circumstances, these constraints do not override the group engagement partner’s responsibility for achieving quality at the engagement level or the requirements for the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion. [Previously paragraph A39]</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>18. In establishing the overall group audit strategy and group audit plan, the group engagement partner should<u>shall</u> evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor <u>as described by this proposed SAS.</u> (Ref: Para. A34)</p>	<p><i>Consideration When Component Auditors Are Involved</i> (Ref: Para. 18–19)</p> <p>A34. In evaluating whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor, the group auditor may obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation with the group auditor. The group auditor may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group auditor.</p>
<p>19. As part of the evaluation in <u>paragraph 18</u>, the group auditor should<u>shall</u> request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor <u>as</u></p>	<p>A35A. When the component auditor is unable to cooperate with the group auditor, the group auditor may:</p> <ul style="list-style-type: none"> • Request the component auditor to provide its rationale. • <u>Be</u> able to take appropriate action to address the matter, including adjusting the nature of the work requested to be performed or not involving the component

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described by this proposed SAS. (Ref: Para. A35A)	auditor in obtaining sufficient appropriate audit evidence relating to the work to be performed at the component (in accordance with paragraph 22).
<p>Relevant Ethical Requirements, Including Those Related to Independence</p> <p>20. In applying proposed QM SASISA section 220 (Revised),³⁷ the group engagement partner shouldshall take responsibility for: (Ref: Para. A36–A37, A52J)</p> <p>(a) Component auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement; and</p> <p>(b) Confirming whether the component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence.</p>	<p>Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 20)</p> <p>A36. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those related to independence, that are relevant to the group audit engagement. Such requirements may be different or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor’s jurisdiction. <u>When the component auditor is not subject to the AICPA Code of Professional Conduct, compliance by the component auditor with the ethics and independence requirements set forth in the International Federation of Accountants Code of Ethics for Professional Accountants is sufficient to fulfill the component auditor’s ethical responsibilities in the group audit. [Extant AU-C 600.A46]</u></p> <p>A37. In making the component auditors aware of relevant ethical requirements, the group auditor may consider whether additional information or training for component auditors is necessary regarding the provisions of the ethical requirements that are relevant to the group audit engagement.</p> <p>A39. [Moved to A33J]</p>
<p>Engagement Resources</p> <p>21. In applying proposed QM SASISA section 220 (Revised),³⁸ the group engagement partner shouldshall:</p>	<p>Engagement Resources (Ref: Para. 21)</p> <p>A40A. When sufficient or appropriate resources are not made available in relation to work to be performed by a component auditor, the group engagement partner may discuss</p>

³⁷ [Paragraphs 16-17 and 21 of proposed QM SAS/ISA 220 \(Revised\), paragraphs 16–17 and 21](#)

³⁸ [Paragraphs 25-26 of proposed QM SAS/ISA 220 \(Revised\), paragraphs 25–26](#)

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<p>(Ref: Para. A40A–A40B)</p> <p>(a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned workaudit procedures at the component; and (Ref: Para. A41–A45)</p> <p>(b) If information about the results of the monitoring and remediation process or external inspections related to the component auditor's firm has been provided by the firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor's determination in paragraph 21(a).</p>	<p>the matter with the component auditor, group management or the firm and may subsequently request the component auditor or the firm to make sufficient and appropriate resources available.</p> <p>A40B. Proposed QM SAS ISA 220 (Revised)³⁹ provides guidance regarding matters the engagement partner may take into account when determining the competence and capabilities of the engagement team. This determination is particularly important in a group audit because the engagement team may include component auditors. Proposed QM SAS ISA 220 (Revised)⁴⁰ indicates that the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm has the appropriate competence and capabilities to perform the audit engagement. For example, as part of the confirmation required by paragraph 19, the group auditor may ask the component auditor to confirm that the component auditor has the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component.</p> <p>Competence and capabilities of the component auditors</p> <p>A41. Determining whether component auditors have the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement. When the group auditor is assuming responsibility for the work of a component auditor, tThis determination influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work.</p> <p>A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:</p>

³⁹ ~~Paragraph A71 of proposed QM SAS ISA 220 (Revised), paragraph A71~~

⁴⁰ ~~Paragraph A24 of proposed QM SAS ISA 220 (Revised), paragraph A24~~

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	<ul style="list-style-type: none"> • Previous experience with or knowledge of the component auditor. • <u>The component auditor’s specialized skills (e.g., industry specific knowledge e or <u>knowledge of relevant financial reporting requirements for statements and schedules to be filed with regulatory agencies</u>). [Extant AU-C 600.A48]</u> • <u>The component auditor’s understanding of the applicable financial reporting framework relevant to the group financial statements, and any instructions provided by group management.</u> • <u>The component auditor’s understanding of the auditing and other standards applicable to the group audit, such as GAAS that is sufficient to fulfill the component auditor’s responsibilities.</u> [Extant AU-C 600.A48] • The degree to which the group auditor and component auditor are subject to a common system of quality management, for example, whether the group auditor and a component auditor: <ul style="list-style-type: none"> ○ Use common resources to perform the work (e.g., audit methodologies or information technology (IT) applications); ○ Share common policies or procedures affecting engagement performance (e.g., direction and supervision and review of work or consultation); ○ Are subject to common monitoring activities; or ○ Have other commonalities, including common leadership or a common cultural environment. • The consistency or similarity of: <ul style="list-style-type: none"> ○ Laws or regulations or legal system; ○ Language and culture; ○ Education and training; ○ Professional oversight, discipline, and external quality assurance; or ○ Professional organizations and standards.

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	<ul style="list-style-type: none"> • Information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel, such as internal auditors. <p>A43. The procedures to determine the component auditor’s competency and capability may include, for example:</p> <ul style="list-style-type: none"> • An evaluation of the information communicated by the group auditor’s firm to the group auditor, including: <ul style="list-style-type: none"> ○ The firm’s ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm.⁴¹ ○ Information from the network about the results of the monitoring activities undertaken by the network across the network firms.⁴² ○ Information obtained from professional body(ies) to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties. • Discussing the matters in paragraph A51 with the component auditor. • Requesting the component auditor to confirm the matters referred to in paragraph 20 in writing. • Discussing the component auditor’s competence and capabilities with colleagues in the group engagement partner’s firm that have worked directly with the component auditor. • In subsequent years, requesting that the component auditor confirm whether anything in relation to the matters listed in paragraph 21(a)–(b) has changed since the previous year. • Obtaining published external inspection reports, <u>peer review reports on the</u>

⁴¹ [Paragraph 487 of ISQMS 1, paragraph 47](#)

⁴² [Paragraph 52 of ISQMS 1, paragraph 51](#)

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	<p style="text-align: center;"><u>component auditor's firm and other relevant publicly available information relating to the professional reputation and standing of a component auditor.</u></p> <p>A44. The group engagement partner's firm and the component auditor's firm may be members of the same network and may be subject to common network requirements or use common networks services.⁴³ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training, or recruitment or that require the use of audit methodologies and related implementation tools. In accordance with <u>proposed ISQMS 1</u>,⁴⁴ the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management.</p> <p>Using the Work of an Auditor's <u>SpecialistExpert</u></p> <p>A44A. When using the work of an auditor's <u>specialist expert</u>, <u>AU-C section ISA 620, Using the Work of an Auditor's Specialist</u>⁴⁵ requires the auditor to evaluate whether the auditor's <u>specialists expert</u> has the necessary competence, capabilities and objectivity for the auditor's purposes. In a group audit these evaluations include auditor's <u>specialists experts</u> engaged by component auditors.</p> <p>Automated tools or techniques</p> <p>A45. As described in <u>proposed QM SAS ISA 220 (Revised)</u>,⁴⁶ when determining whether the engagement team has the appropriate competence and capabilities, the group</p>

⁴³ Paragraphs A20, A187 of ISQMS 1, paragraphs A19, A175

⁴⁴ Paragraph 48–49–50 of ISQMS 1, paragraph 48–49

⁴⁵ Paragraph 9 of AU-C section ISA 620, Using the Work of an Auditor's SpecialistExpert, paragraph 9

⁴⁶ Paragraph A65 of proposed QM SAS ISA 220 (Revised), paragraph A65

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	<p>engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the <u>group auditor is assuming responsibility for the work of a component auditor and if the group auditor requires component auditors to use specific automated tools and techniques when performing audit procedures, the group auditor may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group auditor’s instructions.</u></p>
<p>22. The group auditor should<u>shall</u> obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor <u>(that is, without assuming responsibility for the work of component auditors or without making reference to the audit of a component auditor in the auditor’s report)</u> if:</p> <p>(a) The component auditor does not comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence; or (Ref: Para. A46A–A47)</p> <p>(b) The group engagement partner has serious concerns about the matters in <u>paragraphs 18–21, (Ref: Para. A48)</u></p>	<p>Application of the Group Auditor’s Understanding of a Component Auditor (Ref: Para. 22)</p> <p>A46A. <u>Proposed QM SAS ISA 220 (Revised)</u>⁴⁷ requires the engagement partner to take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures. This includes policies or procedures that address circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches. The firm’s policies or procedures also may address breaches of independence requirements by component auditors, and actions the group auditor may take in those circumstances in accordance with the relevant ethical requirements.</p> <p>A47. If a component auditor does not comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence-, the group auditor cannot overcome the breach and continue to use the work of a component auditor by being involved in their work, or by supplementing their work, <u>or by making reference in the auditor’s report on the group financial statements to the audit of the component auditor. [Extant AU-C 600.A49]</u></p> <p>A48. Serious concerns are those concerns that cannot be overcome. The group</p>

⁴⁷ Paragraph 17 of proposed QM SAS ISA 220 (Revised), paragraph 17

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	<p>engagement partner may be able to overcome less than serious concerns about the component auditor’s professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by the group auditor being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component <u>or, when the group auditor is assuming responsibility for the work of a component auditor, by the group auditor being more involved in the work of the component auditor.</u></p>
<p>Engagement Performance</p> <p>23. <u>When the group auditor is assuming responsibility for the work of a component auditor.</u> In applying proposed QM SAS section ISA 220 (Revised),⁴⁸ the group engagement partner shouldshall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account: (Ref: Para. A48A–A52)</p> <p>(a) Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with SAS No. 145 section SA 315 (Revised 2019); and</p> <p>(b) Areas in the audit of the group financial statements that involve significant judgment.</p>	<p>Engagement Performance (Ref: Para. 23)</p> <p>A48A. For a group audit, the approach to direction, supervision and review will be tailored by the group auditor based on the facts and circumstances of the engagement, <u>including whether the group auditor is assuming responsibility for the work of a component auditor,</u> and will generally include a combination of addressing the group auditor’s firm policies or procedures and group audit-engagement specific responses.</p> <p>A49. It may be not possible or practical for the group engagement partner to solely determine the nature, timing and extent of direction, supervision and review, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team.</p> <p>A50. If component auditors are from a firm other than the group auditor’s firm, the firm’s policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network. For example, in relation to the form, content and timing</p>

⁴⁸ [Paragraph of 29 of proposed QM SAS ISA 220 \(Revised\), paragraph 29](#)

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	<p>of communications with component auditors, including the use of group auditor instructions to component auditors. Proposed QM SAS ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.⁴⁹</p> <p>A51. When the group auditor is assuming responsibility for the work of a component auditor, the nature, timing and extent of direction and supervision of component auditors and review of their work may be tailored based on the nature and circumstances of the engagement and, for example:</p> <ul style="list-style-type: none"> • The assessed risks of material misstatement. For example, if the group auditor has identified a component that includes a significant risk, an increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor’s audit documentation may be appropriate. • The competence and capabilities of the component auditors performing the audit work. For example, if the group auditor has no previous experience working with a component auditor, the group auditor may communicate more detailed instructions, introduce greater in-person supervision, increase the frequency of discussions with component auditors, or assign more experienced group auditors to oversee the component auditor as the work is performed. • The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including where service delivery centers are used. • Access to component auditors’ audit documentation. For example, where component auditor working papers cannot be transferred out of the jurisdiction, more extensive direction and supervision of the component auditor and review of the component auditor’s audit documentation may be appropriate (see also paragraphs A27–A32). <p>A52. There are different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their</p>

⁴⁹ ~~Paragraph A24 of proposed QM SAS ISA 220 (Revised), paragraph A24~~

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	<p>work; <u>when the group auditor is assuming responsibility for the work of a component auditor</u>, for example:</p> <ul style="list-style-type: none"> • Meetings or calls with component auditors to communicate about identified and assessed risks, issues, findings and conclusions. • Reviews of the component auditor’s documentation in person or remotely when permitted by law and regulation. • Participating in the closing or other key meetings between the component auditors and component management.
<p>Communications with Component Auditors</p> <p>23A. The group auditor should<u>shall</u> communicate with component auditors about their respective responsibilities and the group auditor’s expectations. (Ref: Para. A52A-A52J)</p>	<p><i>Communications with Component Auditors</i> (Ref: Para. 23A-23B)</p> <p>A52A. Clear and timely communication between the group auditor and the component auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing and extent of the work to be performed and the matters expected to be communicated to the group auditor, helps establish the basis for effective two-way communication. Effective two-way communication between the group auditor and the component auditors also helps to set expectations for component auditors and <u>when the group auditor is assuming responsibility for the work of component auditors, it</u> facilitates the group auditor’s direction and supervision of them and the review of their work. Such communication also provides an opportunity for the group engagement partner to reinforce the need for component auditors to exercise professional skepticism in the work performed for purposes of the group audit. [Previously paragraph A9B]</p> <p>A52B. Other factors that may also contribute to effective two-way communication include:</p> <ul style="list-style-type: none"> • Clarity of the instructions to the component auditor, particularly when the component auditor is from another firm and may not be familiar with the policies or procedures of the group auditor. • A mutual understanding that the component auditor may raise questions about the audit work requested to be performed, based on the component auditor’s

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	<p>knowledge and understanding of the component.</p> <ul style="list-style-type: none"> • A mutual understanding of relevant issues and the expected actions arising from the communication process. • The form of communications. For example, it may be better to discuss matters that need timely attention in a meeting rather than by exchanging emails. • A mutual understanding of the person(s) from the group auditor and component auditors who have responsibility for managing communications regarding particular matters. • The process for the component auditor to take action and report back on matters communicated by the group auditor. <p>A52C. The communications between the group auditor and component auditors depend on the facts and circumstances of the group audit engagement, including the nature and extent of involvement of the component auditors and the degree to which the group auditor and component auditors are subject to common systems of quality management or common network requirements or services.</p> <p>Form of communications</p> <p>A52D. The form of the communications between the group auditor and component auditors may vary based on factors such as the nature of the audit work the component auditors have been requested to perform, and the extent to which communication capabilities are integrated into the audit tools used for the group audit.</p> <p>A52E. The form of communications also may be affected by such factors as:</p> <ul style="list-style-type: none"> • The significance, complexity or urgency of the matter. • <u>Whether the matter has been or is expected to be communicated to group management and those charged with governance of the group.</u> • <u>Whether the group auditor and component auditor are from the same firm or network firms.</u>

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	<p>A52F. Communication between the group auditor and the component auditor may not necessarily be in writing. However, the group auditor’s verbal communications with the component auditors may be supplemented by written communication, such as a set of instructions regarding the work to be performed, <u>when the group auditor wants to give particular attention to, or promote a mutual understanding about, certain matters.</u> Appendix C, “Required and Additional Matters Included in the Group Auditor’s Letter of Instructions,” contains guidance on required and additional matters that may be included in such a set of instructions. In addition, the group auditor may meet in person with the component auditor to discuss significant matters or to review relevant parts of the component auditor’s audit documentation <u>when the group auditor is assuming responsibility for the work of a component auditors.</u></p> <p>A52G. Paragraph 44 requires the group auditor to request the component auditor to communicate matters relevant to the group auditor’s conclusion with regard to the group audit. As explained in paragraph A112A, the form and content of the component auditor’s deliverables are influenced by the nature and extent of the audit work the component auditor <u>has been requested to performed and whether reference is made in the auditor’s report on the group financial statements to the audit of a component auditor.</u></p> <p>A52H. Regardless of the form of communication, the documentation requirements of this <u>proposed SAS</u> and other <u>AU-C sections-ISAs</u> apply.</p> <p>Timing of communications (Ref. Para. 23B)</p> <p>A52I. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial group audit, may be made as part of agreeing the terms of the engagement.</p>

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	<p>Non-compliance with laws or regulations (Ref: Para. 20, 23A)</p> <p>A52J. In applying ISA 250 (Revised),⁵⁰ the group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.⁵¹ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the group audit (e.g., components for which an audit is required by statute law or regulation or performed for another reason, as engaged by component management, but for which no procedures are performed for purposes of the group audit).</p>
<p>23B. Communications between the group auditor and component auditors shouldshall take place at appropriate points in time throughout the group audit. (Ref: Para. A52I)</p>	
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control	
<p>24. In applying SAS No. 145section ISA 315 (Revised 2019),⁵² the group auditor shouldshall take responsibility for obtaining an understanding of the following: (Ref: Para. A53–A55A, A69–A70)</p> <p>(a) The group and its environment, including: (Ref: Para. A56–A58)</p> <p>(i) The group's organizational structure and its</p>	<p>Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 24)</p> <p>A53. SAS No. 145 ISA 315 (Revised 2019) contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control.⁵³ Appendix 3 of this proposed SAS ISA provides further explanation of the components of the system of internal control in the context of a group, including</p>

⁵⁰ ~~ISA Paragraphs 8-9 of AU-C section~~ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, ~~paragraphs 8-9~~

⁵¹ See, for example, -360.17 and -360.18 of the IESBA Code

⁵² ~~Paragraphs 19-30 of SAS No. 145~~ISA 315 (Revised 2019), ~~paragraphs 19–26~~

⁵³ ~~Paragraphs 19–3027 and -A58–A212~~A50–A183 of SAS No. 145 ~~ISA 315 (Revised 2019)~~, ~~paragraphs 19–27, A50–A183~~

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<p>business model, including:</p> <p>a. The locations in which the group has its operations or activities;</p> <p>b. The nature of the group’s operations or activities and the extent to which they are similar; and</p> <p>c. The extent to which the group’s business model integrates the use of IT;</p> <p>(ii) Regulatory factors impacting the entities and business units in the group; and</p> <p>(iii) The measures used internally and externally to assess the entities or business units’ financial performance;</p> <p>(b) The applicable financial reporting framework and the consistency of accounting policies and practices across the group; and</p> <p>(c) The group’s system of internal control, including:</p> <p>(i) The nature and extent of commonality of <u>tasks and activities, structures, processes, or controls</u>; (Ref: Para. A59–A63)</p> <p>(ii) Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A64–A65A)</p> <p>(iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and</p> <p>(iv) How group management communicates</p>	<p>controls over the group’s financial reporting process and the consolidation process.</p> <p>A55. The understanding of the group and its environment, the applicable financial reporting framework, and the group’s system of internal control may be obtained through communications with:</p> <ul style="list-style-type: none"> • Group management, component management or other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists) and individuals who have knowledge of the group’s system of internal control, accounting policies and practices, and the consolidation process; • Component auditors; or • Auditors that perform an audit for <u>legal/statutory</u>, regulatory or another reason on the financial statements of an entity or business unit that is part of the group. <p>A55A. Obtaining an understanding of the group, identifying risks of material misstatement and assessing inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when <u>the group auditor assuming responsibility for the work of a component auditor and</u> component auditors are involved in the design and performance of risk-assessment procedures, the group auditor may need to communicate its preferred approach with component auditors or provide instructions.</p> <p><i>The Group and Its Environment</i> (Ref: Para. 24(a))</p> <p>A56. An understanding of the group’s organizational structure and its business model may enable the group auditor to understand such matters as:</p> <ul style="list-style-type: none"> • The complexity of the group’s structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group’s legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint

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<p>significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the group's system of internal control to management of entities or business units. (Ref: Para. A66–A68)</p>	<p>ventures or special purpose entities are accounted for appropriately and whether adequate disclosures have been made.</p> <ul style="list-style-type: none"> • The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices. • The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment. • Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations. • The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates over multiple jurisdictions and when there are changes in ownership through formation, acquisition or joint ventures. These factors may give rise to increased susceptibility to material misstatements. <p>A57. Obtaining an understanding of the degree to which the group's operations or activities are similar may enable the group auditor to identify similar risks of material</p>

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	<p>misstatement across components and design an appropriate response.</p> <p>A58. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The group auditor's understanding of such performance measures may help to identify:</p> <ul style="list-style-type: none"> • Areas where there is increased susceptibility to the risk of material misstatement (e.g., due to pressures on component management to meet certain performance measures). • Controls over the group's financial reporting process. <p><i>The Group's System of Internal Control</i></p> <p>The Nature and Extent of Commonality of Controls (Ref: Para. 24(c)(i))</p> <p>A59. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, that operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.⁵⁴</p> <p>A60. The understanding of the components of the group's system of internal control therefore includes understanding the commonality of the controls within those components across the group. That understanding may help the group auditor to</p>

⁵⁴ Paragraph A5 of SAS No. 145 ISA 315 (Revised 2019), paragraph A5

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	<p>identify, assess and appropriately respond to the assessed risks of material misstatement. When the group auditor plans to test the operating effectiveness of identified controls⁵⁵ that are common across the group, the group auditor evaluates the design and determines the implementation of those controls in accordance with SAS No. 145 ISA 315 (Revised 2019).</p> <p>A61. To determine the commonality of an identified control across the group, the group auditor may consider whether:</p> <ul style="list-style-type: none"> • The control is designed centrally and required to be implemented as designed (i.e., without modification) at some or all components; • The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented; • If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or • If the control is automated, it is configured in the same way in each IT application across the components. <p>A62. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that are generated from a specific IT application. When the aging reports are generated from different IT applications or the implementation of the IT application differs across entities or business units, the group auditor may need to consider whether the control can still be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT applications (e.g., whether the IT application is configured in the same manner across components, and whether there are effective general IT controls across different IT applications).</p>

⁵⁵ [Paragraph 26-27\(a\) of SAS No. 145 ISA 315 \(Revised 2019\)](#), paragraph 26(a)

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	<p>A63. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). The processing of transactions and related controls at a shared service center may operate in the same way for those transactions being processed by the shared service center regardless of the entity or business unit (e.g., the processes, risks, and controls may be the same regardless of the source of the transaction). In such cases, it may be appropriate to identify the controls and evaluate the design and determine the implementation of the controls, and if applicable test operating effectiveness, as a single population.</p> <p>Centralized Activities (Ref: Para. 24(c)(ii))</p> <p>A64. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (e.g., where the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).</p> <p>A65. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help the group auditor to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorized at a component, but the processing may occur at the shared service center).</p>

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	<p>A65A. The group auditor may involve component auditors in testing the operating effectiveness of common controls or controls at centralized activities. In such circumstances, effective collaboration between the group auditor and component auditors is important as the audit evidence obtained through testing the operating effectiveness of common controls or controls at centralized activities supports the group auditor’s determination of the nature, timing and extent of substantive procedures to be performed across the group.</p> <p>Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 24(c)(iv))</p> <p>A66. Group entities or business units may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group’s financial statements. In such circumstances, an understanding of group management’s financial reporting processes to align accounting policies and, where relevant, financial reporting period-ends that differ from that of the group, enables the group auditor to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.</p> <p>Instructions by group management to entities or business units</p> <p>A67. In applying SAS No. 145ISA 315 (Revised 2019),⁵⁶ the group auditor is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g., communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management’s instructions may affect the group auditor’s identification and assessment of the risks of material misstatement of the group financial statements. For example, in certain</p>

⁵⁶ Paragraph 2825(b) of SAS No. 145 ISA 315 (Revised 2019), paragraph 25(b)

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	<p>circumstances, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly <u>or inconsistently</u> applied.</p> <p>A68. The group auditor’s understanding of the instructions or policies may include the following:</p> <ul style="list-style-type: none"> • The clarity and practicality of the instructions for completing the reporting package. • Whether the instructions: <ul style="list-style-type: none"> ○ Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied; ○ Address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information; ○ Address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and ○ Include a reporting timetable. <p><i>Engagement Team Discussions</i> (Ref: Para. 24)</p> <p>A69. In applying <u>SAS No. 145</u>ISA 315 (Revised 2019),⁵⁷ the group engagement partner and other key engagement team members are required to discuss the application of the applicable financial reporting framework and the susceptibility of the entity’s financial statements to material misstatement. The group engagement partner’s determination of which members of the engagement team to include in the discussions and the topics to be discussed, is affected by factors such as initial expectations about the risks of material misstatement and the preliminary expectation on whether to</p>

⁵⁷ Paragraph 17 of SAS No. 145 ~~ISA 315 (Revised 2019)~~, paragraph 17

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	<p>involve component auditors.</p> <p>A70. The discussions provide an opportunity to:</p> <ul style="list-style-type: none"> • Share knowledge of the components and their environments, including which components' activities are centralized. • Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures. • Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error. For example, ISA <u>AU-C section 240</u> requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.⁵⁸ • Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting. • Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud. • Consider the risk that group or component management may override controls. • Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework).

⁵⁸ Paragraph 16 of AU-C section 240, ~~SA 240, paragraph 16~~

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	<ul style="list-style-type: none"> • Discuss fraud that has been identified, or information that indicates existence of a fraud. • Identify risks of material misstatement relevant to components where the exercise of professional skepticism may be particularly important. • Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components. • Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices. • Discuss events or conditions identified by group management, component management or the engagement team, that may cast significant doubt on the group’s ability to continue as a going concern. • Discuss related party relationships or transactions identified by group management or component management, and any other related parties of which the engagement team is aware.
<p><i>Considerations when Component Auditors Are Involved</i></p> <p>26. The group auditor shouldshall communicate to component auditors:</p> <p>(a) <u>When the group auditor is assuming responsibility for the work of a component auditor, matters</u> that are relevant to the component auditor’s design or performance of risk assessment procedures for purposes of the group audit;</p> <p>(b) In applying <u>AU-C section</u>ISA 550, <u>Related</u></p>	<p><i>Considerations when Component Auditors Are Involved</i> (Ref: Para. 26–26A)</p> <p>A72. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁶¹ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:</p> <ul style="list-style-type: none"> • The group structure is complex; • The group’s information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and

⁶¹ Paragraph 32 of AU-C section~~ISA~~ 550, paragraph 2

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<p><u>Parties</u>,⁵⁹ related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the component auditor <u>[Extant AU-C 600.41(c)]</u>; and (Ref: Para. A72)</p> <p>(c) <u>When the auditor of the group financial statements is assuming responsibility for the work of a component auditor</u>, In applying <u>AU-C section ISA 570 (Revised)</u>,⁶⁰ events or conditions identified by group management or the group auditor, that may cast significant doubt on the group’s ability to continue as a going concern that are relevant to the work of the component auditor <u>[Extant AU-C 600.41]</u>.</p>	<ul style="list-style-type: none"> There are numerous or frequent related party transactions between entities and business units. <p>Planning and performing the audit with professional skepticism as required by <u>ISA AU-C section 200</u>,⁶² is therefore particularly important when these circumstances exist.</p>
<p>26A. The group auditor should<u>shall</u> request component auditors to communicate: (Ref: Para. A72A)</p> <p>(a) Matters related to the financial information of the component that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error <u>[Extant AU-C 600.42]</u>;</p> <p>(b) Related party relationships not previously identified by group management or the group</p>	<p>A72A. The group auditor may communicate the matters in <u>paragraph 26A</u> to other component auditors, if these matters are relevant to the work of those component auditors. Matters communicated, including those in <u>paragraph 26A</u> may be communicated in the course of the component auditor’s work. For example, the matters included in <u>paragraph A111A</u>.</p>

⁵⁹ Paragraph 19 of AU-C section ISA 550, Related Parties, ~~paragraph 17~~

⁶⁰ AU-C section ISA 570 (Revised), The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern

⁶² Paragraphs 17~~15~~ and A58~~A53~~ of AU-C section ISA 200, ~~paragraphs 15 and A53~~

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<p>auditor [Extant AU-C 600.41(c)]; and</p> <p>(c) Any events or conditions identified by the component auditor that may cast significant doubt on the group’s ability to continue as a going concern.</p>	
Identifying and Assessing the Risks of Material Misstatement	
<p>26B. In applying SAS No. 145section ISA 315 (Revised 2019),⁶³ based on the understanding obtained in paragraph 24, the group auditor shouldshall take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements, including with respect to the consolidation process. (Ref: Para. A72B–A72G)</p>	<p>Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 26B)</p> <p>A72B. The process to identify and assess the risks of material misstatement of the group financial statements is cumulative and iterative and may be challenging, particularly when the component’s activities are complex or specialized, or when there are many components across multiple locations. In applying SAS No. 145ISA 315 (Revised 2019),⁶⁴ the auditor develops initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group’s system of internal control.</p> <p>A72C. The initial expectations about the potential risks of material misstatement take into account the auditor’s understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, <u>when the group auditor is assuming responsibility for the work of a component auditor</u> the group auditor may, and often will, involve component auditors in risk assessment procedures as they have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.</p>

⁶³ [Paragraphs 32-38 of SAS No. 145](#)~~ISA 315 (Revised 2019)~~, [paragraphs 28–34](#)

⁶⁴ [Paragraphs 25–30](#)~~26~~ of SAS No. 145~~ISA 315 (Revised 2019)~~, [paragraphs 25–26](#)

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	<p>A72D. Identifying risks of material misstatement, including those communicated by component auditors, provides the basis for the group auditor’s determination of relevant assertions, which assists the group auditor’s determination of the significant classes of transactions, account balances and disclosures of the group financial statements. The group auditor takes responsibility for assessing the inherent risk of the identified risks of material misstatements by assessing the likelihood and magnitude of misstatement, taking into account the inherent risk factors.⁶⁵ The group auditor’s process (or the process of component auditors to whom risk assessment procedures are assigned) of assessing the identified risks of material misstatement at the assertion level also includes the determination of significant risks.</p> <p>A72E. Based on the risk assessment procedures performed, the group auditor may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction or in entities or business units that have similar operations or activities.</p> <p>A72F. Appendix 4 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process.</p> <p><i>Fraud</i></p> <p>A72G. In applying AU-C section ISA-240,⁶⁶ the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:</p> <ul style="list-style-type: none"> • Group management’s assessment of the risks that the group financial

⁶⁵ [Paragraph 3531 of SAS No. 145 ISA 315 \(Revised 2019\)](#), paragraph 31

⁶⁶ [Paragraphs 25, 28, 3026, 29, 31 of AU-C section ISA 240](#), paragraphs 26, 29, 31

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	<p>statements are materially misstated as a result of fraud.</p> <ul style="list-style-type: none"> • Group management’s process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or classes of transactions, account balances, or for which a risk of fraud is higher. • Whether there are particular components for which the risks of material misstatement due to fraud is higher. • Whether any fraud risk factors or indicators of management bias exist in the consolidation process. • How those charged with governance of the group monitor group management’s processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks. <p>Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group auditor’s inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.</p>

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<p><i>Considerations When Component Auditors Are Involved</i></p> <p>26C. In applying <u>SAS No. 145</u>section ISA 315 (Revised 2019),⁶⁷ the group auditor should<u>shall</u> evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors, <u>when the group auditor is assuming responsibility for the work of a component auditor</u>, provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A72H–A72I)</p>	<p><i>Considerations When Component Auditors Are Involved</i> (Ref: Para. 26C)</p> <p>A72H. When the group auditor involves component auditors in the design and performance of risk assessment procedures, the group auditor remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group’s system of internal control to have a sufficient basis for the identification and assessment of the risks of material misstatement of the group financial statements in accordance with <u>paragraph 26B</u>.</p> <p>A72I. When the audit evidence obtained from the <u>component auditor’s</u> risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement, <u>SAS No. 145</u>ISA 315 (Revised 2019)⁶⁸ requires the group auditor to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.</p>
<p><u>Determining Whether to Make Reference to a Component Auditor in the Auditor’s Report on the Group Financial Statements</u></p>	
<p>X1. Having <u>determined the competence and capabilities gained an understanding</u> of each component auditor as required by Paragraph 21(a), <u>the group engagement partner should decide whether to make reference to a component auditor in the auditor’s report on the group financial statements. [Extant AU-C 600.24] [Ref: par. A52]</u></p> <p>X2. Reference to the audit of a component auditor in the <u>auditor’s report on the group financial statements should not be made unless</u></p>	<p><u>Determining Whether to Make Reference to a Component Auditor in the Auditor’s Report on the Group Financial Statements</u> (Ref: Para. 27–30)</p> <p><u>A73. In group audits involving two or more component auditors, the decision to make reference to the audit of a component auditor is made individually for each component auditor, regardless of the decision whether to refer to any other component auditor. The group auditor may make reference to any, all, or none of the component auditors. For example, if components are audited by a component auditor from a network firm and one component is audited by another firm, the group engagement partner may decide to assume responsibility for the work of the component auditor from the network firm and to make reference to the work of the component auditor from the other firm. [Extant AU-C 600.A52]</u></p>

⁶⁷ Paragraphs 39 of SAS No. 145~~ISA 315 (Revised 2019)~~, paragraph 35

⁶⁸ Paragraph 39~~35~~ of SAS No. 145 ~~ISA 315 (Revised 2019)~~, paragraph 35

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<p>(a) <u>the group engagement partner has determined that the component auditor has performed an audit of the financial statements of the component in accordance with the relevant requirements of GAAS (Ref: par. A53) and</u></p> <p>(b) <u>the component auditor has issued an auditor's report that is not restricted as to use.²³[Extant AU-C 600.25]</u></p> <p><u>X3. If the component's financial statements are prepared using a different financial reporting framework from that used for the group financial statements, reference to the audit of a component auditor in the auditor's report on the group financial statements should not be made unless</u></p> <p>(a) <u>the measurement, recognition, presentation, and disclosure criteria that are applicable to all material items in the component's financial statements under the financial reporting framework used by the component are similar to the criteria that are applicable to all material items in the group's financial statements under the financial reporting framework used by the group, and</u></p> <p>(b) <u>the group auditor has obtained sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group without the need to assume responsibility for the work of the component auditor. [Extant AU-C 600.26] (Ref: par. A54–A57)</u></p>	<p><u>AXX. Factors that may affect the group engagement partner's decisions whether to make reference to the audit of a component auditor in the auditor's report on the group financial statements include the following:</u></p> <ul style="list-style-type: none"> • <u>Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements</u> • <u>Whether the audit of the financial statements of the component will be completed in time to meet the group reporting timetable</u> • <u>Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements</u> • <u>Whether it is impracticable for the group auditor to be involved in the work of a component auditor. [Extant AU-C 600.A40]</u> <p><u><i>Determining Whether the Audit Was Conducted in Accordance With GAAS (Ref: Para. 28(a))</i></u></p> <p><u>A74. A component auditor's report stating that the audit was conducted in accordance with GAAS or, if applicable, the auditing standards promulgated by the PCAOB is sufficient to make the determination required by paragraph 28(a). When the component auditor has performed an audit of the component financial statements in accordance with auditing standards other than GAAS or, if applicable, the auditing standards promulgated by the PCAOB, the group engagement partner may evaluate, exercising professional judgment, whether the audit performed by the component auditor meets the relevant requirements of GAAS. For the purposes of complying with paragraph 28(a), relevant requirements of GAAS are those that pertain to planning and performing the audit of the component financial statements and do not include those related to the form of the auditor's report. Audits performed in accordance with International Standards on Auditing (ISAs) promulgated by the International Auditing and Assurance Standards Board (IAASB) are more likely to meet the relevant requirements of GAAS than audits performed in accordance with auditing standards promulgated by bodies other than the IAASB. The group auditor may provide the component auditor with AU-C Appendix B, Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards, that identifies substantive requirements of GAAS that are not requirements in the ISAs. The component auditor may perform additional procedures in order to meet the relevant requirements of GAAS. The communication requested of the component auditor required by paragraph 44 may address whether</u></p>

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<p>X4. When the group engagement partner decides to make reference in the auditor's report on the group financial statements to the audit of a component auditor, the group auditor should obtain sufficient appropriate audit evidence with regard to such components by performing the following procedures:</p> <p>(a) The procedures required by this AU-C section, except for those that are required only when the group auditor is assuming responsibility for the work of a component auditor</p> <p>(b) Reading the component's financial statements and the component auditor's report thereon to identify significant findings and issues and, when considered necessary, communicating with the component auditor in this regard. [Extant AU-C 600.27]</p>	<p><u>the audit of the component auditor met the relevant requirements of GAAS. The group engagement partner, having determined that all relevant requirements of GAAS have been met by the component auditor, may decide to make reference to the audit of that component auditor in the auditor's report on the group financial statements.</u></p> <p><u><i>Determining Whether to Make Reference When the Financial Reporting Framework Is Not the Same</i> (Ref. Para. 29)</u></p> <p>A75. <u>When the component's financial statements are prepared using a financial reporting framework that differs from the financial reporting framework used to prepare the group financial statements, the group auditor is required by paragraph 35 to evaluate whether the financial information of the component has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework. Evaluating whether the financial statements of the component have been appropriately adjusted to conform with the financial reporting framework used by the group is based on a depth of understanding of the component's financial statements that ordinarily is not obtained unless the group auditor assumes responsibility for, and, thus, directs and supervises the component auditor and reviews their work. In rare circumstances, however, the group engagement partner may conclude that the group auditor can reasonably expect to obtain sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group without the need to assume responsibility for, and, thus, direct and supervise the component auditor and review their work.</u></p> <p>A78. <u>The greater the number of differences or the greater the significance of the differences between the criteria used for measurement, recognition, presentation, and disclosure of all material items in the component's financial statements under the financial reporting framework used by the component and the financial reporting framework used by the group, the less similar they are. Financial statements prepared and presented in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Standard for Small and Medium-sized Entities, as issued by the International Accounting Standards Board, are generally viewed as</u></p>

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	<p><u>more similar to financial statements prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP) than financial statements prepared and presented in accordance with jurisdiction-specific reporting frameworks or adaptations of IFRSs. In most cases, special purpose frameworks set forth in AU-C section 800, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i>, are not similar to GAAP.</u></p> <p><u>A79. Additional considerations in determining whether it may be appropriate to make reference to the audit of a component auditor in the auditor’s report on the group financial statements when the component prepares financial statements using a different financial reporting framework than that used by the group include the</u></p> <ul style="list-style-type: none"> <u>• effectiveness of groupwide controls and the adequacy of the consolidation process specifically related to the adjustments to convert the component’s financial statements to the financial reporting framework used by the group, including the financial reporting competencies of personnel involved in the adjustments.</u> <u>• depth of the group auditor’s understanding of the component and its environment, including the complexity of the events and transactions subject to the differing financial reporting requirements and the assessed risk of material misstatement related to the adjustments.</u> <u>• extent of the group auditor’s knowledge of the financial reporting framework used to prepare the component financial statements.</u> <u>• group auditor’s ability to obtain information from group or component management that is relevant to the adjustments.</u> <u>• need and ability to seek, as necessary, the assistance of professionals possessing specialized skills or knowledge related to the adjustments.</u> <p><u><i>Considerations for Governmental Entities</i></u></p> <p><u>A80. When the applicable financial reporting framework used by the group provides for the inclusion of component financial statements that are prepared in accordance with a different financial reporting framework, the component financial statements are deemed to be in accordance with the applicable financial reporting framework used for the group financial statements. For example, both the financial reporting framework established by the Governmental Accounting Standards Board and the financial</u></p>

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	<p><u>reporting framework established by the Federal Accounting Standards Advisory Board have such provisions. Accordingly, when the provisions established by the applicable financial reporting framework for inclusion of those component financial statements have been followed, the requirements in paragraphs 29 and 31(c) are not relevant.</u></p>
<p>Making Reference in the Auditor's Report</p>	
<p><u>X5. When the group engagement partner decides to make reference to the audit of a component auditor in the auditor's report on the group financial statements, the report on the group financial statements should clearly indicate</u></p> <ul style="list-style-type: none"> <u>(a) that the component was not audited by the group auditor but was audited by the component auditor.</u> <u>(b) the magnitude of the portion of the financial statements audited by the component auditor.</u> <u>(c) when the component's financial statements are prepared using a different financial reporting framework from that used for the group financial statements</u> <ul style="list-style-type: none"> <u>(i.) the financial reporting framework used by the component and</u> <u>(ii.) that the group auditor is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group.</u> <u>(d) when</u> <ul style="list-style-type: none"> <u>(i.) the component auditor's report on the component's financial</u> 	<p>Making Reference in the Auditor's Report (Ref: Para. 31–34)</p> <p><u>A81. The disclosure of the magnitude of the portion of the financial statements audited by a component auditor may be achieved by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly describes the portion of the financial statements audited by a component auditor. When two or more component auditors participate in the audit, the dollar amounts or the percentages covered by the component auditors may be stated in the aggregate.</u></p> <p><u>A82. Reference in the auditor's report on the group financial statements to the fact that part of the audit was conducted by a component auditor is not to be construed as a qualification of the opinion, but rather is intended to communicate (1) that the group auditor is not assuming responsibility for the work of the component auditor, and (2) the source of the audit evidence with respect to those components for which reference to the audit of component auditors is made.</u></p> <p><u>A83. Exhibit-Appendix 2 contains examples of appropriate reporting in the auditor's report on the group financial statements when reference is made to the audit of a component auditor.</u></p> <p><u>A84. If the modified opinion, emphasis-of-matter paragraph, or other-matter paragraph in the component auditor's report does not affect the report on the group financial statements and the component auditor's report is not presented, the group auditor need not make reference to those paragraphs in the auditor's report on the group financial statements. If the component auditor's report is presented, the group auditor may make reference to those paragraphs and their disposition.</u></p>

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<p>statements does not state that the audit of the component’s financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, and</p> <p>(ii.) the group engagement partner has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS</p> <p>a. the set of auditing standards used by the component auditor and</p> <p>b. that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAAS. [Extant AU-C 600.28] (Ref: par. A58–A60)</p> <p>X6. If the group engagement partner decides to name a component auditor in the auditor’s report on the group financial statements</p> <p>(a) the component auditor’s express permission should be obtained.</p> <p>(b) the component auditor’s report should be presented together with that of the auditor’s report on the group financial statements. [Extant AU-C 600.29]</p> <p>X7. If the opinion of a component auditor is modified or that report includes an emphasis-of-matter or other-matter paragraph, the group auditor should determine the effect that this may have on the auditor’s report on the group financial statements. When deemed appropriate, the group auditor should modify the opinion on the group financial statements or</p>	<p>A85. When the group auditor is assuming responsibility for the work of a component auditor, no reference is made to the component auditor in the report on the group audit because to do so may cause a reader to misinterpret the degree of responsibility being assumed.</p>

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<p><u>include an emphasis-of-matter paragraph or an other-matter paragraph in the auditor’s report on the group financial statements. [Extant AU-C 600.30] (Ref. par. A61)</u></p> <p><u>X8. If the group engagement partner decides to assume responsibility for work of a component auditor, no reference should be made to the component auditor in the auditor’s report on the group financial statements. [Extant AU-C 600.31] (Ref. par. A62)</u></p>	
Materiality	
<p>29. In applying <u>AU-C sectionISA 320, <i>Materiality in Planning and Performing an Audit</i></u>⁶⁹ and <u>AU-C sectionISA 450, <i>Evaluation of Misstatements Identified During the Audit</i></u>,⁷⁰ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, <u>for those components on which the group auditor will perform, or for which the group auditor will assume the responsibility for the work of a component auditor who performs, an audit [Extant AU-C 600.32(c)],</u> the group auditor shouldshall determine:</p> <p>(a) Component performance materiality. To address aggregation risk, such amount shouldshall be lower than group performance materiality. (Ref. Para. A73–A76)</p> <p>(b) The threshold above which misstatements</p>	<p>Materiality</p> <p><i>Component Performance Materiality</i> (Ref. Para. 29(a))</p> <p>A73. <u>Paragraph 29(a)</u> requires the group auditor to determine component performance materiality for each of the components where <u>the group auditor will perform, or for which the group auditor will assume the responsibility for the work of a component auditor who performs,</u> audit procedures are performed on financial information that is disaggregated. The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.</p> <p>A74. This <u>proposed SAS ISA</u> does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than</p>

⁶⁹ Paragraph 11 of AU-C sectionISA 320, paragraph 11

⁷⁰ Paragraph 5 of AU-C sectionISA 450, Evaluation of Misstatements Identified *During the Audit*, paragraph 5

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<p>identified in the component financial information are to be communicated to the group auditor. Such threshold shouldshall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A77)</p>	<p>materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, <u>AU-C section ISA 320</u> requires the auditor to determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.⁷¹ In these circumstances, <u>and when the group auditor will perform, or for which the group auditor will assume responsibility for the work of a component auditor, audit procedures on component financial information,</u> the group auditor may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.⁷²</p> <p>A75. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. Factors the group auditor may take into account in setting component performance materiality include the following:</p> <ul style="list-style-type: none"> • The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components). • Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example: <ul style="list-style-type: none"> ○ Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions).

⁷¹ ~~Paragraphs 10 and A13–A14~~~~A11–A12~~ of AU-C section ISA 320, ~~paragraphs 10 and A11–A12~~

⁷² ~~Paragraph A15~~~~A13~~ of AU-C section ISA 320, ~~paragraph A13~~

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	<ul style="list-style-type: none"> ○ The nature and extent of misstatements identified at the component in prior audits. <p>A75A. To address aggregation risk, paragraph 29(a) requires component performance materiality to be lower than group performance materiality. As explained in paragraph A75, as the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements.</p> <p>A76. In some cases, further audit procedures may be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (i.e., not disaggregated across components). In such cases, group performance materiality often will be used for purposes of performing these procedures.</p> <p><u>AXX. When the component is subject to an audit required by law or regulation or performed for another reason, the performance materiality used by the component auditor for purposes of such audit ordinarily can be expected to be less than the group performance materiality and, accordingly, be acceptable for purposes of the group audit. In the case of an equity method investment, the investee may be larger than the investor, and the auditor’s evidence to support the investor’s share of earnings from the investment may consist largely of the audited financial statements of the investee. In such cases, the performance materiality used by the investee’s auditor may be larger than the performance materiality used by the investor’s auditor. When such circumstances exist, the group auditor may take into consideration matters such as the group’s ownership percentage and its share of the investee’s profits and losses when determining whether the component performance materiality used by the</u></p>

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	<p><u>investee’s auditor is appropriate for purposes of the audit of the group financial statements. [Extant AU-C 600.A66]</u></p> <p><i>‘Clearly Trivial’ Threshold (Ref: Para: 29(b))</i></p> <p>A77. The threshold for communicating misstatements to the group auditor is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with <u>AU-C section ISA 450</u>,⁷³ this threshold is the amount below which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>30. <u>When the group auditor is assuming responsibility for the work of a component auditor [Extant AU-C 600.32(c)]</u>, the group auditor shouldshall communicate to the component auditor the amounts determined in accordance with <u>paragraph 29. (Ref: Para: A77A–A77B)</u></p>	<p><i>Considerations When Component Auditors Are Involved</i></p> <p>Communicating Component Performance Materiality (Ref. Para. 30)</p> <p>A77A. In some cases, it may be appropriate for the group auditor to involve the component auditor in determining an appropriate component performance materiality amount, in view of the component auditor’s in-depth knowledge of the component and potential sources of misstatement of the component financial information. In this regard, <u>and when the group auditor is assuming responsibility for the work of a component auditor</u>, the group auditor also may consider communicating group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in relation to group performance materiality, is appropriate in the circumstances.</p> <p>A77B. Component performance materiality is based, at least in part, on expectations about the nature, frequency, and magnitude of misstatements in the component financial information. Therefore, ongoing communication between the component auditor and the group auditor <u>when the group auditor is assuming responsibility for the work of a component auditor</u> is important, particularly if the number and magnitude of</p>

⁷³ Paragraph A3 of AU-C section ISA 450, paragraph A3

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	misstatements identified by the component auditor are higher than expected.
Responding to the Assessed Risks of Material Misstatement	
<p>33. In applying <u>AU-C section ISA 330</u>,⁷⁴ the group auditor shouldshall take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures; the nature, timing and extent of the work to be performed at those components; and when the group auditor is assuming responsibility for the work of a component auditor, the nature, timing and extent of further audit procedures to be performed. (Ref: Para. A86–A93A)</p>	<p>Responding to the Assessed Risks of Material Misstatement (Ref: Para. 33)</p> <p><i>Performing Further Audit Procedures</i></p> <p>Performing Further Audit Procedures Centrally</p> <p>A86. The group auditor may design and perform further audit procedures centrally if the audit evidence to be obtained from performing further audit procedures on one or more classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement. For example, if the accounting records for the revenue transactions of the entire group are maintained centrally (e.g., at a shared service center), the group auditor may perform further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures. Factors that may be relevant to the auditor’s determination of whether to perform further audit procedures centrally include, for example:</p> <ul style="list-style-type: none"> • The level of centralization of activities relevant to financial reporting. • The nature and extent of commonality of controls. • The similarity of the group’s activities and business lines. <p>A88. The group auditor may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogenous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way.</p> <p>A88A. When further audit procedures are performed centrally, component auditors may still</p>

⁷⁴ Paragraph 6-7 of AU-C section ISA 330, paragraphs 6–7

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	<p>be involved. For example, when the group has multiple shared-service centers, the group auditor may involve component auditors in the performance of further audit procedures for these shared service centers.</p> <p>Performing Further Audit Procedures at the Component Level</p> <p>A88B. In other circumstances, procedures to respond to the risks of material misstatement at the group financial statement level that are related to the financial information of a component may be more effectively performed at the component level. This may be the case when the group has:</p> <ul style="list-style-type: none"> • Different revenue streams; • Multiple lines of business; • Operations across multiple locations; or • Decentralized systems of internal control. <p>Large Number of Components Whose Financial Information Is Material in the Aggregate to the Group Financial Statements</p> <p>A89. A group may be comprised of a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. These circumstances may present additional challenges for the group auditor in planning and performing further audit procedures for significant classes of transactions, account balances or disclosures in the group financial statements.</p> <p>A89AA. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing audit procedures centrally on these classes of transactions, account balances or disclosures (e.g., if they are homogeneous, subject to common controls and access to appropriate information can be obtained). The further audit procedures may include substantive analytical procedures in accordance with AU-C section ISA.</p>

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	<p>520, <i>Analytical Procedures</i>.⁷⁵ Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures. The use of automated tools and techniques may be helpful in these circumstances. [Moved from paragraph A90]</p> <p>A89A. In other cases, it may be necessary to perform audit procedures at selected components to address the risks of material misstatement of the group financial statements. The determination of the components at which audit procedures are to be performed, and the nature, timing and extent of audit procedures to be performed at the selected components, are matters of professional judgment. In these circumstances, introducing an element of unpredictability in the components selected for testing also may be helpful in relation to the risks of material misstatement of the group financial statements due to fraud (also see paragraph A91).</p> <p>A90. [Moved to paragraph A89AA]</p> <p><i>The Nature and Extent of Further Audit Procedures</i></p> <p>A90A. In determining the nature and extent of further audit procedures to be performed at a component, the group auditor may determine the following scope of work to be appropriate at a component (with the involvement of component auditors, as applicable):</p> <ul style="list-style-type: none"> • Design and perform further audit procedures on the entire financial information of the component; • Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or • Perform specific further audit procedures. <p>A90B. <u>When the group auditor is assuming responsibility for the work of a component auditor</u></p>

⁷⁵ AU-C section ISA 520, *Analytical Procedures*

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	<p>Although the group auditor takes responsibility for the nature, timing and extent of further audit procedures to be performed, component auditors can be, and often are, involved in all phases of the group audit, including in the design and performance of further audit procedures.</p> <p>Design and Perform Further Audit Procedures on the Entire Financial Information of the Component</p> <p>A90C. The group auditor may determine that designing and performing further audit procedures on the entire financial information of a component is an appropriate approach, including when:</p> <ul style="list-style-type: none"> • Audit evidence needs to be obtained on all or a significant proportion of a component’s financial information to respond to the assessed risks of material misstatement of the group financial statements. • There is a pervasive risk of material misstatement of the group financial statements due to the existence of events or conditions at the component that may be relevant to the group auditor’s evaluation of group management’s assessment of the group’s ability to continue as a going concern. <p>Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures</p> <p>A90D. The group auditor may determine that designing and performing further audit procedures on one or more particular classes of transactions, account balances, or disclosures of the financial information of a component is an appropriate approach to address an assessed risks of material misstatement of the group financial statements. For example, a component may have limited operations but holds a significant portion of the land and buildings of the group or has significant tax balances.</p> <p>Perform specific further audit procedures</p> <p>A90E. The group auditor may determine that designing and performing specific further audit procedures on the financial information of a component is an appropriate approach, such as when audit evidence needs to be obtained for specific assertions only. For</p>

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	<p>example, the group auditor may centrally test the class of transaction, account balance or disclosure and may require the component auditor to perform specific further audit procedures at the component (e.g., specific further audit procedures related to the valuation of claims or litigations in the component’s jurisdiction or the existence of an asset).</p> <p><i>Element of Unpredictability</i></p> <p>A91. Including an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components’ financial information that may give rise to a material misstatement of the group financial statements due to fraud.⁷⁶</p> <p><i>Operating Effectiveness of Controls that Are Common Across the Group</i></p> <p>A92. If the group auditor intends to rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components, the group auditor, in accordance with <u>AU-C section ISA-330</u>,⁷⁷ is required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. This includes obtaining sufficient appropriate audit evidence that the controls are operating at the components as designed. The group auditor may request the component auditor to assist the group auditor in performing these procedures.</p> <p>A93. If deviations from controls upon which the auditor intends to rely are detected, <u>AU-C section ISA-AU-C section 330</u>⁷⁸ requires the auditor to make specific inquiries to understand these matters and their potential consequences. If more deviations than</p>

⁷⁶ Paragraph ~~29c30(e)~~ of AU-C section ~~ISA 240~~, paragraph ~~30(e)~~

⁷⁷ Paragraph ~~8~~ of AU-C section ~~ISA 330~~, paragraph ~~8~~

⁷⁸ Paragraph ~~17~~ of AU-C section ~~ISA 330~~, paragraph ~~17~~

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	<p>expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include:</p> <ul style="list-style-type: none"> • Requesting<u>Performing</u> additional substantive procedures to be performed at certain components. • Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively. • Increasing the number of components selected for further audit procedures. <p>A93A. When the operating effectiveness of controls is tested centrally (e.g., controls at a shared service center or testing of common controls), the group auditor may need to communicate information about the audit work performed to the component auditors. For example, <u>when the group auditor is assuming responsibility for the work of a component auditor and when</u> a component auditor is requested to design and perform substantive audit procedures on the entire financial information of the component, or design and perform substantive audit procedures on one or more classes of transactions, account balances or disclosures, the component auditor may communicate with the group auditor about the control testing performed to determine the nature, timing and extent of the substantive procedures.</p>
<p><i>Consolidation Process</i></p> <p>34. The group auditor should<u>shall</u> take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This should<u>shall</u> include:</p> <p>(a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for</p>	<p><i>Consolidation Process</i></p> <p>Consolidation Procedures (Ref: Para. 34(a))</p> <p>A94. The further audit procedures on the consolidation, including sub-consolidations, may include:</p> <ul style="list-style-type: none"> • Determining that the journal entries necessary are reflected in the consolidation; and • Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

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<p>designing and performing further audit procedures on sub-consolidations; (Ref: Para. A94)</p> <p>(b) Responding to the assessed risks of material misstatement due to fraud or indicators of possible management bias that exist in the consolidation process; and</p> <p>(c) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. (Ref: Para. A95)</p>	<p>Consolidation Adjustments and Reclassifications (Ref: Para. 34(c))</p> <p>A95. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group auditor’s evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:</p> <ul style="list-style-type: none"> • Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them; • Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included; • Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management; • Determining whether significant adjustments are properly supported and sufficiently documented; and <p>Evaluating the reconciliation and elimination of intra-group transactions, unrealized profits <u>or losses</u>, and intra-group account balances. <u>[Extant AU-C 600.A69]</u></p>
<p>35. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor should<u>shall</u> evaluate whether the financial information has been appropriately adjusted for purposes of <u>the preparation and fair presentation of</u> preparing and presenting the group financial statements <u>in accordance with the applicable financial reporting framework</u>.</p>	

AU-CISA 600 Requirement	Application Material
<p>36. If the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor shouldshall take responsibility for evaluating whether appropriate adjustments have been made to that financial information in accordance with the applicable financial reporting framework.</p>	
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>37. When <u>the group auditor is assuming responsibility for the work of a component auditor and</u> the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shouldshall communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.</p>	<p><i>Considerations When Component Auditors Are Involved</i> (Ref: Para. 38–39)</p>
<p>38. <u>When the group auditor is assuming responsibility for the work of a component auditor,</u> For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with SAS No. 145sectionISA 315 (Revised 2019), on which a component auditor is determining the further audit procedures to be performed, the group auditor shouldshall evaluate the appropriateness of the design and performance of those further audit procedures. (Ref: Para. A95A)</p>	<p>A95A. When <u>specialists</u> experts are involved in performing further audit procedures, ISA AU-C section 620⁷⁹ requires the auditor to evaluate the adequacy of the auditor's <u>specialist's expert's</u> work for the auditor's purposes. In a group audit these evaluations include the work of auditor's <u>specialists</u> experts engaged by component auditors.</p>

⁷⁹ Paragraph 12 of AU-C section ~~ISA 620,~~ paragraph 12

_AU-CISA-600 Requirement	Application Material
<p>39. <u>When the group auditor is assuming responsibility for the work of a component auditor,</u> in accordance with <u>paragraph 23,</u> the group auditor should<u>shall</u> determine the nature and extent of direction and supervision of component auditors and the review of their work when component auditors perform further audit procedures on the consolidation process, including on sub-consolidations. (Ref: Para. A102)</p>	<p>A102. <u>When the group auditor is assuming responsibility for the work of a component auditor,</u> the appropriate level of the group auditor’s involvement may depend on the circumstances and the structure of the group and other factors, such as the group auditor’s previous experience with the component auditors that perform procedures on the consolidation and sub-consolidations (also see <u>paragraphs A42 and A51</u>) and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).</p>
<p>40. The group auditor should<u>shall</u> determine whether the financial information identified in the component auditor’s communication (see <u>paragraph 44(a)(i)</u>) is the financial information that is incorporated in the group financial statements.</p>	
<p>Communication about Matters Relevant to the Group Auditor’s Conclusion</p>	
<p>44. The group auditor shall<u>should</u> request the component auditor to communicate matters relevant to the group auditor’s conclusion with regard to the group audit.</p> <p><u>(a) Regardless of whether reference will be made in the auditor’s report on the group financial statements to the audit of a component auditor,</u> such communication shall<u>should</u> include: (Ref: Para. A111A)</p> <p>(<u>ai</u>) Identification of the financial information on which the component auditor <u>is reporting</u> [<u>Extant AU-C 600.42(b)</u>]has been requested to perform audit procedures;</p> <p>(<u>iaa</u>) Whether the component auditor has performed the work requested by the group auditor <u>as described by this proposed SAS;</u></p>	<p>Communication about Matters Relevant to the Group Auditor’s Conclusion <i>Communication about Matters Relevant to the Group Auditor’s Conclusion with Regard to the Group Audit</i> (Ref: Para. 44)</p> <p>A111A. Although the matters required to be communicated in accordance with <u>paragraph 44</u> are relevant to the group auditor’s conclusion with regard to the group audit, certain matters may need to be communicated timely in the course of the component auditor’s procedures. In addition to the matters in <u>paragraphs 26A and 48,</u> such matters may include, for example:</p> <ul style="list-style-type: none"> Information on breaches of relevant ethical requirements, including identified breaches of independence provisions; Information on instances of non-compliance with laws or regulations; Newly arising significant risks of material misstatement, including risks of fraud; Identified or suspected fraud or illegal acts involving component management

_AU-CISA-600 Requirement	Application Material
<p>(iiiab) Whether the component auditor has complied with the ethical requirements that are relevant to the group audit, including those related to independence [Extant AU-C 600.42(a)]; and</p> <p>(ivii) <u>The component auditor's overall findings or conclusions.</u> (Ref: Para. A112A)</p> <p>(b) <u>In addition to the communication required in accordance with paragraph 44(a), when the group auditor is assuming responsibility for the work of a component auditor, such communication shallshould also include:</u></p> <ul style="list-style-type: none"> (iib) Information on instances of non-compliance with laws or regulations; (iiie) Corrected and uncorrected misstatements of the component financial information identified by the component auditor and that are above the threshold communicated by the group auditor in accordance with paragraph 30; (Ref: Para. A111B) (iiiiv) Indicators of possible management bias; (ive) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed; (vif) Fraud or suspected fraud involving component management, employees <u>at entities or business units</u> who have significant roles in the group's system of internal control at the component or others <u>at entities or business units</u> where the fraud resulted in a material misstatement of the financial information of the component; 	<p>or employees that could have a material effect on the group financial statements; or</p> <ul style="list-style-type: none"> • Significant and unusual transactions. <p><i>Communication of Misstatements of Component Financial Information</i> (Ref: Para. 44(be)(ii))</p> <p>A111B. Knowledge about corrected and uncorrected misstatements across components may alert the group auditor to potential pervasive internal control deficiencies, when considered along with the communication of deficiencies in accordance with paragraph 44(be)(iv). In addition, a higher than expected number of identified misstatements (uncorrected or corrected) may indicate a higher risk of undetected misstatements, which may lead the group auditor to conclude that additional audit procedures need to be performed at certain components.</p> <p><i>Component Auditor's Overall Findings or Conclusions</i> (Ref: Para. 44(a)(iv))</p> <p>A112A. The form and content of the deliverables from the component auditor are influenced by the nature and extent of the audit work the component auditor has been requested to perform <u>performed and whether reference is made in the auditor's report on the group financial statements to the audit of a component auditor</u>. The group auditor's firm policies or procedures may address the form or specific wording of an overall conclusion statement <u>or, if the group auditor is making reference to the audit of a component auditor in the auditor's report, opinion</u> from the component auditor on the audit work performed for purposes of the group audit.</p>

AU-CISA 600 Requirement	Application Material
<p>(viif) Other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component; <u>and</u></p> <p>(viiig) Any other matters that may be relevant to the group audit, or that the component auditor determines are appropriate to draw to the attention of the group auditor, including exceptions noted in the written representations that the component auditor requested from component management; and</p> <p>(h) The component auditor's overall findings or conclusions. (Ref: Para. A112A)</p>	
<p>45. The group auditor shall<u>should</u>:</p> <p>(a) Discuss significant <u>findings and issues</u>matters arising from the communications with the component auditor, component management or group management, as appropriate; and</p> <p>(b) Evaluate whether the communications with component auditors are adequate for the group auditor's purposes <u>[Extant AU-C 600.43]</u>.</p>	
<p>45A. <u>When the group auditor is assuming responsibility for the work of a component auditor</u>, the group auditor shall<u>should</u> determine whether, and the extent to which, it is necessary for the group auditor to review parts of the component auditor audit documentation. In making this determination, the group auditor shall<u>should</u> consider: (Ref: Para. A112B-A113)</p>	<p><i>Reviewing the Component Auditor's Audit Documentation</i> (Ref: Para. 45A)</p> <p>A112B. The determination required by <u>paragraph 45A when the group auditor is assuming responsibility for the work of a component auditor</u> relates to whether there is a need for the group auditor to review parts of the component auditor's audit documentation in order to conclude on the group audit, taking into account:</p> <ul style="list-style-type: none"> • The review performed by the component auditor reviewer(s); and

<u>AU-CISA 600</u> Requirement	Application Material
<p>(a) The nature, timing and extent of the work performed by the component auditor;</p> <p>(b) The determination of the competence and capabilities of the component auditor <u>[Extant AU-C 600.62]</u> in accordance with <u>paragraph 21(a)</u>; and</p> <p>(c) The direction, supervision and review of the component auditor, including communications from the component auditor.</p>	<ul style="list-style-type: none"> • The review that already may have been done by the group auditor as part of the ongoing direction, supervision and review of the work of the component auditor, and communications received from the component auditor, in accordance with the requirements of this <u>proposed SAS ISA</u>. <p>A112Ba. <u>Paragraph 23</u> requires the group engagement partner to take responsibility for the nature, timing and extent of the direction and supervision of component auditors and the review of their work <u>when the group auditor is assuming responsibility for the work of a component auditor</u>. However, as explained in <u>paragraph A49</u>, the group engagement partner may assign such responsibilities to other members of the engagement team.</p> <p>A112C. <u>Proposed QM SAS ISA 220 (Revised)</u> requires the engagement partner to determine that the nature, timing and extent of direction, supervision and review is planned and performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements and is responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team.⁸⁰ <u>When the group auditor is assuming responsibility for the work of a component auditor</u>, <u>Paragraph A51</u> provides guidance for the group auditor in tailoring the nature, timing and extent of the direction and supervision of the component auditor, and the review of their work, to the facts and circumstances of the group audit.</p> <p>A113. <u>When the group auditor is assuming responsibility for the work of a component auditor</u>, <u>Other</u> factors that may affect the group auditor’s determination about whether, and the extent to which it may be necessary to review parts of the component auditor’s audit documentation in the circumstances include:</p> <ul style="list-style-type: none"> • The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the risks of material misstatement of the group financial statements;

⁸⁰ Paragraph 30 of proposed QM SAS ISA 220 (Revised), paragraph 30

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	<ul style="list-style-type: none"> The significant judgments made by, and the findings or conclusions of, the component auditor about matters that are material to the group financial statements; The competence and capabilities of the component auditor reviewer(s) based on previous experience with those individuals; and Whether the component auditor and group auditor are subject to common policies or procedures for review of audit documentation.
<p>46. If the group auditor determines that the component auditors' communications are not adequate for the group auditor's purposes, the group auditor shall <u>should</u> consider whether further information can be obtained from component auditors or other sources. If such information cannot be obtained from component auditors or through other sources, the group auditor shall <u>should</u> consider the implications for the group audit, in accordance with paragraph 51. [Extant AU-C 600.63].</p>	
Subsequent Events	
<p>47. In applying AU-C section ISA 560 <u>Subsequent Events and Subsequently Discovered Facts</u>,⁸¹ the group auditor shall <u>should</u> take responsibility for performing procedures, including, as appropriate, requesting component auditors to perform procedures, designed to identify events that may require adjustment of, or disclosure in, the group financial statements. [Extant AU-C 600.59]. (Ref: Para. A114)</p>	<p>Subsequent Events (Ref: Para. 47)</p> <p>A114. <u>When the group auditor is assuming responsibility for the work of a component auditor,</u> the group auditor may:</p> <ul style="list-style-type: none"> Request a component auditor to perform subsequent events procedures to assist the group auditor to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.

⁸¹ Paragraph 10 of AU-C section ISA 560, *Subsequent Events and Subsequently Discovered Facts*, paragraph 7

<u>AU-CISA 600</u> Requirement	Application Material
	<ul style="list-style-type: none"> • <u> </u> Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor’s report on the group financial statements. <p><u>AXX. When the auditor’s report on the group financial statements will make reference to the auditor of a component auditor, procedures designed to identify subsequent events between the date of the component auditor’s report and the date of the auditor’s report on the group financial statements, the group auditor may include:</u></p> <ul style="list-style-type: none"> <u>(a) Obtaining an understanding of any procedures that group management has established to ensure that such subsequent events are identified.</u> <u>(b) Requesting the component auditor to update subsequent events procedures to the date of the auditor’s report on the group financial statements.</u> <u>(c) Requesting written representation from component management regarding subsequent events.</u> <u>(d) Reading available interim financial information of the component and making inquiries of group management.</u> <u>(e) Reading minutes of meetings of the governing board, or any other administrative board with management oversight, held since the financial statement date.</u> <u>(f) Reading the subsequent year’s capital and operating budgets.</u> <u>(g) Inquiring of group management regarding currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations for items that represent subsequent events.</u> <u>(e)(h) Considering the implications for the auditor’s report on the group financial statements if the group engagement team has been unable to obtain sufficient appropriate audit evidence regarding subsequent events. [Extant AU-C 600.A70]</u>

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Considering When Component Auditors Are Involved	
<p>48. <u>When the group auditor is assuming responsibility for the work of a component auditor,</u> the group auditor shall<u>should</u> request the component auditors to notify the group auditor if they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements. <u>[Extant AU-C 600.59].</u> (Ref: Para. A114)</p>	
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	
<p>49. In applying <u>AU-C section</u>ISA 330,⁸² the group auditor shall<u>should</u> evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion. <u>[Extant AU-C 600.44].</u> (Ref: Para. A114A–A115C)</p>	<p>Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained <i>Sufficiency and Appropriateness of Audit Evidence</i> (Ref: Para. 49)</p> <p>A114A. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor’s attention that differs significantly from the information on which the risk assessment was based. For example:</p> <ul style="list-style-type: none"> • <u>When the auditor of the group financial statements is assuming responsibility for the work of a component auditor and the component auditor identifies misstatements and communicates such to the group auditor,</u> the misstatements identified at a component may need to be considered in relation to other components; or • The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease). <p>In such circumstances, the group auditor may need to reevaluate the planned audit</p>

⁸² Paragraph 28 of AU-C section ~~ISA~~ 330, paragraph 26

AU-CISA 600 Requirement	Application Material
	<p>procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.</p> <p>A115. The evaluation required by paragraph 49 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in <u>AU-C ISA-section 330</u>⁸³ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.</p> <p>A115A. The group auditor may further consider matters that may affect the exercise of professional skepticism in a group audit, such as those described in paragraph A9A, when evaluating the sufficiency and appropriateness of audit evidence obtained. In particular, the group auditor may consider whether such matters have inappropriately led the engagement team to:</p> <ul style="list-style-type: none"> • Obtain audit evidence that is easier to access rather than obtain evidence that is more relevant and reliable; • Obtain less persuasive evidence than is necessary in the circumstances; or • Design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory. <p>A115B. <u>Proposed QM SAS ISA 220 (Revised)</u> requires the engagement partner to determine, on or before the date of the auditor’s report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.⁸⁴ Information that may be relevant to the group auditor’s evaluation of the audit evidence obtained from the work performed by component</p>

⁸³ Paragraph 18 of AU-C section ISA 330, paragraph 18

⁸⁴ Paragraph 32 of proposed QM SAS ISA 220 (Revised), paragraph 32

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	<p>auditors depends on the facts and circumstances of the group audit, and may include:</p> <ul style="list-style-type: none"> • The communications from the component auditors required by paragraph 44, including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit; • Other communications from the component auditors throughout the group audit, including those required by paragraph 26A; • <u>When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the the group auditor’s direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor’s review of the component auditor’s audit documentation in accordance with paragraph 45A.</u> • <u>When the auditor’s report on the group financial statements will make reference to the audit of a component auditor, the component auditor’s report on the component’s financial statements, including, as applicable, if the opinion of a component auditor is modified or if that report includes an emphasis-of-matter or other-matter paragraph.</u> <p>A115C. In some circumstances, an overall summary memorandum describing the work performed and the results thereof may provide a basis on its own for the group auditor to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor.</p>
<p><i>Evaluating the Effect on the Group Audit Opinion</i></p> <p>50. The group engagement partner shall<u>should</u> evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor</p>	<p><i>Evaluating the Effect on the Group Audit Opinion</i> (Ref: Para. 50)</p> <p>A116. The group engagement partner’s evaluation may include a consideration of whether corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (e.g., regarding transactions subject to common accounting</p>

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<p>or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence <u>[Extant AU-C 600.45]</u>. (Ref: Para. A116)</p>	<p>policies or common controls) that may affect other components.</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>51. If the group auditor concludes that the work of the component auditor is insufficient, the group auditor shall should determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor <u>[Extant AU-C 600.63]</u>.</p>	
Auditor's Report	
<p>52. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A117–A118)</p>	<p>Auditor's Report (Ref: Para- 52)</p> <p>A117. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings or conclusions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion regardless of whether reference will be made in the auditor's report on the group financial statements to the audit of a component auditor.</p> <p>A118. When the group audit opinion is modified because the group auditor was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability.⁸⁵ In some circumstances, a reference to a component auditor may be necessary to adequately describe the reasons for the modified opinion, for</p>

⁸⁵ Paragraphs 21 and 25 of AU-C section ISA 705 (Revised), paragraphs 20 and 24

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	<p>example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management.</p>
Communication with Group Management and Those Charged with Governance of the Group	
<p><i>Communication with Group Management</i></p> <p>53A. The group auditor shall<u>should</u> communicate with group management an overview of the planned scope and timing of the audit, including the work to be performed at components of the group. (Ref: Para. A119A)</p>	<p>Communication with Group Management and Those Charged with Governance of the Group</p> <p><i>Communication with Group Management</i> (Ref: Para. 53A–55)</p> <p>A119A. The group audit plan may be complex due to the number and nature of the entities and business units comprising the group. In addition, as explained in <u>paragraph A5</u>, the group auditor may determine that certain entities or business units may be considered together as a component for purposes of planning and performing the group audit. Therefore, discussing with group management an overview of the group auditor plan may help in coordinating the work performed at components, including when component auditors are involved, and in identifying component management (see <u>paragraph A15</u>).</p>
<p>54. If fraud has been identified by the group auditor or brought to its attention by a component auditor (see <u>paragraph 44(b)(v)(f)</u>), or information indicates that a fraud may exist, the group auditor shall<u>should</u> communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. <u>Para. A120</u>)</p>	<p>A120. <u>ISA AU-C section 240</u> contains requirements and guidance on communication of fraud to management and, when management may be involved in the fraud, to those charged with governance.⁸⁶</p>
<p>55. <u>When a</u> component auditor <u>has been engaged</u> Extant</p>	<p>A121. Group management may need to keep certain material sensitive information</p>

⁸⁶ Paragraphs ~~39-41-43~~ of AU-C section ~~ISA~~ 240, paragraphs ~~41-43~~

<u>AU-CISA 600</u> Requirement	Application Material
<p>AU-C 600.48] may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group auditor shall <u>should</u> request group management to inform management of the entity or business unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group auditor shall <u>should</u> discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, shall <u>should</u> consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved <u>and whether to withdraw from the engagement [Extant AU-C 600.48].</u> (Ref: Para. A121)</p>	<p>confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:</p> <ul style="list-style-type: none"> • Potential litigation. • Plans for abandonment of material operating assets. • Subsequent events. • Significant legal agreements.
<p><i>Communication with Those Charged with Governance of the Group</i></p> <p>56. The group auditor shall <u>should</u> communicate the following matters with those charged with governance of the group, in addition to those required by <u>AU-C section ISA 260 (Revised) The Auditor's Communication with Those</u></p>	<p><i>Communication with Those Charged with Governance of the Group</i> (Ref: Para. 56)</p> <p>A122. The matters the group auditor communicates to those charged with governance of the group may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in <u>paragraph 56(a)</u> may be communicated after the group auditor has determined the work to be performed on the financial information of</p>

_AU-CISA-600 Requirement	Application Material
<p><u>Charged with Governance</u>,⁸⁷ and other <u>AU-C sections</u>!SAs: (Ref: Para. A122)</p> <p>(a) An overview of the work to be performed at the components of the group, <u>including the basis for the decision to make reference to the audit of a component in the auditor’s report on the group financial statements [Extant AU-C 600.49a]</u>, and the nature of the group auditor’s planned involvement in the work to be performed by component auditors. (Ref: Para. A123)</p> <p>(b) Instances when the group auditor’s review of the work of a component auditor gave rise to a concern about the quality of that component auditor’s work, and how the group auditor addressed the concern.</p> <p>(c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.</p> <p>(d) Fraud or suspected fraud involving group management, component management, employees <u>at entities or business units</u> who have significant roles in the group’s system of internal control or others <u>at entities or business units in which</u>when the fraud resulted in a material misstatement of the group financial statements <u>has or may have resulted from fraud [Extant AU-</u></p>	<p>the components. On the other hand, the matter referred to in <u>paragraph 56(b)</u> may be communicated at the end of the audit, and the matters referred to in <u>paragraph 56(c)–(d)</u> may be communicated when they occur.</p> <p>A123. <u>ISA AU-C section 260 (Revised)</u>⁸⁸ requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. For a group audit, this communication helps those charged with governance understand the group auditor’s determination of the components at which audit work will be performed, including whether certain of the group’s entities or business units will be considered together as a component, and the planned involvement of component auditors. This communication also helps to enable a mutual understanding of and discussion about the group and its environment (see <u>paragraph 24</u>) and any areas in which those charged with governance may request the group auditor to undertake additional procedures.</p>

⁸⁷ AU-C section!SA-260 (Revised), *The Auditor’s Communication with Those Charged with Governance*

⁸⁸ Paragraph- 11!5 of AU-C section!SA 260 (Revised), paragraph 15

AU-C ISA 600 Requirement	Application Material
C 600.49e].	
<p><i>Communication of Identified Deficiencies in Internal Control</i></p> <p>56A. In applying AU-C sectionISA 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i>,⁸⁹ the group auditor shall-should determine whether any identified deficiencies in the group’s system of internal control are required to be communicated to those charged with governance of the group or group management. In making this determination, the group auditor shall-should consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph 44(e). (Ref: Para. A123A)</p>	<p><i>Communication of Identified Deficiencies in Internal Control</i> (Ref: Para. 56A)</p> <p>A123A. In accordance with ISA AU-C section 265, the group auditor is responsible for determining, on the basis of the audit work performed, whether one or more identified deficiencies, individually or in combination, constitute significant deficiencies or material weaknesses.⁹⁰ When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the group auditor may request input from the component auditor as to whether an identified deficiency or combination of deficiencies at the component is a significant deficiency or material weakness in internal control.</p>
Documentation	
<p>57. In accordance with AU-C sectionISA 230, the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying AU-C sectionISA 230, <i>Audit Documentation</i>,⁹¹ the group auditor shall-should include in the audit documentation the following: (Ref: Para.</p>	<p>Documentation (Ref: Para. 57)</p> <p>A123B. Other ISAs AU-C sections contain specific documentation requirements that are intended to clarify the application of ISA AU-C section 230 in the particular circumstances of those other AU-C sections ISAs. The Appendix to ISA AU-C section 230 lists other AU-C sections ISAs that contain specific documentation requirements and guidance.</p> <p>A123C. The audit documentation for the group audit supports the group auditor’s evaluation in accordance with paragraph 49 as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion. Also see paragraph</p>

⁸⁹ ~~Paragraph of AU-C section~~ISA 265, *Communicating Deficiencies in Internal Control Related Matters Identified in an Audit* to Those Charged with Governance and Management

⁹⁰ ~~Paragraph 98 of AU-C section~~ISA 265, ~~paragraph 8~~

⁹¹ ~~Paragraphs 1, 3, 8, A8, A9 of AU-C section~~ — ISA 230, *Audit Documentation*, ~~paragraphs 1–3, 8–11, A6–A7 and Appendix~~

AU-CISA 600 Requirement	Application Material
<p>A123B–A124x, A129–A130A)</p> <p>(a) Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.</p> <p>(b) The basis for the group auditor’s determination of components for purposes of planning and performing the group audit. (Ref: Para. A124y)</p> <p>(c) <u>Those components for which reference to the audit of component auditors is made in the auditor’s report on the group financial statements. [Extant AU-C 600.50b]</u></p> <p>(d) <u>For those components for which reference to the audit of component auditors is made in the auditor’s report on the group financial statements</u></p> <p style="padding-left: 40px;">(i) <u>The financial statements of the component and the component auditor’s report thereon.</u></p> <p style="padding-left: 40px;">(ii) <u>When the component auditor’s report on the component’s financial statements does not state that the audit of the component’s financial statements was performed in accordance with GAAS or the standards promulgated by the</u></p>	<p>A115B.</p> <p>A124. The audit documentation for the group audit comprises:</p> <ul style="list-style-type: none"> • The documentation in the group auditor’s file; and • The separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit (i.e., component auditor documentation). <p>A124x. The final assembly and retention of the audit documentation for a group audit is subject to the policies or procedures of the group auditor’s firm in accordance with <u>proposed ISQMS 1.</u>⁹² <u>When the auditor of the group financial statements is assuming responsibility for the work of a component auditor,</u> ¶ the group auditor may provide specific instructions to component auditors regarding the assembly and retention of the documentation of work performed by them for purposes of the group audit.</p> <p><i>Basis for the Group Auditor’s Determination of Components</i> (Ref: Para: 57(b))</p> <p>A124y. Documentation of the basis for the group auditor’s determination of components may be evidenced in various ways, including through fulfilling the following requirements:</p> <ul style="list-style-type: none"> • Paragraph 17A, which requires the group auditor to determine the components at which audit work will be performed, based on the group auditor’s understanding of the group’s organizational structure and information system. • Paragraph 26B, which requires the group auditor to take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements. • Paragraph 56(a), which requires the group auditor to communicate with those charged with governance of the group an overview of the work to be performed at the components of the group and the nature of the group auditor’s planned involvement in the work to be performed by component auditors-, <u>including the basis for the decision to make reference to the audit of a component in the</u>

⁹² Paragraphs 3234(f) and A87–A89A83–A85 of ISQMS 1, paragraphs 31(f) and A83–A85

_AU-CISA-600 Requirement	Application Material
<p><u>PCAOB, the basis for the group engagement partner's determination that the audit performed by the component auditor met the relevant requirements of GAAS. [Extant AU-C 600.50c]</u></p> <p><u>(e) When the group auditor is assuming responsibility for the work of a component auditor, ¶</u>the basis for the determination of component performance materiality and the threshold for communicating misstatements in the component financial information to the group auditor.</p> <p><u>(ee)a)</u> The basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned <u>workaudit procedures</u> at the components. (Ref: Para. A124z)</p> <p><u>(ee)b)</u> Key elements of the understanding of the group's system of internal control in accordance with <u>paragraph 24(c)</u>;</p> <p><u>(df)</u> <u>When the group auditor is assuming responsibility for the work of a component auditor, ¶</u>the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor's</p>	<p><u>auditor's report on the group financial statements..</u></p> <p><i>Basis for the Group Auditor's Determination of the Competence and Capabilities of Component Auditors</i> (Ref: Para: 57(ca))</p> <p>A124z. <u>Proposed</u> — <u>ISQMS</u> 1 provides guidance on matters that the firm's policies or procedures may address regarding the competence and capabilities of the engagement team members.⁹³ Such policies or procedures may describe or provide guidance about how to document the determination of the competence and capabilities of the engagement team, including component auditors. For example, the confirmation obtained from the component auditor in accordance with <u>paragraph 19</u> may include information about the component auditor's relevant industry experience. The group auditor also may ask for confirmation that the component auditor has sufficient time to perform the assigned audit procedures (see <u>paragraph A40B</u>).</p> <p><i>Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work</i> (Ref: Para. 57(d))</p> <p>A124D. As described in <u>paragraph A48A</u>, <u>when the auditor of the group financial statements is assuming responsibility for the work of a component auditor</u>, the approach to direction, supervision and review in a group audit will be tailored by the group auditor based on the facts and circumstances of the engagement, and will generally include a combination of addressing the group auditor's firm policies or procedures and responses specific to the group audit. Such policies or procedures may also describe or provide guidance about the documentation of the group auditor's direction and supervision of the engagement team and the review of their work.</p> <p>A125. ISA AU-C section-300 requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. When component auditors are involved <u>and the auditor of the group financial statements is assuming responsibility for the work of</u></p>

⁹³ Paragraph A100A96 of ISQMS 1, paragraph A96

<u>AU-CISA 600</u> Requirement	Application Material
<p>review of parts of the component auditor’s audit documentation in accordance with paragraph 45A. (Ref: Para. A124D–A128)</p> <p>(eg) Matters related to communications with component auditors, including:</p> <p>(i) Matters, if any, related to fraud, related parties or going concern communicated in accordance with paragraph 26A.</p> <p>(ii) Matters relevant to the group auditor’s conclusion with regard to the group audit, in accordance with paragraph 44, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.</p> <p>(f) The group auditor’s evaluation of, and response to, findings or conclusions of the component auditors about matters that could have a material effect on the group financial statements.</p>	<p>a component auditor, the extent of such descriptions will often vary by component, recognizing that the planned nature, timing and extent of direction and supervision of component auditors, and review of their work, is influenced by the factors described in paragraph A33F.</p> <p>A126. When component auditors are involved in the group audit, the group auditor’s documentation of its involvement in the work of component auditors may include, for example:</p> <ul style="list-style-type: none"> • Required communications with component auditors, including any instructions issued and other confirmations required by this proposed SAS ISA. • The rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed. • Matters discussed in audioconferences or videoconferences with component auditors or component management. • The rationale for the group auditor’s determination of component auditor audit documentation selected for review. • Changes in the planned nature and extent of involvement with component auditors, and the reasons why. <p>A127. Paragraph 45A requires the group auditor, when the group auditor is assuming responsibility for the work of a component auditor, to determine whether, and the extent to which it is necessary to review parts of the component auditor’s audit documentation. Paragraphs A112B-A113 provide guidance for the group auditor in making this determination.</p>

AU-CISA 600 Requirement	Application Material
	<p>A127A. Component auditor documentation ordinarily need not be replicated in the group auditor’s audit file. However, depending on the facts and circumstances, the group auditor may decide to replicate, summarize or retain copies of certain component auditor documentation in the group auditor’s audit file to supplement the description of a particular matter in communications from the component auditor, including the matters required to be communicated by this <u>proposed SAS</u> ISA. Examples of such component auditor documentation may include:</p> <ul style="list-style-type: none"> • A listing or summary of the significant judgments made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit; • Matters that may need to be communicated to those charged with governance of the group; or • Matters that may be determined to be key audit matters to be communicated in the auditor’s report on the group financial statements. <p>A127B. When required by law or regulation, certain component auditor documentation may need to be included in the group auditor’s audit file, for example, to respond to the request of a regulatory authority to review documentation related to work performed by a component auditor.</p> <p>A128. <u>When the group auditor is assuming responsibility for the work of a component auditor,</u> Policies or procedures established by the firm in accordance with the firm’s system of quality management, or resources provided by the firm or a network, may assist the group auditor in documenting the direction and supervision of component auditors and the review of their work. For example, an electronic audit tool may be used to facilitate communications between the group auditor and component auditors. The electronic audit tool also may be used for audit documentation, including providing evidence of the reviewer(s) and the date(s) and extent of the review.</p> <p><i>Additional Considerations When Access to Component Auditor Documentation is Restricted (Ref: Para. 57)</i></p>

AU-CISA 600 Requirement	Application Material
	<p>A129. Audit documentation for a group audit may present some additional complexities or challenges in certain circumstances. This may be the case, for example, when law or regulation may restrict the component auditor from providing documentation outside of its jurisdiction, or when war, civil unrest or outbreaks of disease restrict access to relevant component auditor documentation.</p> <p>A130. The group auditor may be able to overcome such restrictions and access the relevant component auditor documentation by one or more of the following:</p> <ul style="list-style-type: none"> • Visiting the location of the component; • Meeting with the component auditor in a location different from where the component auditor is located; • Reviewing the relevant audit documentation remotely through the use of technology, when not prohibited by law or regulation; • Requesting the component auditor to prepare and provide a memorandum that addresses the relevant information and holding discussions with the component auditor, if necessary, to discuss the contents of the memorandum; or • Discussing with the component auditor the procedures performed, the results obtained and the conclusions reached by the component auditor. <p>A130x. In these circumstances, the group auditor’s documentation nonetheless needs to comply with the requirements of this <u>proposed SAS ISA</u>, including those relating to the documentation of the nature, timing and extent of the group auditor’s direction and supervision of component auditors and the review of their work <u>when the group auditor is assuming responsibility for the work of a component auditor</u>. The guidance in <u>paragraph A113</u> may be helpful to the group auditor in determining the extent of the review of the component auditor documentation in these circumstances. <u>Paragraphs A127A and A127B</u> provide examples of circumstances in which certain component auditor documentation may be included in the group auditor’s audit file.</p> <p>A130A. <u>When the auditor of the group financial statements is assuming responsibility for the work of a component auditor and if the group auditor</u> is unable to obtain access to the</p>

AU-CISA-600 Requirement	Application Material
	component auditor documentation, the group auditor may need to consider whether a scope limitation exists that may require a modification to the opinion on the group financial statements. See paragraph A32.

Appendix 2
(Ref: Para. A32)

Illustration 1 — ~~Illustration of Independent A Auditor's Report~~ With a Qualified Opinion When Where the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Auditor's Audit Opinion

~~For purposes of this illustrative auditor's report, the following Circumstances include the following circumstances are assumed:~~

- ~~• Audit of a complete set of consolidated general purpose financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) this proposed SAS applies) (comparative).~~
- ~~• The consolidated financial statements are prepared by Mmanagement is responsible for the preparation of the consolidated financial statementsmanagement of the entity in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board GAAPIFRSs (a general purpose framework).~~
- ~~• The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA AU-C section 210, Terms of Engagement.~~
- ~~• The group auditor is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method because the group auditor was unable to obtain the audited financial statements of the component as of December 31, 20X1 and 20X0, including the auditor's report thereon. In this example, the auditor of the group financial statements is not making reference to the report of a component auditor. In the auditor's professional judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive. Accordingly, the auditor's report contains a qualified opinion (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group auditor did not have access to the accounting records, management, or auditor of the component.~~
- ~~• The group auditor has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.~~
- ~~• In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.¹~~
- ~~• The IESBA Code comprises all of the relevant ethical requirements that apply to the audit.~~

¹ If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with AU-C sectionISA 705 (Revised).

- Based on the audit evidence obtained, the auditor has concluded that ~~there are no conditions or events considered in the aggregate a material uncertainty does not exist related to events or conditions~~ that ~~raise substantial~~ ~~may cast significant~~ doubt ~~about on~~ the entity's ability to continue as a going concern ~~for a reasonable period of time~~ in accordance with ~~ISA~~ **AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Revised)**.
- The auditor ~~has~~ ~~not been engaged~~ ~~required, and has otherwise not decided,~~ to communicate key audit matters in accordance with ~~ISA~~ **AU-C section 701**.²
- The auditor has obtained all ~~of~~ the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information ~~included in the annual report~~.
- ~~Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.~~
- ~~In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.~~

~~Independent~~ **INDEPENDENT Auditor's** ~~UDITOR'S~~ **REPORT** ~~INDEPENDENT AUDITOR'S REPORT~~

~~To the Shareholders of ABC Company [or Other [Appropriate Addressee]~~

Report on the Audit of the Consolidated Financial Statements³

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as ~~of~~ December 31, 20X1, and the ~~related~~ consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and ~~the related~~ notes to the consolidated financial statements, ~~including a summary of significant accounting policies~~.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion ~~section~~ of our report, the accompanying consolidated financial statements present fairly, in all material respects ~~(or give a true and fair view of)~~, the consolidated financial position of the Group as ~~of~~ December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with ~~accounting principles generally accepted in the United States of America~~ **International Financial Reporting Standards (IFRSs)**.

² ~~AU-C section~~ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

³ The ~~subtitlesub-title~~, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second ~~subtitlesub-title~~, "Report on Other Legal and Regulatory Requirements" is not applicable.

Basis for Qualified Opinion

~~We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$ _____ and \$ _____ at December 31, 20X1 and 20X0, respectively, or its equity in earnings of that affiliate of \$ _____ and \$ _____, which is included in net income for the years then ended as described in Note X to the consolidated financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures. ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.~~

Basis for Qualified Opinion

We conducted our ~~audit~~ ~~audit~~ in accordance with ~~auditing standards generally accepted in the United States of America (GAAS)~~ ~~International Standards on Auditing (ISAs)~~. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements ~~section~~ of our report. We are ~~required to be independent of ABC Company and its subsidiaries and to meet independentour independent~~ of the Group in accordance with the International Ethics Standards Board for Accountants' ~~International Code of Ethics for Professional Accountants (including International Independence Standards)~~ (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with ~~the relevant ethical requirements relating to our audits~~ ~~the engagement~~ ~~the IESBA Code~~. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

~~**Other Information** [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"] [Reporting in accordance with the reporting requirements in ISA AU-C section 720 (Revised)⁴—see Illustration 6 in Appendix 2 of ISA AU-C section 720 (Revised). The last paragraph of the other information in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]~~

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁵

~~Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.~~

~~In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].~~

~~[Reporting in accordance with ISA AU-C section 700 (Revised)⁶—see Illustration 2 in ISA AU-C section 700 (Revised).]~~

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

~~Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a~~

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

[Reporting in accordance with ISA AU-C section 700 (Revised) — see Illustration 2 in ISA AU-C section 700 (Revised). The last two paragraphs which are applicable for audits of listed entities only would not be included.]

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.⁷
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

⁴—AU-C section ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

⁶—Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁶—AU-C section ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁷ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

[Other Information for another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"\]](#)

[\[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.\]](#)

Report on Other Legal and Regulatory Requirements

[\[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.\]](#)

[\[Reporting in accordance with ISA AU-C section 700 \(Revised\) — see Illustration 2 in ISA AU-C section 700 \(Revised\).\]](#)

[\[Signature of auditor's firm in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction\]](#)

[\[City and state where the auditor's report is issued, Auditor Address\]](#)

[\[Date of the auditor's report\]](#)

[If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA AU-C section 705_ \(Revised\).](#)

[Illustration 2 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Generally Accepted Auditing Standards](#)

[Circumstances include the following:](#)

- [• Audit of a complete set of consolidated general purpose financial statements \(comparative\).](#)
- [• Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.](#)
- [• The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.](#)
- [• The auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using the](#)

same financial reporting framework as that used for the group financial statements and performed by a component auditor in accordance with generally accepted auditing standards (GAAS).

- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has obtained all the other information prior to the date of the auditor's report and has not identified an uncorrected material misstatement of the other information included in the annual report.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

¹ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

We did not audit the financial statements of B Company, a wholly owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information for another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 3— A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using a Different Financial Reporting Framework From That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With GAAS

² The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

Circumstances are the same as in illustration 2, except in this example, the auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using a different financial reporting framework than that used for the group financial statements and performed by a component auditor in accordance with GAAS.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of B Company, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for B Company, prior to these conversion adjustments, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are

¹ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

² The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 4 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Auditing Standards Other Than GAAS

Circumstances are the same as in illustration 2, except in this example, the auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using the same financial reporting framework as that used for the group financial statements and performed by a component auditor in accordance with auditing standards other than GAAS or standards promulgated by the Public Company Accounting Oversight Board. The group engagement partner has determined that the component auditor performed additional audit procedures to meet the relevant requirements of GAAS. If additional procedures were not necessary for the audit of the component auditor to meet the relevant requirements of GAAS, illustration 2 is applicable.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of, and additional audit procedures performed by, the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors in accordance with [describe the set of auditing standards], whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by, the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

¹ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

[\[Signature of auditor's firm\]](#)

[\[City and state where the auditor's report is issued\]](#)

[\[Date of the auditor's report\]](#)

Appendix 3
(Ref: Para. A53)

Understanding the Group’s System of Internal Control

1. This appendix provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment, and expands on how [SAS No. 145/ISA 315 \(Revised 2019\)](#) is to be applied in relation to an audit of group financial statements.³ The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

2. The group auditor’s understanding of the control environment may include matters such as the following:
- The structure of the governance and management functions across the group, and group management’s oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
 - How oversight over the group’s system of internal control by, those charged with governance is structured and organized.
 - How ethical and behavioral standards are communicated and reinforced in practice across the group, (e.g., group-wide programs, such as codes of conduct and fraud prevention programs).
 - The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Group’s Risk Assessment Process

3. The group auditor’s understanding of the group’s risk assessment process may include matters such as group management’s risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements. It may also include an understanding of how sophisticated the group’s risk assessment process is and the involvement of entities and business units in this process.

The Group’s Process to Monitor the System of Internal Control

4. The group auditor’s understanding of the group’s process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, where relevant, activities of the internal audit function across the group. The group’s internal audit function, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. [ISA AU-C section 610 \(Revised 2013\)](#)⁴ deals with the group auditor’s evaluation of whether the internal audit function’s organizational status and

³ [Appendix C of SAS No. 145/ISA 315 \(Revised 2019\)](#), [Appendix 3](#)

⁴ [Paragraph 15 of AU-C section 610 \(Revised 2013\)](#), [Using the Work of Internal Auditors paragraph 15](#)

relevant policies and procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group audit team expects to use the function's work.

The Information System and Communication

5. The group auditor's understanding of the group's information system and communication may include matters such as the following:
- Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level.
 - A process for monitoring the timeliness and evaluating the accuracy and completeness of financial information received from entities or business units in the group.

Consolidation Process

6. The group auditor's understanding of the consolidation process may include matters such as the following:

Matters relating to the applicable financial reporting framework:

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.

Matters relating to the consolidation process:

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, where applicable, ensuring that uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified, and adjusted where required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar

transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management’s process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group’s IT environment is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management’s process for obtaining information on subsequent events.

Matters relating to consolidation adjustments and reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (where applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g., an obligation of the minority interest to make good such losses).

Control Activities

7. The group auditor’s understanding of the control activities component may include matters such as the following:
 - The extent of centralization in the group’s IT environment and the commonality of IT applications, IT processes and IT infrastructure.
 - The commonality of information processing controls and general IT controls for all or part of the group.
 - The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
 - The extent to which commonly designed controls have been implemented consistently for all or part of the group.

Appendix 4
(Ref: Para. A81)

Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement in the group financial statements, at the financial statement level or the assertion level, including with respect to the consolidation process. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see [SAS No. 145/ISA 315 \(Revised 2019\)](#), Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none"> • The existence of complex transactions that are accounted for in more than one entity or business units in the group. • The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements. • Accounting measurements or disclosures that involve complex processes used by entities or business units in the group such as accounting for complex financial instruments. • Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.
Subjectivity	<ul style="list-style-type: none"> • Judgments regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation. • Judgments regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.
Change	<ul style="list-style-type: none"> • Frequent acquisitions, disposals or reorganizations.
Uncertainty	<ul style="list-style-type: none"> • Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unexpected government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.

Agenda Item 5A – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* Marked from September 2021 IAASB Draft of Proposed ISA 600 (Revised)

<p>Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</p>	<ul style="list-style-type: none"> • Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilized to manipulate the timing of transactions. • Prior occurrences of unauthorized or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation. • Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk
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Indicators that the control environment, the group's risk assessment process or the group's process to monitor the group's system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include:

- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective controls over the group's financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.

Proposed Statement on Auditing Standards, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (Clean Draft)

Requirement	Application Material
Introduction	
Scope of this Proposed SAS	
<p>1. Generally accepted auditing standards (GAAS) apply to an audit of group financial statements (a group audit). This proposed statement on auditing standards (SAS) addresses special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this proposed SAS refer to, or expand on, the application of other relevant AU-C sections to a group audit, in particular proposed QM SAS, <i>Quality Management for an Engagement Performed in Accordance with Generally Accepted Auditing Standards</i>,¹ 230,² 300, <i>Planning an Audit</i>,³ SAS No. 145, <i>Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its</i></p>	<p>Scope of this Proposed SAS (Ref: Para. 1–1B)</p> <p>A1. This proposed SAS also deals with the special considerations for the group engagement partner or group auditor, as applicable, in applying the requirements and guidance in proposed QM SAS, including for the direction and supervision of component auditors and the review of their work.</p> <p>A2. Proposed SQMS 1⁶ addresses the engagements for which an engagement quality review is required to be performed. Proposed SQMS 2⁷ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer’s responsibilities relating to performing and documenting an engagement quality review, including for a group audit.</p>

¹ Proposed QM SAS, *Quality Management for an Engagement Performed in Accordance with Generally Accepted Auditing Standards*

² AU-C section 230, *Audit Documentation*

³ AU-C section 300, *Planning an Audit*

⁶ Proposed Statement on Quality Management Standards (SQMS) 1, *A Firm’s System of Quality Management*

⁷ Proposed SQMS 2, *Engagement Quality Reviews*

Agenda Item 5B – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Requirement	Application Material
<p><i>Environment</i>,⁴ and 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>.⁵ (Ref: Para. A1–A2)</p>	
<p>1A. Group financial statements include the financial information of more than one entity or business unit through a consolidation process, as described in paragraph 9(k). The term consolidation process as used in this proposed SAS refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions. (Ref: Para. A2A–A2B, A16A)</p> <p>1A.2. Government entities frequently prepare group financial statements. The AICPA Audit and Accounting Guide, <i>State and Local Governments</i> provides guidance to assist auditors in auditing and reporting on those financial statements in accordance with GAAS, including the requirements of this section. [Extant AU-C 600.04]</p>	<p>A2A. An entity or business unit of a group may also prepare its own group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a subgroup). This proposed SAS applies to an audit of the group financial statements of such subgroups performed for statutory, regulatory or other reasons.</p> <p>A2AA. A single legal entity may be organized with more than one business unit, for example, a company with operations in multiple locations, such as a bank with multiple branches. When those business units have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger) and the financial information is aggregated in preparing the single legal entity’s financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.</p> <p>A2B. In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity’s financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this proposed SAS .</p>
<p>1B. As explained in proposed QM SAS,⁸ this proposed SAS,</p>	

⁴ Proposed SAS No. 145, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*

⁵ AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*

⁸ Paragraph A1 of proposed QM SAS

Requirement	Application Material
<p>adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this proposed SAS may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service center at a remote location.</p>	
<p><i>Groups and Components</i></p> <p>3. A group may be organized in various ways. For example, a group may be organized by legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method). Alternatively, the group may be organized by geography, by other economic units (including branches or divisions), or by functions or business activities. In this proposed SAS, these different forms of organization are collectively referred to as “entities or business units.” (Ref: Para. A3A)</p>	<p><i>Groups and Components</i> (Ref: Para. 3–3A)</p> <p>A3A. The group’s information system, including its financial reporting process, may or may not be aligned with the group’s organizational structure. For example, a group may be organized according to its legal structure, but its information system may be organized by function, process, product or service (or by groups of products or services), or geographic locations for management or reporting purposes.</p>
<p>3A. The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group auditor uses professional judgment in determining the components at which audit work will be performed. This determination is based on the group auditor’s understanding of the group and its environment, and</p>	<p>A5. Based on the understanding of the group’s organizational structure and information system, the group auditor may determine that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the group auditor may decide to treat these three legal entities as one component.</p>

Agenda Item 5B – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Requirement	Application Material
<p>other factors such as the ability to perform audit procedures centrally, the presence of shared service centers, or common information systems and internal control. (Ref: Para. A5–A6A)</p>	<p>A6. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service center. When such centralized activities are relevant to the group's financial reporting process, the group auditor may determine that the shared service center is a component.</p> <p>A6A. Another consideration that may be relevant to the group auditor's determination of components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework.⁹</p>
<p><i>Involvement of Component Auditors</i></p> <p>3B. Proposed QM SAS requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner.¹⁰ In a group audit, such resources may include component auditors (that is, through assuming responsibility for the work of component auditors or through making reference to the audit of a component auditor in the auditor's report). Therefore, this proposed SAS requires the group auditor to determine the nature, timing and extent of involvement of component auditors.</p>	<p><i>Involvement of Component Auditors</i> (Ref: Para. 3B–4)</p>
<p>3C. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this proposed SAS. Component auditors may have greater experience and a more in-depth knowledge of the components and their</p>	<p>A8AA. Component auditors may perform an audit of the financial statements of a component, whether for statutory, regulatory or other reasons, particularly when a component is a legal entity. When a component auditor is also performing or has completed an audit of the component financial statements, the group auditor may be able to use audit work performed on the component financial statements, provided the group auditor is</p>

⁹ See, for example, FASB Accounting Standards Codification Manual (ASC) 280, *Segment Reporting*

¹⁰ Paragraph 25 of proposed QM SAS

Agenda Item 5B – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Requirement	Application Material
<p>environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit. (Ref: Para. A8AA)</p>	<p>satisfied that such work is appropriate for purposes of the group audit. In addition, some of the audit work requested by the group auditor may be able to be used by the component auditor for the separate audit of the component financial statements. Component auditors may also adapt the work they perform on the audit of the component financial statements to also meet the needs of the group auditor. In any event, and regardless of whether the group engagement partner decides to make reference to component auditors in the group auditor’s report or to assume responsibility for the work of component auditors, the requirements of this proposed SAS apply, including those relating to the direction and supervision of component auditors and the review of their work when the group auditor is assuming responsibility for the work of component auditors.</p>

Requirement	Application Material
<p>4. Audit risk is a function of the risks of material misstatement and detection risk.¹¹ Detection risk in a group audit includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this proposed SAS requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasizes the importance of two-way communication between the group auditor and component auditors. In addition, when the group auditor is assuming responsibility for the work of component auditors, this proposed SAS explains the matters that the group auditor takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A8A–A8B)</p>	<p>A8A. As explained in AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards</i>,¹² detection risk relates to the nature, timing and extent of the auditor’s procedures that are determined by the auditor to reduce audit risk to an acceptably low level. Detection risk is a function not only of the effectiveness of an audit procedure but also the application of that procedure by the auditor. Therefore, detection risk is influenced by matters such as adequate planning, the assignment of appropriate resources to the engagement, the exercise of professional skepticism, and the supervision and review of the audit work performed.</p> <p>A8B. Detection risk is a broader concept than aggregation risk as described in paragraphs 9(a) and A11. In a group audit, there may be a higher probability that the aggregate of uncorrected and undetected misstatements may exceed materiality for the group financial statements as a whole because audit procedures may be performed separately on the financial information of components across the group. Accordingly, component performance materiality is set by the group auditor to reduce aggregation risk to an appropriately low level.</p>
<p><i>Professional Skepticism</i></p> <p>5. In accordance with AU-C section 200,¹³ the engagement team is required to plan and perform the group audit with professional skepticism and to exercise professional judgment. The appropriate exercise of professional</p>	<p><i>Professional Skepticism</i> (Ref: Para. 5)</p> <p>A9. Proposed QM SAS¹⁴ provides examples of the impediments to the exercise of professional skepticism at the engagement level, including unconscious auditor biases that may impede the exercise of professional skepticism when designing and performing audit procedures and evaluating audit evidence. Proposed QM SAS also</p>

¹¹ Paragraph A38 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*

¹² Paragraph A49 of AU-C section 200

¹³ Paragraphs 17-18 and A24-A28 of AU-C section 200

¹⁴ Paragraphs A35–A36 of proposed QM SAS

Requirement	Application Material
<p>skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism. (Ref: Para. A9–A10)</p>	<p>provides possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level.</p> <p>A9AA. It is important for all members of the engagement team, including component auditors, to exercise professional skepticism throughout the group audit. When there are a large number of components across multiple jurisdictions, it also may be important for the group auditor to remain alert for inconsistent information from component auditors, component management and group management about matters that may be significant to the group financial statements.</p> <p>A9A. The exercise of professional skepticism in a group audit also may be affected by matters such as the following:</p> <ul style="list-style-type: none"> • Component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject. • The complex structure of some groups may introduce factors that give rise to increased susceptibility to risks of material misstatement. In addition, an overly complex structure may itself be a fraud risk factor in accordance with AU-C section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>¹⁵ and therefore may require additional time or expertise to understand the business purpose and activities of certain entities or business units. • The nature and extent of intragroup transactions (e.g., transactions that involve multiple entities and business units within the group or multiple related parties), cash flows or transfer pricing agreements may give rise to additional complexities. In some cases, such matters may also give rise to fraud risk factors. • When the group audit is subject to tight reporting deadlines, this may put pressure on engagement team members in completing the work assigned. For example, such demands may restrict the ability of the engagement team to make appropriate judgments, including in the review of the work performed, and

¹⁵ AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*

Requirement	Application Material
	<p style="text-align: center;">appropriately question management’s assertions.</p> <p>A9B. [Moved to paragraph A52A]</p> <p>A9C. The group auditor’s direction and supervision of engagement team members, including component auditors, and the review of their work may help the group auditor in evaluating whether the engagement team has appropriately exercised professional skepticism.</p> <p>A10. Requirements and relevant application material in SAS No. 145,¹⁶ AU-C section 540, <i>Auditing Accounting Estimates and Related Disclosures</i>¹⁷ and other AU-C sections also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.</p>
<p><i>Scalability</i></p> <p>5A. This proposed SAS is intended for all group audits, regardless of size or complexity. However, the requirements of this proposed SAS are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely by the group auditor, some requirements in this proposed SAS are not relevant because they are conditional on the involvement of component auditors. This may be the case when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. The guidance in paragraphs A75A and A76 also may be</p>	

¹⁶ Paragraph A268 of SAS No. 145

¹⁷ Paragraph A11 of AU-C section 540 , *Auditing Accounting Estimates and Related Disclosures*

Requirement	Application Material
helpful in applying this proposed SAS in these circumstances.	
<p><i>Responsibilities of the Group Engagement Partner and Group Auditor</i></p> <p>6. The group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this proposed SAS. The term “the group engagement partner should take responsibility for...” or “the group auditor should take responsibility for...” is used for those requirements when the group engagement partner or group auditor, respectively, is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors. For other requirements, this proposed SAS expressly intends that the requirement or responsibility be fulfilled by the group engagement partner or group auditor, as applicable, and the group engagement partner or group auditor may obtain information from the firm or other members of the engagement team. (Ref. Para. A19)</p> <p>6.1 The group engagement partner should decide, individually for each component, to either</p> <p style="padding-left: 20px;">(a) assume responsibility for, and thus be required to direct and supervise the component auditor and review their work, insofar as that work relates to the expression of an audit opinion on</p>	<p><i>Responsibilities of the Group Engagement Partner and Group Auditor</i> (Ref. Para. 6-6.1)</p> <p>A10.X. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings or conclusions, the group engagement partner or the group engagement partner’s firm is responsible for the group audit opinion regardless of whether reference will be made in the auditor’s report on the group financial statements to the audit of a component auditor. [Moved from paragraph A117] [Extant AU-C 600.A13]</p> <p>A10.Y. When the group audit opinion is modified because the group auditor was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor’s report on the group financial statements describes the reasons for that inability.¹⁸ In some circumstances, a reference to a component auditor may be necessary to adequately describe the reasons for the modified opinion, for example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management. [Moved from paragraph A118]</p> <p><i>Considerations Specific to Governmental Entities</i> (Ref. Para. 6)</p> <p>A10.2. When the group auditor is engaged to express opinions on both the group financial statements and the separate financial statements of the components presented in the group financial statements, the auditor’s reporting responsibilities with respect to the separate financial statements are the same as the auditor’s responsibilities with respect to the group financial statements. [Extant AU-C 600.A14]</p>

¹⁸ Paragraphs 21 and 25 of AU-C section 705

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<p>the group financial statements, or</p> <p>(b) not assume responsibility for, and accordingly make reference to, the audit of a component auditor in the auditor’s report on the group financial statements. [Extant AU-C 600.08]</p>	
Effective Date	
<p>7. This proposed SAS is effective for audits of group financial statements for periods beginning on or after December 15, 2023.</p>	
Objectives	
<p>8. The objectives of the auditor are to:</p> <p>(a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide</p>	

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Requirement	Application Material
<p>a basis for forming an opinion on the group financial statements;</p> <p>(b) Identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks;</p> <p>(c) Determine whether to make reference to the audit of a component auditor in the auditor’s report on the group financial statements; [Extant AU-C 600.10]</p> <p>(d) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and</p> <p>(e) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, as a basis for forming an opinion on the group financial statements.</p>	
Definitions	
<p>9. For purposes of GAAS, the following terms have the meanings attributed below as follows:</p> <p>(a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the</p>	<p>Definitions</p> <p><i>Aggregation Risk</i> (Ref: Para. 9(a))</p> <p>A11. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit because there is a greater likelihood that</p>

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<p>financial statements as a whole. (Ref: Para. A11)</p> <p>(b) Component – An entity or business unit or a function or business activity, (or some combination thereof), determined by the group auditor for purposes of planning and performing audit procedures in a group audit. (Ref: Para. A12)</p> <p>(c) Component auditor – An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.¹⁹ (Ref: Para. A13–A14)</p> <p>(d) Component management – Management responsible for a component. (Ref: Para. A15)</p> <p>(e) Component performance materiality – An amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.</p> <p>(f) Group – A reporting entity for which group financial statements are prepared.</p> <p>(g) Group audit – The audit of group financial statements.</p> <p>(h) Group auditor – The group engagement partner and members of the engagement team other than component auditors who are responsible for:</p> <p>(i) Establishing the overall group audit strategy</p>	<p>audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, whether by component auditors or other members of the engagement team.</p> <p><i>Component</i> (Ref: Para. 9(b))</p> <p>A12. As noted in paragraph 3A, the group auditor uses professional judgment in determining components at which audit procedures will be performed, including whether certain entities or business units, functions or business activities will be considered together for purposes of planning and performing audit procedures. However, the group auditor’s identification and assessment of the risks of material misstatement of the group financial statements in accordance with SAS No. 145 encompasses all of the entities and business units whose financial information is included in the group financial statements.</p> <p><i>Considerations Specific to Governmental Entities</i> (Ref: Para. 9(b))</p> <p>AXX. In audits of state and local governments, a component may be a separate legal entity reported as a component unit or part of the governmental entity, such as a business activity, department, or program. [Extant AU-C 600.A5]</p> <p><i>Component Auditor</i> (Ref: Para. 9(c))</p> <p>A13. References in this proposed SAS to the engagement team include the group auditor and component auditors (that is, component auditors for which the group auditor is assuming responsibility and component auditors for which the group auditor is making reference to in the auditor’s report). Component auditors may be from a network firm, a firm that is not a network firm, or the group auditor’s firm (e.g., another office within the group auditor’s firm).AXX. An auditor who performs work on a component when the group engagement team will not use that</p>

¹⁹ Paragraph 12 of proposed QM SAS)

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<p>and group audit plan;</p> <p>(ii) Being involved in the work of component auditors, and when the group auditor is assuming responsibility for the work of component auditors, directing and supervising component auditors and reviewing their work;</p> <p>(iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.</p> <p>(i) Group audit opinion – The audit opinion on the group financial statements.</p> <p>(j) Group engagement partner – The engagement partner²⁰ who is responsible for the group audit. (Ref: Para. A15A)</p> <p>(k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of this proposed SAS, a consolidation process includes the following:</p> <p>(i) Consolidation, proportionate consolidation, inclusion [Extant AU-C 600.12], or an equity method of accounting;</p> <p>(ii) The presentation in combined financial statements of the financial information of</p>	<p>work to provide audit evidence for the group audit is not considered a component auditor. [Extant AU-C 600.A9]</p> <p>A14. In some circumstances, the group auditor may perform centralized testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor for purposes of this proposed SAS .</p> <p><i>Component Management</i> (Ref: Para. 9(d))</p> <p>A15. Component management refers to management responsible for the financial information or other activity (e.g., processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group auditor considers the financial information of certain entities or business units together as a component or determines that a shared service center is a component (see paragraphs A5–A6), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component.</p> <p><i>Group Engagement Partner</i> (Ref: Para. 9(j))</p> <p>A15A. When joint auditors conduct a group audit, the joint engagement partners and their engagement teams collectively constitute the “group engagement partner” and “engagement team” for the purposes of GAAS. This proposed SAS does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor for purposes of the group audit.</p> <p><i>Group Financial Statements</i> (Ref: Para. 1A, 9(k))</p> <p>A16. The requirements for the preparation and presentation of the group financial statements</p>

²⁰ Paragraph 12 of proposed QM SAS

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<p>entities or business units that [Extant AU-C 600.12] are under common control or common management; or</p> <p>(iii) The aggregation of the financial information of entities or business units such as branches or divisions. (Ref: Para. A16–A16B)</p> <p>(l) Group management – Management responsible for the preparation of the group financial statements.</p> <p>(m) Group performance materiality – Performance materiality²¹ in relation to the group financial statements as a whole, as determined by the group auditor.</p>	<p>may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of combined financial statements. Examples of circumstances in which the presentation of combined financial statements may be permitted include entities that are under common control or entities under common management.</p> <p>A16A. The term 'consolidation process' as used in this proposed SAS is not intended to have the same meaning as 'consolidation' or 'consolidated financial statements' as defined or described in financial reporting frameworks. Rather, the term 'consolidation process' refers more broadly to the process used to prepare group financial statements. Also see paragraph 1A.</p> <p>A16B. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.</p>
<p>10. Reference in this proposed SAS to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.</p>	<p><i>Considerations Specific to Governmental Entities</i> (Ref: Para. 1A, 10(k))</p> <p>AXX. In audits of state and local governments, the applicable financial reporting framework may be based on multiple reporting units. Therefore, the consolidation</p>

²¹ Paragraphs 9 and 11 of AU-C section 320, *Materiality in Planning and Performing an Audit*

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	process may involve the inclusion, but separate presentation, of the financial statements of each reporting unit in the governmental entity. [Extant AU-C 600.A12]
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit	
<p>12. In applying proposed QM SAS,²² the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner should: (Ref: Para. A19–A20)</p> <p>(a) Take responsibility for creating an environment for the engagement that emphasizes the expected behavior of engagement team members. (Ref: Para. A20A)</p> <p>(b) Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors as described by this proposed SAS, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement.</p>	<p>Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 6, 12)</p> <p>A19. It may not be possible or practical for the group engagement partner to solely deal with all requirements in proposed QM SAS, particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, proposed QM SAS²³ permits the engagement partner to assign responsibilities for the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further. In such circumstances, proposed QM SAS requires that the engagement partner should continue to take overall responsibility for managing and achieving quality on the engagement.²⁴</p> <p>A19A. [Moved to paragraph A20A]</p> <p>A20. Policies or procedures established by the firm, or that are common network requirements or network services,²⁵ may support the group engagement partner by facilitating communication between the group auditor and component auditors and, when the group auditor is assuming responsibility for the work of a component auditor, supporting the group auditor’s direction and supervision of those component auditors and the review of their work.</p>

²² Paragraph of 13 of proposed QM SAS

²³ Paragraph 15 of proposed QM SAS

²⁴ Paragraph 15 of proposed QM SAS

²⁵ Paragraphs 49–53 of SQMS 1

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	<p>A20A. In addressing the requirements in paragraph 12(a) of this proposed SAS , direct communication with other members of the engagement team, including component auditors and leading by example in the group engagement partner’s personal conduct and actions helps to reinforce a commitment to quality. As explained in proposed QM SAS,²⁶ a culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviors when performing the engagement. [Previously paragraph A19A]</p>
Acceptance and Continuance	
<p>13. Before accepting or continuing the group audit engagement, the group engagement partner should determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained through the group auditor’s work or use of the work of component auditors (that is, through assuming responsibility for the work of component auditors or through making reference to the audit of a component auditor in the auditor’s report [Extant AU-C 600.15]) to provide a basis for forming an opinion on the group financial statements. (Ref: Para. A21–A23)</p>	<p>Acceptance and Continuance <i>Determining Whether Sufficient Appropriate Audit Evidence Can Reasonably Be Expected to Be Obtained</i> (Ref: Para. 13–14)</p> <p>A21. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained (including when the group auditor is assuming responsibility for the work of component auditors or making reference to the audit of a component auditor in the auditor’s report), the group engagement partner may obtain an understanding of matters such as:</p> <ul style="list-style-type: none"> • The group structure, including both the legal and organizational structure. • Activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place. • The use of service organizations. • The use of shared service centers. • The consolidation process. • Whether the group auditor: <ul style="list-style-type: none"> ○ Will have unrestricted access to those charged with governance of the

²⁶ Paragraph A28 of proposed QM SAS

Requirement	Application Material
	<p>group, group management, those charged with governance of the component, component management, component information; and</p> <ul style="list-style-type: none"> ○ Will be able to perform necessary work on the financial information of the components when applicable. • Whether sufficient and appropriate resources are assigned or will be made available. <p>A21A. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group auditor’s jurisdiction because of cultural and language differences and different laws or regulations (e.g., regulations restricting access to audit documentation (see paragraphs A129–A130)).</p> <p>A22. In the case of an initial group audit engagement, the group auditor’s understanding of the matters in paragraph A21 may be obtained from:</p> <ul style="list-style-type: none"> • Information provided by group management; • Communication with group management; • Communication with those charged with governance of the group; and • Where applicable, communication with component management or the predecessor auditor. <p>A23. For a continuing engagement, obtaining audit evidence may be affected by significant changes, for example:</p> <ul style="list-style-type: none"> • Changes in the group structure (e.g., acquisitions, disposals, reorganizations, or changes in how the group financial reporting system is organized). • Changes in components’ activities that are significant to the group. • Changes in the composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed. • New concerns the group auditor has with regard to the integrity and competence

Requirement	Application Material
	<p>of group or component management.</p> <ul style="list-style-type: none"> Changes in the applicable financial reporting framework.
<p>14. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner should consider the possible effects on the group audit. (Ref: Para. A25)</p>	<p>A25. Restrictions may be imposed after the group engagement partner’s acceptance of the group audit engagement that may affect the engagement team’s ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:</p> <ul style="list-style-type: none"> The group auditor’s access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group auditor) (see paragraph 16 and 17); or The work to be performed on the financial information of components. <p>An inability to obtain sufficient appropriate audit evidence would need to be evaluated, in accordance with AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i>,²⁷ in forming an opinion on the group financial statements. AU-C section 705²⁸ also addresses circumstances in which such restrictions may lead to withdrawal from the engagement, where withdrawal is possible under applicable law or regulation.</p>
<p><i>Terms of the Engagement</i></p> <p>15. In applying AU-C section 210, <i>Terms of Engagement</i>²⁹ the group auditor should obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A26)</p> <p>(a) Access to all information of which group management is aware that is relevant to the</p>	<p><i>Agreeing the Terms of Audit Engagements</i> (Ref: Para. 15)</p> <p>A26. AU-C section 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.⁴⁵ The terms of engagement identify the applicable financial reporting framework.⁴⁶ Additional matters that may be included in the terms of a group audit engagement include whether reference will be made to the audit of a component auditor in the auditor’s report on the group financial statements, when relevant, or arrangements to facilitate the following:</p>

²⁷ AU-C section 705, *Modifications to the Opinion in the Independent Auditor’s Report*

²⁸ Paragraph 13(b)(ii) of AU-C section 705,

²⁹ Paragraphs 6(b) and 8(b) of AU-C section 210, *Terms of Engagement*

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Requirement	Application Material
<p>preparation of the group financial statements such as records, documentation and other matters;</p> <p>(b) Additional information that the engagement team may request from group management and component management for the purpose of the group audit; and</p> <p>(c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.</p>	<ul style="list-style-type: none"> • Unrestricted communications between the group auditor and component auditors, to the extent permitted by laws or regulations; • Communication to the group auditor of important communications between <ul style="list-style-type: none"> ○ component auditors and those charged with governance of the component or component management, including communications on significant deficiencies and material weaknesses in internal control ○ regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit; • Permission for the group auditor to perform work, or request a component auditor to perform work, at the component. [Extant AU-C600.A28]
<p><i>Restrictions on Access Outside the Control of Group Management</i></p> <p>16. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner should consider the possible effects on the group audit. (Ref: Para. A27–A32)</p>	<p><i>Restrictions on Access to Information or People</i> (Ref: Para. 16–17)</p> <p>A27. Restrictions on access to information or people do not alleviate the requirement for the group auditor to obtain sufficient appropriate audit evidence.</p> <p>A28. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease. Paragraph A130 describes how the group auditor may be able to overcome restrictions on access to component auditor audit documentation.</p> <p>A29. In some circumstances, the group auditor may be able to overcome restrictions on access to information or people, for example:</p> <ul style="list-style-type: none"> • If access to component management or those charged with governance of the component is restricted, the group auditor may request group management or those charged with governance of the group to assist with removing the restriction or otherwise request information directly from group management or those charged with governance of the group. [previously last bullet paragraph]

Requirement	Application Material
	<p>A29]</p> <ul style="list-style-type: none"> • If the group has a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may be able to overcome restrictions by determining whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity, and requesting management to exercise such rights. • If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, the group auditor may discuss with them the non-controlled entity's operations and financial status and obtain financial and other information available to them in their roles. [previously last bullet paragraph A29] <p>A29A. When the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people at the entity is restricted, the group auditor may still be able to obtain information to be used as audit evidence in respect of the entity's financial information, for example:</p> <ul style="list-style-type: none"> • Financial information that is available from group management, as group management also needs to obtain the entity's financial information in order to prepare the group financial statements. • Publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity. <p>It is a matter of professional judgment, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can overcome the restrictions to enable the group auditor to obtain sufficient appropriate audit evidence.</p> <p>A30. When the group auditor cannot overcome restrictions, communicating the restrictions</p>

Requirement	Application Material
	<p>to the group auditor’s firm can assist the group auditor in determining an appropriate course of action. For example, the group auditor’s firm may:</p> <ul style="list-style-type: none"> • Communicate about the restrictions with group management and encourage group management to communicate with regulators. This may be useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy. • Be required by law or regulation to communicate with regulators, listing authorities, or others, about the restrictions or how to overcome the restrictions.
<p><i>Restrictions on Access Imposed by Group Management</i></p> <p>17. If the group engagement partner concludes that:</p> <p style="padding-left: 20px;">(a) It will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and</p> <p style="padding-left: 20px;">(b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,</p> <p>the group engagement partner should either:</p> <p style="padding-left: 20px;">(i) In the case of an initial engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, when withdrawal is possible under applicable law or regulation; or</p> <p style="padding-left: 20px;">(ii) When the entity is required by law or regulation to have an audit [Extant AU-C 600.16], having performed the audit of the group financial</p>	<p>A31. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group auditor may need to reconsider the reliability of group management’s responses to the group auditor’s inquiries and may call into question group management’s integrity.</p> <p>Effect of Restrictions on the Auditor’s Report on Group Financial Statements</p> <p>A32. AU-C section 705 contains requirements and guidance about how to address situations where the group auditor is unable to obtain sufficient appropriate audit evidence. Appendix 2 to this proposed SAS contains an example of an auditor’s report containing a qualified group audit opinion based on the group auditor’s inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.</p> <p>Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement</p> <p>A33. AU-C Section 210 addresses circumstances when an entity is required by law or regulation to have an audit.³⁰ In these circumstances, this proposed SAS still applies to the group audit, and the effect of the group auditor’s inability to obtain sufficient appropriate audit</p>

³⁰ Paragraph .07 and A19 of AU-C 210

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statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A31–A33)	evidence is addressed in AU-C section 705. [Extant AU-C 600.A26]
Overall Group Audit Strategy and Group Audit Plan	
<p>17A. In applying AU-C section 300, the group auditor should establish, and update as necessary, an overall group audit strategy and group audit plan that includes a determination of: (Ref: Para. A33A–A33D)</p> <p>(a) The components at which audit work will be performed; (Ref: Para. A33F)</p> <p>(a.1) Whether the auditor’s report on the group financial statements will make reference to the audit of a component auditor [Extant AU-C 600.18]; and</p> <p>(b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved. (Ref: Para. A33G–A33J)</p>	<p>Overall Group Audit Strategy and Group Audit Plan</p> <p><i>The Continual and Iterative Nature of Planning and Performing a Group Audit</i> (Ref: Para. 17A)</p> <p>A33A. As explained in AU-C section 300,³¹ planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. For example, due to unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, the group auditor may need to modify the overall group audit strategy and group audit plan, and the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risk. The group auditor may also modify the determination of the components at which to perform audit work as well as the nature, timing and extent of the component auditors’ involvement. AU-C section 300³² requires the auditor to update and change the overall audit strategy and audit plan as necessary during the course of the audit.</p> <p><i>Establishing the Overall Group Audit Strategy and Group Audit Plan</i> (Ref: Para. 17A)</p> <p>A33B. In an initial group audit engagement, the group auditor may have a preliminary understanding of the group and its environment, the applicable financial reporting framework and the entity’s system of internal control based on information obtained from group management, those charged with governance of the group and, where</p>

³¹ Paragraph A2 of AU-C section 300,

³² Paragraph 10 of AU-C section 300,

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	<p>applicable, communication with component management or the predecessor auditor. In a recurring group audit engagement, the group auditor’s preliminary understanding may be obtained through the prior period’s audit. This preliminary understanding may assist the group auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant.</p> <p>A33C. The group auditor may also use information obtained during the engagement acceptance and continuance process in establishing the overall group audit strategy and group audit plan, for example, in relation to the resources needed to perform the group audit. [Previously paragraph A33E]</p> <p>A33D. The process of establishing the overall group audit strategy and group audit plan and initial expectations about the classes of transactions, account balances and disclosures that may be significant at the group financial statement level may assist the group auditor in developing a preliminary determination of matters such as:³³</p> <ul style="list-style-type: none"> • Whether to perform audit work centrally, at components or a combination thereof; and • The nature, timing and extent of audit work to be performed with respect to the financial information of a components (e.g., design and perform risk assessment procedures, further audit procedures, or a combination thereof). <p>A33E. [Moved to paragraph A33C]</p> <p><i>Components at Which to Perform Audit Work</i> (Ref: Para. 17A(a))</p> <p>A33F. The determination of components at which to perform audit work is a matter of professional judgment. Matters that may influence the group auditor’s determination include, for example:</p> <ul style="list-style-type: none"> • The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example:

³³ Paragraph 7 of SAS No. 145

Requirement	Application Material
	<ul style="list-style-type: none"> ○ Newly formed or acquired entities or business units. ○ Entities or business units in which significant changes have taken place. ○ Significant transactions with related parties. ○ Significant transactions outside the normal course of business. ○ Abnormal fluctuations identified by analytical procedures performed at group level, as required by SAS No. 145.³⁴ <ul style="list-style-type: none"> • The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions, at the location or business unit relative to the group financial statements. • Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned. • The nature and extent of misstatements or control deficiencies identified at the component in prior period audits. • The nature and extent of common controls and whether, and if so, how, the group centralizes activities relevant to financial reporting. <p><i>Considerations Specific to Governmental Entities</i> (Ref: Para. 17A(a))</p> <p>AXX. In audits of governmental entities, matters that may influence the group auditor’s determination of components at which to perform audit work include, for example, the disaggregation of significant classes of transactions, account balances and disclosures (e.g., net costs or total budget) in the group financial statements across components, considering the size and nature of assets, liabilities and transactions, at the component unit, business activity, department or program relative to the group financial statements. Qualitative considerations in audits of governmental entities may involve matters of heightened public</p>

³⁴ Paragraph 14(b) of SAS No. 145

Requirement	Application Material
	<p>sensitivity, such as national security issues, donor funded projects, or reporting of tax revenue. [Extant AU-C 600.A8]<i>Resources</i> (Ref: Para. 17A(b))</p> <p>A33G. Factors that influence the group auditor’s determination of the resources needed to perform the group audit and the nature, timing and extent to which component auditors are to be involved are a matter of professional judgment and include, for example:</p> <ul style="list-style-type: none"> • The understanding of the group, the components within the group at which audit work is to be performed and whether to perform work centrally, at components or a combination thereof. • The knowledge and experience of the engagement team. For example, component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language and culture. In addition, the involvement of specialists may be needed on complex matters. • The initial expectations about the potential risks of material misstatement. • The amount or location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations. • Access arrangements. For example, when the group auditor’s access to a component in a particular jurisdiction is restricted, component auditors may need to be involved. • The nature of the components’ activities, including their complexity or specialization of operations. • The group’s system of internal control, including the information system in place, and its degree of centralization. For example, the involvement of component auditors may be more likely when the system of internal control is decentralized. • Previous experience with the component auditor. <p>A33H. Component auditors may be involved throughout the different phases of an audit. For</p>

Requirement	Application Material
	<p>example, when the group auditor is assuming responsibility for the work of component auditors, component auditors may:</p> <ul style="list-style-type: none"> • Perform risk assessment procedures; and • Respond to the assessed risks of material misstatement. <p>The nature, timing and extent to which component auditors are to be involved depends on the facts and circumstances of the group audit engagement. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase. When the group auditor does not intend to involve component auditors in risk assessment procedures, the group auditor may still discuss with component auditors whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements.</p> <p>A33I. AU-C section 300³⁵ requires the group engagement partner and other key members of the engagement team to be involved in planning the audit. The involvement of component auditors in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process. When component auditors are involved in the group audit and the group auditor is assuming responsibility for the work of component auditors, one or more individuals from a component auditor may be key members of the engagement team and therefore involved in planning the audit. The group engagement partner uses professional judgment in determining which component auditors to involve in planning the audit. This may be affected by the nature, timing and extent to which the component auditors are expected to be involved in designing and performing risk assessment or further audit procedures.</p> <p>A33J. As described in proposed SQMS 1,³⁶ there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the</p>

³⁵ Paragraph 5 of AU-C section 300

³⁶ Paragraph A78 of SQMS 1

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	<p>engagement, and it may diminish the firm’s ability to perform the engagement in accordance with professional standards and applicable legal or regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a special consideration by the firm for group audit engagements. For example, in a group audit the firm’s financial and operational priorities may place constraints on the determination of the components at which audit work will be performed, as well as the resources needed, including the involvement of component auditors. In such circumstances, these constraints do not override the group engagement partner’s responsibility for achieving quality at the engagement level or the requirements for the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion. [Previously paragraph A39]</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>18. In establishing the overall group audit strategy and group audit plan, the group engagement partner should evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor as described by this proposed SAS. (Ref: Para. A34)</p>	<p><i>Consideration When Component Auditors Are Involved</i> (Ref: Para. 18–19)</p> <p>A34. In evaluating whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor, the group auditor may obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation with the group auditor. The group auditor may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group auditor.</p>
<p>19. As part of the evaluation in paragraph 18, the group auditor should request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor as described by this proposed SAS. (Ref: Para. A35A)</p>	<p>A35A. When the component auditor is unable to cooperate with the group auditor, the group auditor may:</p> <ul style="list-style-type: none"> • Request the component auditor to provide its rationale. • Be able to take appropriate action to address the matter, including adjusting the nature of the work to be performed or not involving the component auditor in obtaining sufficient appropriate audit evidence relating to the work to be

Agenda Item 5B – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

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	performed at the component (in accordance with paragraph 22).
<p>Relevant Ethical Requirements, Including Those Related to Independence</p> <p>20. In applying proposed QM SAS,³⁷ the group engagement partner should take responsibility for: (Ref. Para. A36–A37, A52J)</p> <p>(a) Component auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement; and</p> <p>(b) Confirming whether the component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence.</p>	<p>Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 20)</p> <p>A36. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those related to independence, that are relevant to the group audit engagement. Such requirements may be different or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor’s jurisdiction. When the component auditor is not subject to the AICPA Code of Professional Conduct, compliance by the component auditor with the ethics and independence requirements set forth in the International Federation of Accountants <i>Code of Ethics for Professional Accountants</i> is sufficient to fulfill the component auditor’s ethical responsibilities in the group audit. [Extant AU-C 600.A46]</p> <p>A37. In making the component auditors aware of relevant ethical requirements, the group auditor may consider whether additional information or training for component auditors is necessary regarding the provisions of the ethical requirements that are relevant to the group audit engagement.</p> <p>A39. [Moved to A33J]</p>
<p>Engagement Resources</p> <p>21. In applying proposed QM SAS,³⁸ the group engagement partner should: (Ref. Para. A40A–A40B)</p> <p>(a) Determine that component auditors have the</p>	<p>Engagement Resources (Ref: Para. 21)</p> <p>A40A. When sufficient or appropriate resources are not made available in relation to work to be performed by a component auditor, the group engagement partner may discuss the matter with the component auditor, group management or the firm and may</p>

³⁷ Paragraphs 16-17 and 21 of proposed QM SAS

³⁸ Paragraphs 25-26 of proposed QM SAS

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<p>appropriate competence and capabilities, including sufficient time, to perform the assigned work at the component; and (Ref: Para. A41–A45)</p> <p>(b) If information about the results of the monitoring and remediation process or external inspections related to the component auditor's firm has been provided by the firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor's determination in paragraph 21(a).</p>	<p>subsequently request the component auditor or the firm to make sufficient and appropriate resources available.</p> <p>A40B. Proposed QM SAS ³⁹ provides guidance regarding matters the engagement partner may take into account when determining the competence and capabilities of the engagement team. This determination is particularly important in a group audit because the engagement team may include component auditors. Proposed QM SAS ⁴⁰ indicates that the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm has the appropriate competence and capabilities to perform the audit engagement. For example, as part of the confirmation required by paragraph 19, the group auditor may ask the component auditor to confirm that the component auditor has the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component.</p> <p>Competence and capabilities of the component auditors</p> <p>A41. Determining whether component auditors have the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement. When the group auditor is assuming responsibility for the work of a component auditor, this determination influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work.</p> <p>A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:</p> <ul style="list-style-type: none"> • Previous experience with or knowledge of the component auditor.

³⁹ Paragraph A71 of proposed QM SAS

⁴⁰ Paragraph A24 of proposed QM SAS

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	<ul style="list-style-type: none"> • The component auditor’s specialized skills (e.g., industry specific knowledge or knowledge of relevant financial reporting requirements for statements and schedules to be filed with regulatory agencies). [Extant AU-C 600.A48] • The component auditor’s understanding of the applicable financial reporting framework relevant to the group financial statements, and any instructions provided by group management. • The component auditor’s understanding of the auditing and other standards applicable to the group audit, such as GAAS that is sufficient to fulfill the component auditor’s responsibilities. [Extant AU-C 600.A48] • The degree to which the group auditor and component auditor are subject to a common system of quality management, for example, whether the group auditor and a component auditor: <ul style="list-style-type: none"> ○ Use common resources to perform the work (e.g., audit methodologies or information technology (IT) applications); ○ Share common policies or procedures affecting engagement performance (e.g., direction and supervision and review of work or consultation); ○ Are subject to common monitoring activities; or ○ Have other commonalities, including common leadership or a common cultural environment. • The consistency or similarity of: <ul style="list-style-type: none"> ○ Laws or regulations or legal system; ○ Language and culture; ○ Education and training; ○ Professional oversight, discipline, and external quality assurance; or ○ Professional organizations and standards. • Information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel,

Requirement	Application Material
	<p>such as internal auditors.</p> <p>A43. The procedures to determine the component auditor’s competency and capability may include, for example:</p> <ul style="list-style-type: none"> • An evaluation of the information communicated by the group auditor’s firm to the group auditor, including: <ul style="list-style-type: none"> ○ The firm’s ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm.⁴¹ ○ Information from the network about the results of the monitoring activities undertaken by the network across the network firms.⁴² ○ Information obtained from professional body(ies) to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties. • Discussing the matters in paragraph A51 with the component auditor. • Requesting the component auditor to confirm the matters referred to in paragraph 20 in writing. • Discussing the component auditor’s competence and capabilities with colleagues in the group engagement partner’s firm that have worked directly with the component auditor. • In subsequent years, requesting that the component auditor confirm whether anything in relation to the matters listed in paragraph 21(a)–(b) has changed since the previous year. • Obtaining published external inspection reports, peer review reports on the component auditor’s firm and other relevant publicly available information relating to the professional reputation and standing of a component auditor.

⁴¹ Paragraph 48 of SQMS 1

⁴² Paragraph 52 of SQMS 1,

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	<p>A44. The group engagement partner’s firm and the component auditor’s firm may be members of the same network and may be subject to common network requirements or use common networks services.⁴³ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training, or recruitment or that require the use of audit methodologies and related implementation tools. In accordance with proposed SQMS 1,⁴⁴ the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management.</p> <p>Using the Work of an Auditor’s Specialist</p> <p>A44A. When using the work of an auditor’s specialist , AU-C section 620, <i>Using the Work of an Auditor’s Specialist</i>⁴⁵ requires the auditor to evaluate whether the auditor’s specialist has the necessary competence, capabilities and objectivity for the auditor’s purposes. In a group audit these evaluations include auditor’s specialists engaged by component auditors.</p> <p>Automated tools or techniques</p> <p>A45. As described in proposed QM SAS ,⁴⁶ when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the group auditor is assuming</p>

⁴³ Paragraphs A20, A187 of SQMS 1

⁴⁴ Paragraph 49–50 of SQMS 1

⁴⁵ Paragraph 9 of AU-C section 620, *Using the Work of an Auditor’s Specialist*

⁴⁶ Paragraph A65 of proposed QM SAS

Requirement	Application Material
	responsibility for the work of a component auditor and if the group auditor requires component auditors to use specific automated tools and techniques when performing audit procedures, the group auditor may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group auditor’s instructions.
<p>22. The group auditor should obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor (that is, without assuming responsibility for the work of component auditors or without making reference to the audit of a component auditor in the auditor’s report) if:</p> <p>(a) The component auditor does not comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence; or (Ref: Para. A46A–A47)</p> <p>(b) The group engagement partner has serious concerns about the matters in paragraphs 18–21, (Ref: Para. A48)</p>	<p>Application of the Group Auditor’s Understanding of a Component Auditor (Ref: Para. 22)</p> <p>A46A. Proposed QM SAS⁴⁷ requires the engagement partner to take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm’s related policies or procedures. This includes policies or procedures that address circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches. The firm’s policies or procedures also may address breaches of independence requirements by component auditors, and actions the group auditor may take in those circumstances in accordance with the relevant ethical requirements.</p> <p>A47. If a component auditor does not comply with the ethical requirements that are relevant to the group audit engagement, including those related to independence, the group auditor cannot overcome the breach and continue to use the work of a component auditor by being involved in their work, by supplementing their work or by making reference in the auditor’s report on the group financial statements to the audit of the component auditor. [Extant AU-C 600.A49]A48. Serious concerns are those concerns that cannot be overcome. The group engagement partner may be able to overcome less than serious concerns about the component auditor’s professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by directly performing further audit procedures on the financial information of the component or,</p>

⁴⁷ Paragraph 17 of proposed QM SAS

Requirement	Application Material
	when the group auditor is assuming responsibility for the work of a component auditor, by the group auditor being more involved in the work of the component auditor.
<p>Engagement Performance</p> <p>23. When the group auditor is assuming responsibility for the work of a component auditor, in applying proposed QM SAS,⁴⁸ the group engagement partner should take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account: (Ref. Para. A48A–A52)</p> <p>(a) Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with SAS No. 145; and</p> <p>(b) Areas in the audit of the group financial statements that involve significant judgment.</p>	<p>Engagement Performance (Ref. Para. 23)</p> <p>A48A. For a group audit, the approach to direction, supervision and review will be tailored by the group auditor based on the facts and circumstances of the engagement, including whether the group auditor is assuming responsibility for the work of a component auditor, and will generally include a combination of addressing the group auditor’s firm policies or procedures and group audit-engagement specific responses.</p> <p>A49. It may be not possible or practical for the group engagement partner to solely determine the nature, timing and extent of direction, supervision and review, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team.</p> <p>A50. If component auditors are from a firm other than the group auditor’s firm, the firm’s policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network. For example, in relation to the form, content and timing of communications with component auditors, including the use of group auditor instructions to component auditors. Proposed QM SAS provides examples of actions that may need to be taken in such circumstances.⁴⁹</p> <p>A51. When the group auditor is assuming responsibility for the work of a component auditor,</p>

⁴⁸ Paragraph of 29 of proposed QM SAS

⁴⁹ Paragraph A24 of proposed QM SAS

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	<p>the nature, timing and extent of direction and supervision of component auditors and review of their work may be tailored based on the nature and circumstances of the engagement and, for example:</p> <ul style="list-style-type: none"> • The assessed risks of material misstatement. For example, if the group auditor has identified a component that includes a significant risk, an increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor’s audit documentation may be appropriate. • The competence and capabilities of the component auditors performing the audit work. For example, if the group auditor has no previous experience working with a component auditor, the group auditor may communicate more detailed instructions, introduce greater in-person supervision, increase the frequency of discussions with component auditors, or assign more experienced group auditors to oversee the component auditor as the work is performed. • The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including where service delivery centers are used. • Access to component auditors’ audit documentation. For example, where component auditor working papers cannot be transferred out of the jurisdiction, more extensive direction and supervision of the component auditor and review of the component auditor’s audit documentation may be appropriate (see also paragraphs A27–A32). <p>A52. There are different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work when the group auditor is assuming responsibility for the work of a component auditor, for example:</p> <ul style="list-style-type: none"> • Meetings or calls with component auditors to communicate about identified and assessed risks, issues, findings and conclusions. • Reviews of the component auditor’s documentation in person or remotely when permitted by law and regulation.

Requirement	Application Material
	<ul style="list-style-type: none"> Participating in the closing or other key meetings between the component auditors and component management.
<p>Communications with Component Auditors</p> <p>23A. The group auditor should communicate with component auditors about their respective responsibilities and the group auditor's expectations. (Ref: Para. A52A-A52J)</p>	<p><i>Communications with Component Auditors</i> (Ref: Para. 23A-23B)</p> <p>A52A. Clear and timely communication between the group auditor and the component auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing and extent of the work to be performed and the matters expected to be communicated to the group auditor, helps establish the basis for effective two-way communication. Effective two-way communication between the group auditor and the component auditors also helps to set expectations for component auditors and when the group auditor is assuming responsibility for the work of component auditors, it facilitates the group auditor's direction and supervision of them and the review of their work. Such communication also provides an opportunity for the group engagement partner to reinforce the need for component auditors to exercise professional skepticism in the work performed for purposes of the group audit. [Previously paragraph A9B]</p> <p>A52B. Other factors that may also contribute to effective two-way communication include:</p> <ul style="list-style-type: none"> Clarity of the instructions to the component auditor, particularly when the component auditor is from another firm and may not be familiar with the policies or procedures of the group auditor. A mutual understanding that the component auditor may raise questions about the audit work requested to be performed, based on the component auditor's knowledge and understanding of the component. A mutual understanding of relevant issues and the expected actions arising from the communication process. The form of communications. For example, it may be better to discuss matters that need timely attention in a meeting rather than by exchanging emails. A mutual understanding of the person(s) from the group auditor and component auditors who have responsibility for managing communications regarding

Requirement	Application Material
	<p>particular matters.</p> <ul style="list-style-type: none"> • The process for the component auditor to take action and report back on matters communicated by the group auditor. <p>A52C. The communications between the group auditor and component auditors depend on the facts and circumstances of the group audit engagement, including the nature and extent of involvement of the component auditors and the degree to which the group auditor and component auditors are subject to common systems of quality management or common network requirements or services.</p> <p>Form of communications</p> <p>A52D. The form of the communications between the group auditor and component auditors may vary based on factors such as the nature of the audit work the component auditors perform, and the extent to which communication capabilities are integrated into the audit tools used for the group audit.</p> <p>A52E. The form of communications also may be affected by such factors as:</p> <ul style="list-style-type: none"> • The significance, complexity or urgency of the matter. • Whether the matter has been or is expected to be communicated to group management and those charged with governance of the group. • Whether the group auditor and component auditor are from the same firm or network firms. <p>A52F. Communication between the group auditor and the component auditor may not necessarily be in writing. However, the group auditor’s verbal communications with the component auditors may be supplemented by written communication, such as a set of instructions regarding the work to be performed, when the group auditor wants to give particular attention to, or promote a mutual understanding about, certain matters. In addition, the group auditor may meet in person with the component auditor to discuss significant matters or to review relevant parts of the component auditor’s audit documentation when the group auditor is assuming responsibility for the work of a component auditors.</p>

Requirement	Application Material
	<p>A52G. Paragraph 44 requires the group auditor to request the component auditor to communicate matters relevant to the group auditor’s conclusion with regard to the group audit. As explained in paragraph A112A, the form and content of the component auditor’s deliverables are influenced by the nature and extent of the audit work the component auditor performed and whether reference is made in the auditor’s report on the group financial statements to the audit of a component auditor.</p> <p>A52H. Regardless of the form of communication, the documentation requirements of this proposed SAS and other AU-C sections apply.</p> <p>Timing of communications (Ref: Para. 23B)</p> <p>A52I. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial group audit, may be made as part of agreeing the terms of the engagement.</p> <p>Non-compliance with laws or regulations (Ref: Para. 20, 23A)</p> <p>A52J. In applying ISA 250 (Revised),⁵⁰ the group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.⁵¹ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the group audit (e.g., components for which an audit is required by law or regulation or performed for another reason, but for which no procedures are performed for purposes of the group audit).</p>

Paragraph 8 of AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁵¹ See, for example, 360.17 and 360.18 of the IESBA Code

Requirement	Application Material
23B. Communications between the group auditor and component auditors should take place at appropriate points in time throughout the group audit. (Ref: Para. A521)	
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control	
<p>24. In applying SAS No. 145,⁵² the group auditor should take responsibility for obtaining an understanding of the following: (Ref: Para. A53–A55A, A69–A70)</p> <p>(a) The group and its environment, including: (Ref: Para. A56–A58)</p> <p style="padding-left: 20px;">(i) The group’s organizational structure and its business model, including:</p> <p style="padding-left: 40px;">a. The locations in which the group has its operations or activities;</p> <p style="padding-left: 40px;">b. The nature of the group’s operations or activities and the extent to which they are similar; and</p> <p style="padding-left: 40px;">c. The extent to which the group’s business model integrates the use of IT;</p> <p style="padding-left: 20px;">(ii) Regulatory factors impacting the entities and business units in the group; and</p> <p style="padding-left: 20px;">(iii) The measures used internally and externally to assess the entities or business</p>	<p>Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control (Ref: Para. 24)</p> <p>A53. SAS No. 145 contains requirements and guidance regarding the auditor’s responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control.⁵³ Appendix 3 of this proposed SAS provides further explanation of the components of the system of internal control in the context of a group, including controls over the group’s financial reporting process and the consolidation process.</p> <p>A55. The understanding of the group and its environment, the applicable financial reporting framework, and the group’s system of internal control may be obtained through communications with:</p> <ul style="list-style-type: none"> • Group management, component management or other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists) and individuals who have knowledge of the group’s system of internal control, accounting policies and practices, and the consolidation process; • Component auditors; or • Auditors that perform an audit for legal, regulatory or another reason on the financial statements of an entity or business unit that is part of the group.

⁵² Paragraphs 19-30 of SAS No. 145

⁵³ Paragraphs 19–30 and A58–A212 of SAS No. 145

Requirement	Application Material
<p style="text-align: center;">units' financial performance;</p> <p>(b) The applicable financial reporting framework and the consistency of accounting policies and practices across the group; and</p> <p>(c) The group's system of internal control, including:</p> <p>(i) The nature and extent of commonality of tasks and activities, structures, processes, or controls; (Ref: Para. A59–A63)</p> <p>(ii) Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A64–A65A)</p> <p>(iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and</p> <p>(iv) How group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the group's system of internal control to management of entities or business units. (Ref: Para. A66–A68)</p>	<p>A55A. Obtaining an understanding of the group, identifying risks of material misstatement and assessing inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when the group auditor assuming responsibility for the work of a component auditor and component auditors are involved in the design and performance of risk-assessment procedures, the group auditor may need to communicate its preferred approach with component auditors or provide instructions.</p> <p><i>The Group and Its Environment</i> (Ref: Para. 24(a))</p> <p>A56. An understanding of the group's organizational structure and its business model may enable the group auditor to understand such matters as:</p> <ul style="list-style-type: none"> • The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special purpose entities are accounted for appropriately and whether adequate disclosures have been made. • The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices. • The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other

Requirement	Application Material
	<p>aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.</p> <ul style="list-style-type: none"> • Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations. • The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates over multiple jurisdictions and when there are changes in ownership through formation, acquisition or joint ventures. These factors may give rise to increased susceptibility to material misstatements. <p>A57. Obtaining an understanding of the degree to which the group’s operations or activities are similar may enable the group auditor to identify similar risks of material misstatement across components and design an appropriate response.</p> <p>A58. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group’s entities and business units and take action. The group auditor’s understanding of such performance measures may help to identify:</p> <ul style="list-style-type: none"> • Areas where there is increased susceptibility to the risk of material misstatement (e.g., due to pressures on component management to meet certain performance measures). • Controls over the group’s financial reporting process. <p><i>The Group’s System of Internal Control</i> The Nature and Extent of Commonality of Controls (Ref: Para. 24(c)(i))</p>

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	<p>A59. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, that operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group’s system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.⁵⁴</p> <p>A60. The understanding of the components of the group’s system of internal control therefore includes understanding the commonality of the controls within those components across the group. That understanding may help the group auditor to identify, assess and appropriately respond to the assessed risks of material misstatement. When the group auditor plans to test the operating effectiveness of identified controls⁵⁵ that are common across the group, the group auditor evaluates the design and determines the implementation of those controls in accordance with SAS No. 145.</p> <p>A61. To determine the commonality of an identified control across the group, the group auditor may consider whether:</p> <ul style="list-style-type: none"> • The control is designed centrally and required to be implemented as designed (i.e., without modification) at some or all components; • The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;

⁵⁴ Paragraph A5 of SAS No. 145

⁵⁵ Paragraph 26-27 of SAS No. 145

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	<ul style="list-style-type: none"> • If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or • If the control is automated, it is configured in the same way in each IT application across the components. <p>A62. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that are generated from a specific IT application. When the aging reports are generated from different IT applications or the implementation of the IT application differs across entities or business units, the group auditor may need to consider whether the control can still be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT applications (e.g., whether the IT application is configured in the same manner across components, and whether there are effective general IT controls across different IT applications).</p> <p>A63. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). The processing of transactions and related controls at a shared service center may operate in the same way for those transactions being processed by the shared service center regardless of the entity or business unit (e.g., the processes, risks, and controls may be the same regardless of the source of the transaction). In such cases, it may be appropriate to identify the controls and evaluate the design and determine the implementation of the controls, and if applicable test operating effectiveness, as a single population.</p>

Requirement	Application Material
	<p>Centralized Activities (Ref: Para. 24(c)(ii))</p> <p>A64. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (e.g., where the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).</p> <p>A65. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help the group auditor to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorized at a component, but the processing may occur at the shared service center).</p> <p>A65A. The group auditor may involve component auditors in testing the operating effectiveness of common controls or controls at centralized activities. In such circumstances, effective collaboration between the group auditor and component auditors is important as the audit evidence obtained through testing the operating effectiveness of common controls or controls at centralized activities supports the group auditor’s determination of the nature, timing and extent of substantive procedures to be performed across the group.</p> <p>Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 24(c)(iv))</p> <p>A66. Group entities or business units may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group’s financial statements. In such circumstances, an understanding of group management’s financial reporting processes to align accounting policies and,</p>

Requirement	Application Material
	<p>where relevant, financial reporting period-ends that differ from that of the group, enables the group auditor to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.</p> <p>Instructions by group management to entities or business units</p> <p>A67. In applying SAS No. 145,⁵⁶ the group auditor is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g., communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management’s instructions may affect the group auditor’s identification and assessment of the risks of material misstatement of the group financial statements. For example, in certain circumstances, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly or inconsistently applied.</p> <p>A68. The group auditor’s understanding of the instructions or policies may include the following:</p> <ul style="list-style-type: none"> • The clarity and practicality of the instructions for completing the reporting package. • Whether the instructions: <ul style="list-style-type: none"> ○ Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied; ○ Address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and

⁵⁶ Paragraph 28 of SAS No. 145

Requirement	Application Material
	<p>transactions, and segment information;</p> <ul style="list-style-type: none"> ○ Address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and ○ Include a reporting timetable. <p><i>Engagement Team Discussions</i> (Ref: Para. 24)</p> <p>A69. In applying SAS No. 145,⁵⁷ the group engagement partner and other key engagement team members are required to discuss the application of the applicable financial reporting framework and the susceptibility of the entity’s financial statements to material misstatement. The group engagement partner’s determination of which members of the engagement team to include in the discussions and the topics to be discussed, is affected by factors such as initial expectations about the risks of material misstatement and the preliminary expectation on whether to involve component auditors.</p> <p>A70. The discussions provide an opportunity to:</p> <ul style="list-style-type: none"> • Share knowledge of the components and their environments, including which components’ activities are centralized. • Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures. • Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error. For example, AU-C section 240 requires the engagement team discussion to place particular emphasis on how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud may

⁵⁷ Paragraph 17 of SAS No. 145

Requirement	Application Material
	<p>occur.⁵⁸</p> <ul style="list-style-type: none"> • Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting. • Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud. • Consider the risk that group or component management may override controls. • Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework). • Discuss fraud that has been identified, or information that indicates existence of a fraud. • Identify risks of material misstatement relevant to components where the exercise of professional skepticism may be particularly important. • Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components. • Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices. • Discuss events or conditions identified by group management, component management or the engagement team, that may cast significant doubt on the

⁵⁸ Paragraph 16 of AU-C section 240

Requirement	Application Material
	<p>group’s ability to continue as a going concern.</p> <ul style="list-style-type: none"> Discuss related party relationships or transactions identified by group management or component management, and any other related parties of which the engagement team is aware.
<p><i>Considerations when Component Auditors Are Involved</i></p> <p>26. The group auditor should communicate to component auditors:</p> <p>(a) When the group auditor is assuming responsibility for the work of a component auditor, matters that are relevant to the component auditor’s design or performance of risk assessment procedures for purposes of the group audit;</p> <p>(b) In applying AU-C section 550, <i>Related Parties</i>,⁵⁹ related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the component auditor [Extant AU-C 600.41(c)]; and (Ref: Para. A72)</p> <p>(c) When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, In applying AU-C section 570 (Revised),⁶⁰ events or conditions identified by</p>	<p><i>Considerations when Component Auditors Are Involved</i> (Ref: Para. 26–26A)</p> <p>A72. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁶¹ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:</p> <ul style="list-style-type: none"> The group structure is complex; The group’s information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and There are numerous or frequent related party transactions between entities and business units. <p>Planning and performing the audit with professional skepticism as required by AU-C section 200,⁶² is therefore particularly important when these circumstances exist.</p>

⁵⁹ Paragraph 19 of AU-C section 550, *Related Parties*

⁶⁰ AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*

⁶¹ Paragraph 3 of AU-C section 550

⁶² Paragraphs 17 and A58 of AU-C section 200

Requirement	Application Material
<p>group management or the group auditor, that may cast significant doubt on the group’s ability to continue as a going concern that are relevant to the work of the component auditor [Extant AU-C 600.41].</p>	
<p>26A. The group auditor should request component auditors to communicate: (Ref: Para. A72A)</p> <p>(a) Matters related to the financial information of the component that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error [Extant AU-C 600.42];</p> <p>(b) Related party relationships not previously identified by group management or the group auditor [Extant AU-C 600.41(c)]; and</p> <p>(c) Any events or conditions identified by the component auditor that may cast significant doubt on the group’s ability to continue as a going concern.</p>	<p>A72A. The group auditor may communicate the matters in paragraph 26A to other component auditors, if these matters are relevant to the work of those component auditors. Matters communicated, including those in paragraph 26A may be communicated in the course of the component auditor’s work. For example, the matters included in paragraph A111A.</p>
Identifying and Assessing the Risks of Material Misstatement	
<p>26B. In applying SAS No. 145,⁶³ based on the understanding obtained in paragraph 24, the group auditor should take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements, including with respect to the</p>	<p>Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 26B)</p> <p>A72B. The process to identify and assess the risks of material misstatement of the group financial statements is cumulative and iterative and may be challenging, particularly when the component’s activities are complex or specialized, or when there are many</p>

⁶³ Paragraphs 32-38 of SAS No. 145

Requirement	Application Material
consolidation process. (Ref: Para. A72B–A72G)	<p>components across multiple locations. In applying SAS No. 145,⁶⁴ the auditor develops initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group’s system of internal control.</p> <p>A72C. The initial expectations about the potential risks of material misstatement take into account the auditor’s understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, when the group auditor is assuming responsibility for the work of a component auditor the group auditor may, and often will, involve component auditors in risk assessment procedures as they have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.</p> <p>A72D. Identifying risks of material misstatement, including those communicated by component auditors, provides the basis for the group auditor’s determination of relevant assertions, which assists the group auditor’s determination of the significant classes of transactions, account balances and disclosures of the group financial statements. The group auditor takes responsibility for assessing the inherent risk of the identified risks of material misstatements by assessing the likelihood and magnitude of misstatement, taking into account the inherent risk factors.⁶⁵ The group auditor’s process (or the process of component auditors to whom risk assessment procedures are assigned) of assessing the identified risks of material misstatement at the assertion level also includes the determination of significant risks.</p> <p>A72E. Based on the risk assessment procedures performed, the group auditor may determine that an assessed risk of material misstatement of the group financial</p>

⁶⁴ Paragraphs 25–30 of SAS No. 145

⁶⁵ Paragraph 35 of SAS No. 145

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	<p>statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction or in entities or business units that have similar operations or activities.</p> <p>A72F. Appendix 4 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process.</p> <p><i>Fraud</i></p> <p>A72G. In applying AU-C section 240,⁶⁶ the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:</p> <ul style="list-style-type: none"> • Group management’s assessment of the risks that the group financial statements are materially misstated as a result of fraud. • Group management’s process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or classes of transactions, account balances, or for which a risk of fraud is higher. • Whether there are particular components for which the risks of material misstatement due to fraud is higher. • Whether any fraud risk factors or indicators of management bias exist in the consolidation process. • How those charged with governance of the group monitor group management’s processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.

⁶⁶ Paragraphs 25, 28, 30 of AU-C section 240

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	Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group auditor’s inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>26C. In applying SAS No. 145,⁶⁷ the group auditor should evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors, when the group auditor is assuming responsibility for the work of a component auditor, provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A72H–A72I)</p>	<p><i>Considerations When Component Auditors Are Involved</i> (Ref: Para. 26C)</p> <p>A72H. When the group auditor involves component auditors in the design and performance of risk assessment procedures, the group auditor remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group’s system of internal control to have a sufficient basis for the identification and assessment of the risks of material misstatement of the group financial statements in accordance with paragraph 26B.</p> <p>A72I. When the audit evidence obtained from the component auditor’s risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement, SAS No. 145⁶⁸ requires the group auditor to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.</p>
Determining Whether to Make Reference to a Component Auditor in the Auditor’s Report on the Group Financial Statements	
<p>X1. Having determined the competence and capabilities of each component auditor as required by Paragraph 21(a), the group engagement partner should decide whether to make reference to a component auditor in the auditor’s report on the group financial statements.</p>	<p>Determining Whether to Make Reference to a Component Auditor in the Auditor’s Report on the Group Financial Statements (Ref: Para. 27–30)</p> <p>A73. In group audits involving two or more component auditors, the decision to make reference to the audit of a component auditor is made individually for each component</p>

⁶⁷ Paragraph 39 of SAS No. 145

⁶⁸ Paragraph 39 of SAS No. 145

Requirement	Application Material
<p>[Extant AU-C 600.24] (Ref: par. A52)</p> <p>X2. Reference to the audit of a component auditor in the auditor’s report on the group financial statements should not be made unless</p> <p style="padding-left: 20px;">(a) the group engagement partner has determined that the component auditor has performed an audit of the financial statements of the component in accordance with the relevant requirements of GAAS (Ref: par. A53), and</p> <p style="padding-left: 20px;">(b) the component auditor has issued an auditor’s report that is not restricted as to use.²³[Extant AU-C 600.25]</p> <p>X3. If the component’s financial statements are prepared using a different financial reporting framework from that used for the group financial statements, reference to the audit of a component auditor in the auditor’s report on the group financial statements should not be made unless</p> <p style="padding-left: 20px;">(a) the measurement, recognition, presentation, and disclosure criteria that are applicable to all material items in the component’s financial statements under the financial reporting framework used by the component are similar to the criteria that are applicable to all material items in the group’s financial statements under the financial reporting framework used by the group, and</p> <p style="padding-left: 20px;">(b) the group auditor has obtained sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component’s</p>	<p>auditor, regardless of the decision whether to refer to any other component auditor. The group auditor may make reference to any, all, or none of the component auditors. For example, if components are audited by a component auditor from a network firm and one component is audited by another firm, the group engagement partner may decide to assume responsibility for the work of the component auditor from the network firm and to make reference to the work of the component auditor from the other firm. [Extant AU-C 600.A52]</p> <p>AXX. Factors that may affect the group engagement partner’s decisions whether to make reference to the audit of a component auditor in the auditor’s report on the group financial statements include the following:</p> <ul style="list-style-type: none"> • Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements • Whether the audit of the financial statements of the component will be completed in time to meet the group reporting timetable • Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements • Whether it is impracticable for the group auditor to be involved in the work of a component auditor. [Extant AU-C 600.A40] <p><i>Determining Whether the Audit Was Conducted in Accordance With GAAS (Ref: Para. 28(a))</i></p> <p>A74. A component auditor’s report stating that the audit was conducted in accordance with GAAS or, if applicable, the auditing standards promulgated by the PCAOB is sufficient to make the determination required by paragraph 28(a). When the component auditor has performed an audit of the component financial statements in accordance with auditing standards other than GAAS or, if applicable, the auditing standards promulgated by the PCAOB, the group engagement partner may evaluate, exercising professional judgment, whether the audit performed by the component auditor meets the relevant requirements of GAAS. For the purposes of complying with paragraph 28(a), relevant requirements of GAAS are those that pertain to planning and performing the audit of the component financial statements and do not include those related to the form of the auditor’s report. Audits performed in accordance with International Standards on Auditing (ISAs) promulgated by the International Auditing and Assurance Standards Board (IAASB) are more likely to meet the relevant requirements of GAAS than audits performed in accordance with auditing standards promulgated by bodies other than the IAASB. The group auditor may provide the component auditor with AU-C Appendix B, Substantive Differences</p>

Requirement	Application Material
<p>financial statements to the financial reporting framework used by the group without the need to assume responsibility for the work of the component auditor. [Extant AU-C 600.26] (Ref. par. A54–A57)</p> <p>X4. When the group engagement partner decides to make reference in the auditor’s report on the group financial statements to the audit of a component auditor, the group auditor should obtain sufficient appropriate audit evidence with regard to such components by performing the following procedures:</p> <p>(a) The procedures required by this AU-C section, except for those that are required only when the group auditor is assuming responsibility for the work of a component auditor</p> <p>(b) Reading the component’s financial statements and the component auditor’s report thereon to identify significant findings and issues and, when considered necessary, communicating with the component auditor in this regard. [Extant AU-C 600.27]</p>	<p>Between the International Standards on Auditing and Generally Accepted Auditing Standards, that identifies substantive requirements of GAAS that are not requirements in the ISAs. The component auditor may perform additional procedures in order to meet the relevant requirements of GAAS. The communication requested of the component auditor required by paragraph 44 may address whether the audit of the component auditor met the relevant requirements of GAAS. The group engagement partner, having determined that all relevant requirements of GAAS have been met by the component auditor, may decide to make reference to the audit of that component auditor in the auditor’s report on the group financial statements.</p> <p><i>Determining Whether to Make Reference When the Financial Reporting Framework Is Not the Same</i> (Ref. Para. 29)</p> <p>A75. When the component’s financial statements are prepared using a financial reporting framework that differs from the financial reporting framework used to prepare the group financial statements, the group auditor is required by paragraph 35 to evaluate whether the financial information of the component has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework. Evaluating whether the financial statements of the component have been appropriately adjusted to conform with the financial reporting framework used by the group is based on a depth of understanding of the component’s financial statements that ordinarily is not obtained unless the group auditor assumes responsibility for, and, thus, directs and supervises the component auditor and reviews their work. In rare circumstances, however, the group engagement partner may conclude that the group auditor can reasonably expect to obtain sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component’s financial statements to the financial reporting framework used by the group without the need to assume responsibility for, and, thus, direct and supervise the component auditor and review their work.</p> <p>A78. The greater the number of differences or the greater the significance of the differences between the criteria used for measurement, recognition, presentation, and disclosure of all material items in the component’s financial statements under the financial</p>

Requirement	Application Material
	<p>reporting framework used by the component and the financial reporting framework used by the group, the less similar they are. Financial statements prepared and presented in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Standard for Small and Medium-sized <i>Entities</i>, as issued by the International Accounting Standards Board, are generally viewed as more similar to financial statements prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP) than financial statements prepared and presented in accordance with jurisdiction-specific reporting frameworks or adaptations of IFRSs. In most cases, special purpose frameworks set forth in AU-C section 800, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i>, are not similar to GAAP.</p> <p>A79. Additional considerations in determining whether it may be appropriate to make reference to the audit of a component auditor in the auditor’s report on the group financial statements when the component prepares financial statements using a different financial reporting framework than that used by the group include the</p> <ul style="list-style-type: none"> • effectiveness of groupwide controls and the adequacy of the consolidation process specifically related to the adjustments to convert the component’s financial statements to the financial reporting framework used by the group, including the financial reporting competencies of personnel involved in the adjustments. • depth of the group auditor’s understanding of the component and its environment, including the complexity of the events and transactions subject to the differing financial reporting requirements and the assessed risk of material misstatement related to the adjustments. • extent of the group auditor’s knowledge of the financial reporting framework used to prepare the component financial statements. • group auditor’s ability to obtain information from group or component management that is relevant to the adjustments. • need and ability to seek, as necessary, the assistance of professionals possessing specialized skills or knowledge related to the adjustments. <p><i>Considerations for Governmental Entities</i></p>

Requirement	Application Material
	A80. When the applicable financial reporting framework used by the group provides for the inclusion of component financial statements that are prepared in accordance with a different financial reporting framework, the component financial statements are deemed to be in accordance with the applicable financial reporting framework used for the group financial statements. For example, both the financial reporting framework established by the Governmental Accounting Standards Board and the financial reporting framework established by the Federal Accounting Standards Advisory Board have such provisions. Accordingly, when the provisions established by the applicable financial reporting framework for inclusion of those component financial statements have been followed, the requirements in paragraphs 29 and 31(c) are not relevant.
Making Reference in the Auditor’s Report	
<p>X5. When the group engagement partner decides to make reference to the audit of a component auditor in the auditor’s report on the group financial statements, the report on the group financial statements should clearly indicate</p> <ul style="list-style-type: none"> (a) that the component was not audited by the group auditor but was audited by the component auditor. (b) the magnitude of the portion of the financial statements audited by the component auditor. (c) when the component’s financial statements are prepared using a different financial reporting framework from that used for the group financial statements <ul style="list-style-type: none"> (i.) the financial reporting framework used by the component and (ii.) that the group auditor is taking responsibility for evaluating the appropriateness of the adjustments to convert the component’s financial 	<p>Making Reference in the Auditor’s Report (Ref: Para. 31–34)</p> <p>A81. The disclosure of the magnitude of the portion of the financial statements audited by a component auditor may be achieved by stating the dollar amounts or percentages of one or more of the following: total assets, total revenues, or other appropriate criteria, whichever most clearly describes the portion of the financial statements audited by a component auditor. When two or more component auditors participate in the audit, the dollar amounts or the percentages covered by the component auditors may be stated in the aggregate.</p> <p>A82. Reference in the auditor’s report on the group financial statements to the fact that part of the audit was conducted by a component auditor is not to be construed as a qualification of the opinion, but rather is intended to communicate (1) that the group auditor is not assuming responsibility for the work of the component auditor, and (2) the source of the audit evidence with respect to those components for which reference to the audit of component auditors is made.</p> <p>A83. Appendix 2 contains examples of appropriate reporting in the auditor’s report on the group financial statements when reference is made to the audit of a component auditor.</p>

Requirement	Application Material
<p>statements to the financial reporting framework used by the group.</p> <p>(d) when</p> <p style="padding-left: 20px;">(i.) the component auditor's report on the component's financial statements does not state that the audit of the component's financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, and</p> <p style="padding-left: 20px;">(ii.) the group engagement partner has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS</p> <p style="padding-left: 40px;">a. the set of auditing standards used by the component auditor and</p> <p style="padding-left: 40px;">b. that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAAS. [Extant AU-C 600.28] (Ref. par. A58–A60)</p> <p>X6. If the group engagement partner decides to name a component auditor in the auditor's report on the group financial statements</p> <p style="padding-left: 20px;">(a) the component auditor's express permission should be obtained.</p> <p style="padding-left: 20px;">(b) the component auditor's report should be presented together with that of the auditor's report on the group financial statements. [Extant AU-C 600.29]</p>	<p>A84. If the modified opinion, emphasis-of-matter paragraph, or other-matter paragraph in the component auditor's report does not affect the report on the group financial statements and the component auditor's report is not presented, the group auditor need not make reference to those paragraphs in the auditor's report on the group financial statements. If the component auditor's report is presented, the group auditor may make reference to those paragraphs and their disposition.</p> <p>A85. When the group auditor is assuming responsibility for the work of a component auditor, no reference is made to the component auditor in the report on the group audit because to do so may cause a reader to misinterpret the degree of responsibility being assumed.</p>

Requirement	Application Material
<p>X7. If the opinion of a component auditor is modified or that report includes an emphasis-of-matter or other-matter paragraph, the group auditor should determine the effect that this may have on the auditor’s report on the group financial statements. When deemed appropriate, the group auditor should modify the opinion on the group financial statements or include an emphasis-of-matter paragraph or an other-matter paragraph in the auditor’s report on the group financial statements. [Extant AU-C 600.30] (Ref. par. A61)</p> <p>X8. If the group engagement partner decides to assume responsibility for work of a component auditor, no reference should be made to the component auditor in the auditor’s report on the group financial statements. [Extant AU-C 600.31] (Ref. par. A62)</p>	
Materiality	
<p>29. In applying AU-C section 320, <i>Materiality in Planning and Performing an Audit</i>⁶⁹ and AU-C section 450, <i>Evaluation of Misstatements Identified During the Audit</i>,⁷⁰ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, for those components on which the group auditor will perform, or for which the group auditor will assume the responsibility for the work of a component auditor who performs, an audit [Extant AU-C 600.32(c)], the group auditor should determine:</p>	<p>Materiality</p> <p><i>Component Performance Materiality</i> (Ref: Para. 29(a))</p> <p>A73. Paragraph 29(a) requires the group auditor to determine component performance materiality for each of the components where the group auditor will perform, or for which the group auditor will assume the responsibility for the work of a component auditor who performs, audit procedures on financial information that is disaggregated. The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.</p>

⁶⁹ Paragraph 11 of AU-C section 320

⁷⁰ Paragraph 5 of AU-C section 450, *Evaluation of Misstatements Identified During the Audit*

Requirement	Application Material
<p>(a) Component performance materiality. To address aggregation risk, such amount should be lower than group performance materiality. (Ref: Para. A73–A76)</p> <p>(b) The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold should not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A77)</p>	<p>A74. This proposed SAS does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, AU-C section 320 requires the auditor to determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.⁷¹ In these circumstances, and when the group auditor will perform, or for which the group auditor will assume responsibility for the work of a component auditor, audit procedures on component financial information, the group auditor may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.⁷²</p> <p>A75. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgment. Factors the group auditor may take into account in setting component performance materiality include the following:</p> <ul style="list-style-type: none"> • The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components). • Expectations about the nature, frequency, and magnitude of misstatements in

⁷¹ Paragraphs 10 and A13-A14 of AU-C section 320

⁷² Paragraph A15 of AU-C section 320

Requirement	Application Material
	<p>the component financial information, for example:</p> <ul style="list-style-type: none"> ○ Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions). ○ The nature and extent of misstatements identified at the component in prior audits. <p>A75A. To address aggregation risk, paragraph 29(a) requires component performance materiality to be lower than group performance materiality. As explained in paragraph A75, as the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements.</p> <p>A76. In some cases, further audit procedures may be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (i.e., not disaggregated across components). In such cases, group performance materiality often will be used for purposes of performing these procedures.</p> <p>AXX. When the component is subject to an audit required by law or regulation or performed for another reason, the performance materiality used by the component auditor for purposes of such audit ordinarily can be expected to be less than the group performance materiality and, accordingly, be acceptable for purposes of the group audit. In the case of an equity method investment, the investee may be larger than the investor, and the auditor’s evidence to support the investor’s share of earnings from the investment may consist largely of the audited financial statements of the investee. In such cases, the performance materiality used by the investee’s auditor may be larger than the performance materiality used by the investor’s auditor. When such</p>

Requirement	Application Material
	<p>circumstances exist, the group auditor may take into consideration matters such as the group’s ownership percentage and its share of the investee’s profits and losses when determining whether the component performance materiality used by the investee’s auditor is appropriate for purposes of the audit of the group financial statements. [Extant AU-C 600.A66]</p> <p><i>‘Clearly Trivial’ Threshold (Ref: Para: 29(b))</i></p> <p>A77. The threshold for communicating misstatements to the group auditor is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with AU-C section 450,⁷³ this threshold is the amount below which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.</p>
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>30. When the group auditor is assuming responsibility for the work of a component auditor [Extant AU-C 600.32(c)], the group auditor should communicate to the component auditor the amounts determined in accordance with paragraph 29. (Ref: Para: A77A–A77B)</p>	<p><i>Considerations When Component Auditors Are Involved</i></p> <p>Communicating Component Performance Materiality (Ref. Para. 30)</p> <p>A77A. In some cases, it may be appropriate for the group auditor to involve the component auditor in determining an appropriate component performance materiality amount, in view of the component auditor’s in-depth knowledge of the component and potential sources of misstatement of the component financial information. In this regard, and when the group auditor is assuming responsibility for the work of a component auditor, the group auditor also may consider communicating group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in relation to group performance materiality, is appropriate in the circumstances.</p> <p>A77B. Component performance materiality is based, at least in part, on expectations about the nature, frequency, and magnitude of misstatements in the component financial</p>

⁷³ Paragraph A3 of AU-C section 450

Requirement	Application Material
	<p>information. Therefore, ongoing communication between the component auditor and the group auditor when the group auditor is assuming responsibility for the work of a component auditor is important, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.</p>
Responding to the Assessed Risks of Material Misstatement	
<p>33. In applying AU-C section 330,⁷⁴ the group auditor should take responsibility for determining the components at which to perform further audit procedures; the nature, timing and extent of the work to be performed at those components; and when the group auditor is assuming responsibility for the work of a component auditor, the nature, timing and extent of further audit procedures to be performed. (Ref: Para. A86–A93A)</p>	<p>Responding to the Assessed Risks of Material Misstatement (Ref: Para. 33)</p> <p><i>Performing Further Audit Procedures</i></p> <p>Performing Further Audit Procedures Centrally</p> <p>A86. The group auditor may design and perform further audit procedures centrally if the audit evidence to be obtained from performing further audit procedures on one or more classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement. For example, if the accounting records for the revenue transactions of the entire group are maintained centrally (e.g., at a shared service center), the group auditor may perform further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures. Factors that may be relevant to the auditor’s determination of whether to perform further audit procedures centrally include, for example:</p> <ul style="list-style-type: none"> • The level of centralization of activities relevant to financial reporting. • The nature and extent of commonality of controls. • The similarity of the group’s activities and business lines. <p>A88. The group auditor may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogenous because they share the same characteristics, the related risks of material</p>

⁷⁴ Paragraph 6-7 of AU-C section 330

Requirement	Application Material
	<p>misstatement are the same, and controls are designed and operating in a consistent way.</p> <p>A88A. When further audit procedures are performed centrally, component auditors may still be involved. For example, when the group has multiple shared-service centers, the group auditor may involve component auditors in the performance of further audit procedures for these shared service centers.</p> <p>Performing Further Audit Procedures at the Component Level</p> <p>A88B. In other circumstances, procedures to respond to the risks of material misstatement at the group financial statement level that are related to the financial information of a component may be more effectively performed at the component level. This may be the case when the group has:</p> <ul style="list-style-type: none"> • Different revenue streams; • Multiple lines of business; • Operations across multiple locations; or • Decentralized systems of internal control. <p>Large Number of Components Whose Financial Information Is Material in the Aggregate to the Group Financial Statements</p> <p>A89. A group may be comprised of a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. These circumstances may present additional challenges for the group auditor in planning and performing further audit procedures for significant classes of transactions, account balances or disclosures in the group financial statements.</p> <p>A89AA. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing audit procedures centrally on these classes of transactions, account balances or disclosures (e.g., if they are homogeneous, subject to common controls and access to appropriate information can be obtained). The further audit procedures</p>

Requirement	Application Material
	<p>may include substantive analytical procedures in accordance with AU-C section 520, <i>Analytical Procedures</i>.⁷⁵ Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures. The use of automated tools and techniques may be helpful in these circumstances. [Moved from paragraph A90]</p> <p>A89A. In other cases, it may be necessary to perform audit procedures at selected components to address the risks of material misstatement of the group financial statements. The determination of the components at which audit procedures are to be performed, and the nature, timing and extent of audit procedures to be performed at the selected components, are matters of professional judgment. In these circumstances, introducing an element of unpredictability in the components selected for testing also may be helpful in relation to the risks of material misstatement of the group financial statements due to fraud (also see paragraph A91).</p> <p>A90. [Moved to paragraph A89AA]</p> <p><i>The Nature and Extent of Further Audit Procedures</i></p> <p>A90A. In determining the nature and extent of further audit procedures to be performed at a component, the group auditor may determine the following scope of work to be appropriate at a component (with the involvement of component auditors, as applicable):</p> <ul style="list-style-type: none"> • Design and perform further audit procedures on the entire financial information of the component; • Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or • Perform specific further audit procedures.

⁷⁵ AU-C section 520, *Analytical Procedures*

Requirement	Application Material
	<p>A90B. When the group auditor is assuming responsibility for the work of a component auditor the group auditor takes responsibility for the nature, timing and extent of further audit procedures to be performed, component auditors can be, and often are, involved in all phases of the group audit, including in the design and performance of further audit procedures.</p> <p>Design and Perform Further Audit Procedures on the Entire Financial Information of the Component</p> <p>A90C. The group auditor may determine that designing and performing further audit procedures on the entire financial information of a component is an appropriate approach, including when:</p> <ul style="list-style-type: none"> • Audit evidence needs to be obtained on all or a significant proportion of a component’s financial information to respond to the assessed risks of material misstatement of the group financial statements. • There is a pervasive risk of material misstatement of the group financial statements due to the existence of events or conditions at the component that may be relevant to the group auditor’s evaluation of group management’s assessment of the group’s ability to continue as a going concern. <p>Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures</p> <p>A90D. The group auditor may determine that designing and performing further audit procedures on one or more particular classes of transactions, account balances, or disclosures of the financial information of a component is an appropriate approach to address an assessed risks of material misstatement of the group financial statements. For example, a component may have limited operations but holds a significant portion of the land and buildings of the group or has significant tax balances.</p> <p>Perform specific further audit procedures</p> <p>A90E. The group auditor may determine that designing and performing specific further audit procedures on the financial information of a component is an appropriate approach,</p>

Requirement	Application Material
	<p>such as when audit evidence needs to be obtained for specific assertions only. For example, the group auditor may centrally test the class of transaction, account balance or disclosure and may require the component auditor to perform specific further audit procedures at the component (e.g., specific further audit procedures related to the valuation of claims or litigations in the component’s jurisdiction or the existence of an asset).</p> <p><i>Element of Unpredictability</i></p> <p>A91. Including an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components’ financial information that may give rise to a material misstatement of the group financial statements due to fraud.⁷⁶</p> <p><i>Operating Effectiveness of Controls that Are Common Across the Group</i></p> <p>A92. If the group auditor intends to rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components, the group auditor, in accordance with AU-C section 330,⁷⁷ is required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. This includes obtaining sufficient appropriate audit evidence that the controls are operating at the components as designed. The group auditor may request the component auditor to assist the group auditor in performing these procedures.</p> <p>A93. If deviations from controls upon which the auditor intends to rely are detected, AU-C section 330⁷⁸ requires the auditor to make specific inquiries to understand these</p>

⁷⁶ Paragraph 29c of AU-C section 240

⁷⁷ Paragraph 8 of AU-C section 330

⁷⁸ Paragraph 17 of AU-C section 330

Requirement	Application Material
	<p>matters and their potential consequences. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include:</p> <ul style="list-style-type: none"> • Performing additional substantive procedures at certain components. • Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively. • Increasing the number of components selected for further audit procedures. <p>A93A. When the operating effectiveness of controls is tested centrally (e.g., controls at a shared service center or testing of common controls), the group auditor may need to communicate information about the audit work performed to the component auditors. For example, when the group auditor is assuming responsibility for the work of a component auditor and a component auditor is requested to design and perform substantive audit procedures on the entire financial information of the component, or design and perform substantive audit procedures on one or more classes of transactions, account balances or disclosures, the component auditor may communicate with the group auditor about the control testing performed to determine the nature, timing and extent of the substantive procedures.</p>
<p><i>Consolidation Process</i></p> <p>34. The group auditor should take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This should include:</p> <p>(a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for</p>	<p><i>Consolidation Process</i></p> <p>Consolidation Procedures (Ref: Para. 34(a))</p> <p>A94. The further audit procedures on the consolidation, including sub-consolidations, may include:</p> <ul style="list-style-type: none"> • Determining that the journal entries necessary are reflected in the consolidation; and • Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

Requirement	Application Material
<p>designing and performing further audit procedures on sub-consolidations; (Ref: Para. A94)</p> <p>(b) Responding to the assessed risks of material misstatement due to fraud or indicators of possible management bias that exist in the consolidation process; and</p> <p>(c) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. (Ref: Para. A95)</p>	<p>Consolidation Adjustments and Reclassifications (Ref: Para. 34(c))</p> <p>A95. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group auditor’s evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:</p> <ul style="list-style-type: none"> • Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them; • Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included; • Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management; • Determining whether significant adjustments are properly supported and sufficiently documented; and <p>Evaluating the reconciliation and elimination of intra-group transactions, unrealized profits or losses, and intra-group account balances. [Extant AU-C 600.A69]</p>
<p>35. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor should evaluate whether the financial information has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework.</p>	

Agenda Item 5B – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Requirement	Application Material
<p>36. If the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor should take responsibility for evaluating whether appropriate adjustments have been made to that financial information in accordance with the applicable financial reporting framework.</p>	
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>37. When the group auditor is assuming responsibility for the work of a component auditor and the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor should communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.</p>	<p><i>Considerations When Component Auditors Are Involved</i> (Ref: Para. 38–39)</p>
<p>38. When the group auditor is assuming responsibility for the work of a component auditor, for areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with SAS No. 145, on which a component auditor is determining the further audit procedures to be performed, the group auditor should evaluate the appropriateness of the design and performance of those further audit procedures. (Ref: Para. A95A)</p>	<p>A95A. When specialists are involved in performing further audit procedures, AU-C section 620⁷⁹ requires the auditor to evaluate the adequacy of the auditor’s specialist’s work for the auditor’s purposes. In a group audit these evaluations include the work of auditor’s specialists engaged by component auditors.</p>
<p>39. When the group auditor is assuming responsibility for</p>	<p>A102. When the group auditor is assuming responsibility for the work of a component auditor,</p>

⁷⁹ Paragraph 12 of AU-C section 620

Requirement	Application Material
<p>the work of a component auditor, in accordance with paragraph 23, the group auditor should determine the nature and extent of direction and supervision of component auditors and the review of their work when component auditors perform further audit procedures on the consolidation process, including on sub-consolidations. (Ref. Para. A102)</p>	<p>the appropriate level of the group auditor’s involvement may depend on the circumstances and the structure of the group and other factors, such as the group auditor’s previous experience with the component auditors that perform procedures on the consolidation and sub-consolidations (also see paragraphs A42 and A51) and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).</p>
<p>40. The group auditor should determine whether the financial information identified in the component auditor’s communication (see paragraph 44(a)(i)) is the financial information that is incorporated in the group financial statements.</p>	
Communication about Matters Relevant to the Group Auditor’s Conclusion	
<p>44. The group auditor should request the component auditor to communicate matters relevant to the group auditor’s conclusion with regard to the group audit.</p> <p>(a) Regardless of whether reference will be made in the auditor’s report on the group financial statements to the audit of a component auditor, such communication should include: (Ref. Para. A111A)</p> <p>(i) Identification of the financial information on which the component auditor is reporting [Extant AU-C 600.42(b)];</p> <p>(ii) Whether the component auditor has performed the work requested by the group auditor as described by this proposed SAS;</p> <p>(iii) Whether the component auditor has complied with the ethical requirements that are relevant to</p>	<p>Communication about Matters Relevant to the Group Auditor’s Conclusion <i>Communication about Matters Relevant to the Group Auditor’s Conclusion with Regard to the Group Audit</i> (Ref: Para. 44)</p> <p>A111A. Although the matters required to be communicated in accordance with paragraph 44 are relevant to the group auditor’s conclusion with regard to the group audit, certain matters may need to be communicated timely in the course of the component auditor’s procedures. In addition to the matters in paragraphs 26A and 48, such matters may include, for example:</p> <ul style="list-style-type: none"> • Information on breaches of relevant ethical requirements, including identified breaches of independence provisions; • Information on instances of non-compliance with laws or regulations; • Newly arising significant risks of material misstatement, including risks of fraud; • Identified or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial

Requirement	Application Material
<p>the group audit, including those related to independence [Extant AU-C 600.42(a)]; and</p> <p>(iv) The component auditor’s overall findings or conclusions. (Ref: Para. A112A)</p> <p>(b) In addition to the communication required in accordance with paragraph 44(a), when the group auditor is assuming responsibility for the work of a component auditor, such communication should also include: (i) Information on instances of non-compliance with laws or regulations;</p> <p>(ii) Corrected and uncorrected misstatements of the component financial information identified by the component auditor and that are above the threshold communicated by the group auditor in accordance with paragraph 30; (Ref: Para. A111B)</p> <p>(iii) Indicators of possible management bias;</p> <p>(iv) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;</p> <p>(v) Fraud or suspected fraud involving component management, employees at entities or business units who have significant roles in the group’s system of internal control at the component or others at entities or business units where the fraud resulted in a material misstatement of the financial information of the component;</p> <p>(vi) Other significant matters that the component auditor communicated or expects to communicate</p>	<p>statements; or</p> <ul style="list-style-type: none"> • Significant and unusual transactions. <p><i>Communication of Misstatements of Component Financial Information</i> (Ref: Para. 44(b)(ii))</p> <p>A111B. Knowledge about corrected and uncorrected misstatements across components may alert the group auditor to potential pervasive internal control deficiencies, when considered along with the communication of deficiencies in accordance with paragraph 44(b)(iv). In addition, a higher than expected number of identified misstatements (uncorrected or corrected) may indicate a higher risk of undetected misstatements, which may lead the group auditor to conclude that additional audit procedures need to be performed at certain components.</p> <p><i>Component Auditor’s Overall Findings or Conclusions</i> (Ref: Para. 44(a)(iv))</p> <p>A112A. The form and content of the deliverables from the component auditor are influenced by the nature and extent of the audit work the component auditor performed and whether reference is made in the auditor’s report on the group financial statements to the audit of a component auditor. The group auditor’s firm policies or procedures may address the form or specific wording of an overall conclusion statement or, if the group auditor is making reference to the audit of a component auditor in the auditor’s report, opinion from the component auditor on the audit work performed for purposes of the group audit.</p>

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<p>to component management or those charged with governance of the component; and</p> <p>(vii) Any other matters that may be relevant to the group audit, or that the component auditor determines are appropriate to draw to the attention of the group auditor, including exceptions noted in the written representations that the component auditor requested from component management.</p>	
<p>45. The group auditor should:</p> <p>(a) Discuss significant findings and issues arising from the communications with the component auditor, component management or group management, as appropriate; and</p> <p>(b) Evaluate whether the communications with component auditors are adequate for the group auditor’s purposes [Extant AU-C 600.43].</p>	
<p>45A. When the group auditor is assuming responsibility for the work of a component auditor, the group auditor should determine whether, and the extent to which, it is necessary for the group auditor to review parts of the component auditor audit documentation. In making this determination, the group auditor should consider: (Ref: Para. A112B-A113)</p> <p>(a) The nature, timing and extent of the work performed by the component auditor;</p> <p>(b) The determination of the competence and</p>	<p><i>Reviewing the Component Auditor’s Audit Documentation</i> (Ref: Para. 45A)</p> <p>A112B. The determination required by paragraph 45A when the group auditor is assuming responsibility for the work of a component auditor relates to whether there is a need for the group auditor to review parts of the component auditor’s audit documentation in order to conclude on the group audit, taking into account:</p> <ul style="list-style-type: none"> • The review performed by the component auditor reviewer(s); and • The review that already may have been done by the group auditor as part of the ongoing direction, supervision and review of the work of the component auditor, and communications received from the component auditor, in accordance with

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<p>capabilities of the component auditor [Extant AU-C 600.62] in accordance with paragraph 21(a); and</p> <p>(c) The direction, supervision and review of the component auditor, including communications from the component auditor.</p>	<p>the requirements of this proposed SAS .</p> <p>A112Ba. Paragraph 23 requires the group engagement partner to take responsibility for the nature, timing and extent of the direction and supervision of component auditors and the review of their work when the group auditor is assuming responsibility for the work of a component auditor. However, as explained in paragraph A49, the group engagement partner may assign such responsibilities to other members of the engagement team.</p> <p>A112C. Proposed QM SAS requires the engagement partner to determine that the nature, timing and extent of direction, supervision and review is planned and performed in accordance with the firm’s policies or procedures, professional standards and applicable legal and regulatory requirements and is responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team.⁸⁰ When the group auditor is assuming responsibility for the work of a component auditor, paragraph A51 provides guidance for the group auditor in tailoring the nature, timing and extent of the direction and supervision of the component auditor, and the review of their work, to the facts and circumstances of the group audit.</p> <p>A113. When the group auditor is assuming responsibility for the work of a component auditor, other factors that may affect the group auditor’s determination about whether, and the extent to which it may be necessary to review parts of the component auditor’s audit documentation in the circumstances include:</p> <ul style="list-style-type: none"> • The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the risks of material misstatement of the group financial statements; • The significant judgments made by, and the findings or conclusions of, the component auditor about matters that are material to the group financial statements;

⁸⁰ Paragraph 30 of proposed QM SAS

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	<ul style="list-style-type: none"> The competence and capabilities of the component auditor reviewer(s) based on previous experience with those individuals; and Whether the component auditor and group auditor are subject to common policies or procedures for review of audit documentation.
<p>46. If the group auditor determines that the component auditors' communications are not adequate for the group auditor's purposes, the group auditor should consider whether further information can be obtained from component auditors or other sources. If such information cannot be obtained from component auditors or through other sources, the group auditor should consider the implications for the group audit, in accordance with paragraph 51 [Extant AU-C 600.63].</p>	
Subsequent Events	
<p>47. In applying AU-C section 560 <i>Subsequent Events and Subsequently Discovered Facts</i>,⁸¹ the group auditor should take responsibility for performing procedures, including, as appropriate, requesting component auditors to perform procedures, designed to identify events that may require adjustment of, or disclosure in, the group financial statements [Extant AU-C 600.59]. (Ref: Para. A114)</p>	<p>Subsequent Events (Ref: Para. 47)</p> <p>A114. When the group auditor is assuming responsibility for the work of a component auditor, the group auditor may:</p> <ul style="list-style-type: none"> Request a component auditor to perform subsequent events procedures to assist the group auditor to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements. Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements.

⁸¹ Paragraph 10 of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*

Requirement	Application Material
	<p>AXX. When the auditor’s report on the group financial statements will make reference to the audit of a component auditor, procedures designed to identify subsequent events between the date of the component auditor’s report and the date of the auditor’s report on the group financial statements may include:</p> <ul style="list-style-type: none"> (a) Obtaining an understanding of any procedures that group management has established to ensure that such subsequent events are identified. (b) Requesting the component auditor to update subsequent events procedures to the date of the auditor’s report on the group financial statements. (c) Requesting written representation from component management regarding subsequent events. (d) Reading available interim financial information of the component and making inquiries of group management. (e) Reading minutes of meetings of the governing board, or any other administrative board with management oversight, held since the financial statement date. (f) Reading the subsequent year’s capital and operating budgets. (g) Inquiring of group management regarding currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations for items that represent subsequent events. (h) Considering the implications for the auditor’s report on the group financial statements if the group engagement team has been unable to obtain sufficient appropriate audit evidence regarding subsequent events. [Extant AU-C 600.A70]
<p><i>Considerations When Component Auditors Are Involved</i></p> <p>48. When the group auditor is assuming responsibility for the work of a component auditor, the group auditor</p>	

Requirement	Application Material
<p>should request the component auditors to notify the group auditor if they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements [Extant AU-C 600.59]. (Ref: Para. A114)</p>	
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	
<p>49. In applying AU-C section 330,⁸² the group auditor should evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion [Extant AU-C 600.44]. (Ref: Para. A114A–A115C)</p>	<p>Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained <i>Sufficiency and Appropriateness of Audit Evidence</i> (Ref: Para. 49)</p> <p>A114A. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor’s attention that differs significantly from the information on which the risk assessment was based. For example:</p> <ul style="list-style-type: none"> • When the auditor of the group financial statements is assuming responsibility for the work of a component auditor and the component auditor identifies misstatements and communicates such to the group auditor, the misstatements identified at a component may need to be considered in relation to other components; or • The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease). <p>In such circumstances, the group auditor may need to reevaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances, or disclosures and related assertions.</p> <p>A115. The evaluation required by paragraph 49 assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to</p>

⁸² Paragraph 28 of AU-C section 330

Requirement	Application Material
	<p>the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in AU-C section 330⁸³ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.</p> <p>A115A. The group auditor may further consider matters that may affect the exercise of professional skepticism in a group audit, such as those described in paragraph A9A, when evaluating the sufficiency and appropriateness of audit evidence obtained. In particular, the group auditor may consider whether such matters have inappropriately led the engagement team to:</p> <ul style="list-style-type: none"> • Obtain audit evidence that is easier to access rather than obtain evidence that is more relevant and reliable; • Obtain less persuasive evidence than is necessary in the circumstances; or • Design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory. <p>A115B. Proposed QM SAS requires the engagement partner to determine, on or before the date of the auditor’s report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued.⁸⁴ Information that may be relevant to the group auditor’s evaluation of the audit evidence obtained from the work performed by component auditors depends on the facts and circumstances of the group audit, and may include:</p> <ul style="list-style-type: none"> • The communications from the component auditors required by paragraph 44, including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit;

⁸³ Paragraph 18 of AU-C section 330

⁸⁴ Paragraph 32 of proposed QM SAS

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	<ul style="list-style-type: none"> • Other communications from the component auditors throughout the group audit, including those required by paragraph 26A; • When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the group auditor’s direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor’s review of the component auditor’s audit documentation in accordance with paragraph 45A. • When the auditor’s report on the group financial statements will make reference to the audit of a component auditor, the component auditor’s report on the component’s financial statements, including, as applicable, if the opinion of a component auditor is modified or if that report includes an emphasis-of-matter or other-matter paragraph. <p>A115C. In some circumstances, an overall summary memorandum describing the work performed and the results thereof may provide a basis on its own for the group auditor to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor.</p>
<p><i>Evaluating the Effect on the Group Audit Opinion</i></p> <p>50. The group engagement partner should evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence [Extant AU-C 600.45]. (Ref: Para. A116)</p>	<p><i>Evaluating the Effect on the Group Audit Opinion (Ref: Para. 50)</i></p> <p>A116. The group engagement partner’s evaluation may include a consideration of whether corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (e.g., regarding transactions subject to common accounting policies or common controls) that may affect other components.</p>

Requirement	Application Material
Considerations When Component Auditors Are Involved	
<p>51. If the group auditor concludes that the work of the component auditor is insufficient, the group auditor should determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor [Extant AU-C 600.63].</p>	
Communication with Group Management and Those Charged with Governance of the Group	
<p><i>Communication with Group Management</i></p> <p>53A. The group auditor should communicate with group management an overview of the planned scope and timing of the audit, including the work to be performed at components of the group. (Ref: Para. A119A)</p>	<p>Communication with Group Management and Those Charged with Governance of the Group</p> <p><i>Communication with Group Management</i> (Ref: Para. 53A–55)</p> <p>A119A. The group audit plan may be complex due to the number and nature of the entities and business units comprising the group. In addition, as explained in paragraph A5, the group auditor may determine that certain entities or business units may be considered together as a component for purposes of planning and performing the group audit. Therefore, discussing with group management an overview of the group auditor plan may help in coordinating the work performed at components, including when component auditors are involved, and in identifying component management (see paragraph A15).</p>
<p>54. If fraud has been identified by the group auditor or brought to its attention by a component auditor (see paragraph 44(b)(v)), or information indicates that a fraud</p>	<p>A120. AU-C section 240 contains requirements and guidance on communication of fraud to management and, when management may be involved in the fraud, to those charged with governance.⁸⁵</p>

⁸⁵ Paragraphs 39-41 of AU-C section 240

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<p>may exist, the group auditor should communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A120)</p>	
<p>55. When a component auditor has been engaged [Extant AU-C 600.48] to express an audit opinion on the financial statements of an entity or business unit that forms part of the group, the group auditor should request group management to inform management of the entity or business unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group auditor should discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, should consider whether to advise the component auditor not to issue the auditor’s report on the financial statements of the entity or business unit until the matter is resolved and whether to withdraw from the engagement [Extant AU-C 600.48]. (Ref: Para. A121)</p>	<p>A121. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:</p> <ul style="list-style-type: none"> • Potential litigation. • Plans for abandonment of material operating assets. • Subsequent events. • Significant legal agreements.
<p><i>Communication with Those Charged with Governance of the Group</i></p>	<p><i>Communication with Those Charged with Governance of the Group</i> (Ref: Para. 56) A122. The matters the group auditor communicates to those charged with governance of the</p>

Requirement	Application Material
<p>56. The group auditor should communicate the following matters with those charged with governance of the group, in addition to those required by AU-C section 260 <i>The Auditor's Communication with Those Charged with Governance</i>,⁸⁶ and other AU-C sections: (Ref: Para. A122)</p> <p>(a) An overview of the work to be performed at the components of the group, including the basis for the decision to make reference to the audit of a component in the auditor's report on the group financial statements [Extant AU-C 600.49a], and the nature of the group auditor's planned involvement in the work to be performed by component auditors. (Ref: Para. A123)</p> <p>(b) Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.</p> <p>(c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.</p> <p>(d) Fraud or suspected fraud involving group management, component management, employees at entities or business units who have significant roles in the group's system of internal control or others at entities or business units in</p>	<p>group may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph 56(a) may be communicated after the group auditor has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 56(b) may be communicated at the end of the audit, and the matters referred to in paragraph 56(c)-(d) may be communicated when they occur.</p> <p>A123. AU-C section 260⁸⁷ requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. For a group audit, this communication helps those charged with governance understand the group auditor's determination of the components at which audit work will be performed, including whether certain of the group's entities or business units will be considered together as a component, and the planned involvement of component auditors. This communication also helps to enable a mutual understanding of and discussion about the group and its environment (see paragraph 24) and any areas in which those charged with governance may request the group auditor to undertake additional procedures.</p>

⁸⁶ AU-C section 260, *The Auditor's Communication with Those Charged with Governance*

⁸⁷ Paragraph 11 of AU-C section 260

Requirement	Application Material
<p>which a material misstatement of the group financial statements has or may have resulted from fraud [Extant AU-C 600.49e].</p>	
<p><i>Communication of Identified Deficiencies in Internal Control</i></p> <p>56A. In applying AU-C section 265, <i>Communicating Internal Control Related Matters Identified in an Audit</i>,⁸⁸ the group auditor should determine whether any identified deficiencies in the group’s system of internal control are required to be communicated to those charged with governance of the group or group management. In making this determination, the group auditor should consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph 44(e). (Ref: Para. A123A)</p>	<p><i>Communication of Identified Deficiencies in Internal Control</i> (Ref: Para. 56A)</p> <p>A123A. In accordance with AU-C section 265, the group auditor is responsible for determining, on the basis of the audit work performed, whether one or more identified deficiencies, individually or in combination, constitute significant deficiencies or material weaknesses.⁸⁹ When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the group auditor may request input from the component auditor as to whether an identified deficiency or combination of deficiencies at the component is a significant deficiency or material weakness in internal control.</p>
Documentation	
<p>57. In accordance with AU-C section 230, the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying AU-C section 230, <i>Audit</i></p>	<p>Documentation (Ref: Para. 57)</p> <p>A123B. Other AU-C sections contain specific documentation requirements that are intended to clarify the application of AU-C section 230 in the particular circumstances of those other AU-C sections . The Appendix to AU-C section 230 lists other AU-C sections that contain specific documentation requirements and guidance.</p> <p>A123C. The audit documentation for the group audit supports the group auditor’s evaluation in accordance with paragraph 49 as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion. Also see paragraph</p>

⁸⁸ AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*

⁸⁹ Paragraph 9 of AU-C section 265

Requirement	Application Material
<p><i>Documentation</i>,⁹⁰ the group auditor should include in the audit documentation the following: (Ref: Para. A123B–A124x, A129–A130A)</p> <p>(a) Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.</p> <p>(b) The basis for the group auditor’s determination of components for purposes of planning and performing the group audit. (Ref: Para. A124y)</p> <p>(c) Those components for which reference to the audit of component auditors is made in the auditor’s report on the group financial statements. [Extant AU-C 600.50b]</p> <p>(d) For those components for which reference to the audit of component auditors is made in the auditor’s report on the group financial statements</p> <p style="padding-left: 40px;">(i) The financial statements of the component and the component auditor’s report thereon.</p> <p style="padding-left: 40px;">(ii) When the component auditor’s report on the component’s financial statements does not state that the audit of the</p>	<p style="text-align: center;">A115B.</p> <p>A124. The audit documentation for the group audit comprises:</p> <ul style="list-style-type: none"> • The documentation in the group auditor’s file; and • The separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit (i.e., component auditor documentation). <p>A124x. The final assembly and retention of the audit documentation for a group audit is subject to the policies or procedures of the group auditor’s firm in accordance with proposed SQMS 1.⁹¹ When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the group auditor may provide specific instructions to component auditors regarding the assembly and retention of the documentation of work performed by them for purposes of the group audit.</p> <p><i>Basis for the Group Auditor’s Determination of Components</i> (Ref: Para: 57(b))</p> <p>A124y. Documentation of the basis for the group auditor’s determination of components may be evidenced in various ways, including through fulfilling the following requirements:</p> <ul style="list-style-type: none"> • Paragraph 17A, which requires the group auditor to determine the components at which audit work will be performed, based on the group auditor’s understanding of the group’s organizational structure and information system. • Paragraph 26B, which requires the group auditor to take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements. • Paragraph 56(a), which requires the group auditor to communicate with those charged with governance of the group an overview of the work to be performed at the components of the group and the nature of the group auditor’s planned involvement in the work to be performed by component auditors, including the

⁹⁰Paragraphs 1, 3, 8, A8, A9 of AU-C section 230, *Audit Documentation*

⁹¹ Paragraphs 32(f) and A87–A89 of SQMS 1

Requirement	Application Material
<p>component’s financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, the basis for the group engagement partner’s determination that the audit performed by the component auditor met the relevant requirements of GAAS. [Extant AU-C 600.50c]</p> <p>(e) When the group auditor is assuming responsibility for the work of a component auditor, the basis for the determination of component performance materiality and the threshold for communicating misstatements in the component financial information to the group auditor.</p> <p>(ea) The basis for the group auditor’s determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned work at the components. (Ref: Para. A124z)</p> <p>(eb) Key elements of the understanding of the group’s system of internal control in accordance with paragraph 24(c);</p> <p>(f) When the group auditor is assuming responsibility for the work of a component auditor, the nature, timing and extent of the group auditor’s direction and supervision of</p>	<p>basis for the decision to make reference to the audit of a component in the auditor’s report on the group financial statements..</p> <p><i>Basis for the Group Auditor’s Determination of the Competence and Capabilities of Component Auditors</i> (Ref: Para: 57(ca))</p> <p>A124z. Proposed SQMS 1 provides guidance on matters that the firm’s policies or procedures may address regarding the competence and capabilities of the engagement team members.⁹² Such policies or procedures may describe or provide guidance about how to document the determination of the competence and capabilities of the engagement team, including component auditors. For example, the confirmation obtained from the component auditor in accordance with paragraph 19 may include information about the component auditor’s relevant industry experience. The group auditor also may ask for confirmation that the component auditor has sufficient time to perform the assigned audit procedures (see paragraph A40B).</p> <p><i>Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work</i> (Ref: Para. 57(d))</p> <p>A124D. As described in paragraph A48A, when the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the approach to direction, supervision and review in a group audit will be tailored by the group auditor based on the facts and circumstances of the engagement, and will generally include a combination of addressing the group auditor’s firm policies or procedures and responses specific to the group audit. Such policies or procedures may also describe or provide guidance about the documentation of the group auditor’s direction and supervision of the engagement team and the review of their work.</p> <p>A125. AU-C section300 requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. When component auditors are involved and the auditor</p>

⁹² Paragraph A100 of SQMS 1

Requirement	Application Material
<p>component auditors and the review of their work, including, as applicable, the group auditor’s review of parts of the component auditor’s audit documentation in accordance with paragraph 45A. (Ref: Para. A124D–A128)</p> <p>(g) Matters related to communications with component auditors, including:</p> <p style="padding-left: 20px;">(i) Matters, if any, related to fraud, related parties or going concern communicated in accordance with paragraph 26A.</p> <p style="padding-left: 20px;">(ii) Matters relevant to the group auditor’s conclusion with regard to the group audit, in accordance with paragraph 44, including how the group auditor has addressed significant matters discussed with component auditors, component management or group management.</p> <p>(f) The group auditor’s evaluation of, and response to, findings or conclusions of the component auditors about matters that could have a material effect on the group financial statements.</p>	<p>of the group financial statements is assuming responsibility for the work of a component auditor, the extent of such descriptions will often vary by component, recognizing that the planned nature, timing and extent of direction and supervision of component auditors, and review of their work, is influenced by the factors described in paragraph A33F.</p> <p>A126. When component auditors are involved in the group audit, the group auditor’s documentation of its involvement in the work of component auditors may include, for example:</p> <ul style="list-style-type: none"> • Required communications with component auditors, including any instructions issued and other confirmations required by this proposed SAS . • The rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed. • Matters discussed in audioconferences or videoconferences with component auditors or component management. • The rationale for the group auditor’s determination of component auditor audit documentation selected for review. • Changes in the planned nature and extent of involvement with component auditors, and the reasons why. <p>A127. Paragraph 45A requires the group auditor, when the group auditor is assuming responsibility for the work of a component auditor, to determine whether, and the extent to which it is necessary to review parts of the component auditor’s audit documentation. Paragraphs A112B-A113 provide guidance for the group auditor in making this determination.</p>

Requirement	Application Material
	<p>A127A. Component auditor documentation ordinarily need not be replicated in the group auditor’s audit file. However, depending on the facts and circumstances, the group auditor may decide to replicate, summarize or retain copies of certain component auditor documentation in the group auditor’s audit file to supplement the description of a particular matter in communications from the component auditor, including the matters required to be communicated by this proposed SAS . Examples of such component auditor documentation may include:</p> <ul style="list-style-type: none"> • A listing or summary of the significant judgments made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit; • Matters that may need to be communicated to those charged with governance of the group; or • Matters that may be determined to be key audit matters to be communicated in the auditor’s report on the group financial statements. <p>A127B. When required by law or regulation, certain component auditor documentation may need to be included in the group auditor’s audit file, for example, to respond to the request of a regulatory authority to review documentation related to work performed by a component auditor.</p> <p>A128. When the group auditor is assuming responsibility for the work of a component auditor, policies or procedures established by the firm in accordance with the firm’s system of quality management, or resources provided by the firm or a network, may assist the group auditor in documenting the direction and supervision of component auditors and the review of their work. For example, an electronic audit tool may be used to facilitate communications between the group auditor and component auditors. The electronic audit tool also may be used for audit documentation, including providing evidence of the reviewer(s) and the date(s) and extent of the review.</p> <p><i>Additional Considerations When Access to Component Auditor Documentation is Restricted (Ref: Para. 57)</i></p>

Requirement	Application Material
	<p>A129. Audit documentation for a group audit may present some additional complexities or challenges in certain circumstances. This may be the case, for example, when law or regulation may restrict the component auditor from providing documentation outside of its jurisdiction, or when war, civil unrest or outbreaks of disease restrict access to relevant component auditor documentation.</p> <p>A130. The group auditor may be able to overcome such restrictions and access the relevant component auditor documentation by one or more of the following:</p> <ul style="list-style-type: none"> • Visiting the location of the component; • Meeting with the component auditor in a location different from where the component auditor is located; • Reviewing the relevant audit documentation remotely through the use of technology, when not prohibited by law or regulation; • Requesting the component auditor to prepare and provide a memorandum that addresses the relevant information and holding discussions with the component auditor, if necessary, to discuss the contents of the memorandum; or • Discussing with the component auditor the procedures performed, the results obtained and the conclusions reached by the component auditor. <p>A130x. In these circumstances, the group auditor’s documentation nonetheless needs to comply with the requirements of this proposed SAS , including those relating to the documentation of the nature, timing and extent of the group auditor’s direction and supervision of component auditors and the review of their work when the group auditor is assuming responsibility for the work of a component auditor. The guidance in paragraph A113 may be helpful to the group auditor in determining the extent of the review of the component auditor documentation in these circumstances. Paragraphs A127A and A127B provide examples of circumstances in which certain component auditor documentation may be included in the group auditor’s audit file.</p> <p>A130A. When the auditor of the group financial statements is assuming responsibility for the work of a component auditor and is unable to obtain access to the component auditor</p>

Agenda Item 5B – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Requirement	Application Material
	documentation, the group auditor may need to consider whether a scope limitation exists that may require a modification to the opinion on the group financial statements. See paragraph A32.

Appendix 2
(Ref: Para. A32)

Illustration 1 —A Report With a Qualified Opinion When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Auditor’s Opinion

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements **this proposed SAS** (comparative).
- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board **GAAP**.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in **AU-C section 210, Terms of Engagement**.
- The group auditor is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method because the group auditor was unable to obtain the audited financial statements of the component as of December 31, 20X1 and 20X0, including the auditor’s report thereon. In this example, the auditor of the group financial statements is not making reference to the report of a component auditor. In the auditor’s professional judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive. Accordingly, the auditor’s report contains a qualified opinion
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events considered in the aggregate that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with **AU-C section 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern** .
- The auditor has not been engaged to communicate key audit matters in accordance with **AU-C section 701**.¹
- The auditor has obtained all the other information prior to the date of the auditor’s report and the qualified opinion on the consolidated financial statements also affects the other information included in the annual report.
-

Independent Auditor’s Report[*Appropriate Addressee*]

¹ AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

Report on the Audit of the Consolidated Financial Statements²

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 20X1, and the related consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$_____ and \$__ at December 31, 20X1 and 20X0, respectively, or its equity in earnings of that affiliate of \$__ and \$__, which is included in net income for the years then ended as described in Note X to the consolidated financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures..

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) (). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of ABC Company and its subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits the engagement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

AU-C section AU-C section

Responsibilities of Management for the Financial Statements³

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

² The subtitle, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements" is not applicable.

AU-C section AU-C section Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

AU-C section AU-C section

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.⁴
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information [for another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

⁴ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]
AU-C section AU-C section

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 2 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Generally Accepted Auditing Standards

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (comparative).
- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using the same financial reporting framework as that used for the group financial statements and performed by a component auditor in accordance with generally accepted auditing standards (GAAS).
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.

- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- The auditor has obtained all the other information prior to the date of the auditor's report and has not identified an uncorrected material misstatement of the other information included in the annual report.
- The auditor has not been engaged to communicate key audit matters.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of the other auditors.

¹ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is

expressed.²

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 3— A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using a Different Financial Reporting Framework From That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With GAAS

Circumstances are the same as in illustration 2, except in this example, the auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using a different financial reporting framework than that used for the group financial statements and performed by a component auditor in accordance with GAAS.

² The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of B Company, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for B Company, prior to these conversion adjustments, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

¹ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for *[insert the time period set by the applicable financial reporting framework]*.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time

² The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Illustration 4 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Auditing Standards Other Than GAAS

Circumstances are the same as in illustration 2, except in this example, the auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using the same financial reporting framework as that used for the group financial statements and performed by a component auditor in accordance with auditing standards other than GAAS or standards promulgated by the Public Company Accounting Oversight Board. The group engagement partner has determined that the component auditor performed additional audit procedures to meet the relevant requirements of GAAS. If additional procedures were not necessary for the audit of the component auditor to meet the relevant requirements of GAAS, illustration 2 is applicable.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Consolidated Financial Statements¹

Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of, and additional audit procedures performed by, the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors in accordance with [describe the set of auditing standards], whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by, the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework].

¹ The subtitle "Report on the Consolidated Financial Statements" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

² In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

Agenda Item 5B – Revision of AU-C Section 600, Proposed SAS, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

[Signature of auditor's firm]

[City and state where the auditor's report is issued]

[Date of the auditor's report]

Understanding the Group’s System of Internal Control

1. This appendix provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment, and expands on how SAS No. 145 is to be applied in relation to an audit of group financial statements.³ The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

2. The group auditor’s understanding of the control environment may include matters such as the following:
 - The structure of the governance and management functions across the group, and group management’s oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
 - How oversight over the group’s system of internal control by, those charged with governance is structured and organized.
 - How ethical and behavioral standards are communicated and reinforced in practice across the group, (e.g., group-wide programs, such as codes of conduct and fraud prevention programs).
 - The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Group’s Risk Assessment Process

3. The group auditor’s understanding of the group’s risk assessment process may include matters such as group management’s risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements. It may also include an understanding of how sophisticated the group’s risk assessment process is and the involvement of entities and business units in this process.

The Group’s Process to Monitor the System of Internal Control

4. The group auditor’s understanding of the group’s process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, where relevant, activities of the internal audit function across the group. The group’s internal audit function, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. AU-C section 610⁴ deals with the group auditor’s evaluation of whether the internal audit function’s organizational status and relevant policies and

³ Appendix C of SAS No. 145,

⁴ Paragraph 15 of AU-C section 610 , *Using the Work of Internal Auditors*

procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group audit team expects to use the function's work.

The Information System and Communication

5. The group auditor's understanding of the group's information system and communication may include matters such as the following:
- Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level.
 - A process for monitoring the timeliness and evaluating the accuracy and completeness of financial information received from entities or business units in the group.

Consolidation Process

6. The group auditor's understanding of the consolidation process may include matters such as the following:
- Matters relating to the applicable financial reporting framework:
- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
 - The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
 - The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
 - The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
 - The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
 - The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.
- Matters relating to the consolidation process:
- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, where applicable, ensuring that uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified, and adjusted where required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar

transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management’s process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group’s IT environment is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management’s process for obtaining information on subsequent events.

Matters relating to consolidation adjustments and reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (where applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g., an obligation of the minority interest to make good such losses).

Control Activities

7. The group auditor’s understanding of the control activities component may include matters such as the following:
 - The extent of centralization in the group’s IT environment and the commonality of IT applications, IT processes and IT infrastructure.
 - The commonality of information processing controls and general IT controls for all or part of the group.
 - The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
 - The extent to which commonly designed controls have been implemented consistently for all or part of the group.

Appendix 4
(Ref: Para. A81)

Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement in the group financial statements, at the financial statement level or the assertion level, including with respect to the consolidation process. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see SAS No. 145 , Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none"> • The existence of complex transactions that are accounted for in more than one entity or business units in the group. • The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements. • Accounting measurements or disclosures that involve complex processes used by entities or business units in the group such as accounting for complex financial instruments. • Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.
Subjectivity	<ul style="list-style-type: none"> • Judgments regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation. • Judgments regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.
Change	<ul style="list-style-type: none"> • Frequent acquisitions, disposals or reorganizations.
Uncertainty	<ul style="list-style-type: none"> • Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unexpected government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.

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<p>Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk</p>	<ul style="list-style-type: none"> • Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilized to manipulate the timing of transactions. • Prior occurrences of unauthorized or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation. • Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk
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Indicators that the control environment, the group's risk assessment process or the group's process to monitor the group's system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include:

- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective controls over the group's financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.



Audits of Less Complex Entities

ASB Meeting

October 12-14, 2021

Audits of Less Complex Entities

Task Force plan for development of comment letter

3-pronged approach for obtaining necessary information/feedback:

1. Thorough review of IAASB mapping documents	2. Targeted survey	3. Exchanging information with other jurisdictions
<ul style="list-style-type: none">• 18 reviewers identified<ul style="list-style-type: none">• 8 Task Force members• Other 5 ARSC members• 1 TIC member• Staff• 3 additional ASB volunteers	<ul style="list-style-type: none">• Currently with programmers for input into software• Will be tested by reviewer group before launch• Tentatively scheduled for issuance in mid October 2021• Approx 20 minutes to complete• 2-week response period	<ul style="list-style-type: none">• Continue discussions with other jurisdictions considering similar issues• Canada and Australia have issued separate discussion papers to get constituent feedback on the proposed ISA for LCEs

Audits of Less Complex Entities - First Prong

- Progress on “first prong” since the September 2021 ASB Meeting
 - September 2-3 - IAASB posted mapping documents
 - ASB Task Force converted pdf files to Excel for sorting purposes
 - Assigned various ISA sections to reviewers
 - Each reviewer assigned a significance designation to each omitted/revised requirement for their respective sections
 - 1 – Significant issue/impediment to reasonable assurance;
 - 2 – Potential issue for auditors; and
 - 3 – No issue
 - September 29 and October 6 – Working Group met to discuss results
 - Excel spreadsheets documenting the results of the reviews will be used in drafting the comment letter
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Audits of Less Complex Entities – Comment Letter

- Task Force plan for development of comment letter
 - First draft of comment letter anticipated to the Task Force in mid-November
 - Draft to ASB in early January 2022
 - Discussion at January 24-27 ASB meeting
 - Submission to IAASB by January 31, 2022
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