



August [], 2021

Via electronic mail – CommentLetters@aicpa-cima.com attn: Sherry Hazel

Re: Proposed Statements on Quality Management Standards – Quality Management:
A Firm's System of Quality Management; Engagement Quality Reviews

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

The members of the New Jersey Society of Certified Public Accountants (NJCPA) Accounting and Auditing Standards Interest Group (the Group) appreciate the chance to comment on the proposed Statements on Quality Management Standards (SQMSs) and Statement on Auditing Standards (SAS) referred to above. The NJCPA has a membership of over 15,000 CPAs and prospective CPAs from public practice and private industry. The Group was formed to address technical topics affecting a wide range of reporting entities. The members have reviewed the proposed standard and worked together to prepare this comment letter to the Auditing Standards Board (ASB). The following comments are based on the views of the Group and may not reflect the opinions of all NJCPA members.

Overall

The Group understands the critical importance of the quality management practices of firm's who conduct audit engagements in ensuring the highest standards of 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.

The Group took considerable time in preparing these responses and has the following comments on the fundamental aspects of the proposed SQMSs and SAS.

Request for Comment 1 – SQMS No. 1

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

RESPONSE

The Group believes the changes in No. 1 are appropriate to converge with the standards of the IAASB. However, it is unclear how the ASB expects a firm to transition from - policies that address standalone elements to the new integrated and iterative approach that reflects on the system as a whole (Proposed Standard page 9). The Group is also



concerned how long a transition to the Proposed Standard will take, what resources will be available to make the change and how SFSPs will do this.

The Group is unclear of circumstances when a firm is required to establish additional quality objectives (risks) and when a firm may not find it necessary to establish additional quality objectives (Explanatory Memorandum – page 10 of 32). Since not all risks are quality risks but ultimately a function of professional judgement – what are the documentation requirements when a firm determines it is not applicable to establish additional quality objectives. It would be helpful for the ASB to provide examples and resources.

Typically, SFSPs use third-party practice aids and AICPA checklists to document quality control and engagement quality control review. Under the proposed quality management approach, a firm is expected to tailor its system of quality management suitable for the nature and circumstances of the firm and the engagements it performs. It would be useful to provide guidance on how this can be accomplished.

Quality risks will be different from firm to firm. It would be helpful for smaller firms to implement the Proposed Standard if the ASB could provide plain English explanations of the risk assessment process, and provide easy to understand examples, answers to frequently asked questions, best practices, checklists and other materials.

The Group appreciates the application material. As mentioned above, it would be more valuable if the ASB could provide clearer examples of quality risks that may arise (A48. Examples of the firm's understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives).

The Group believes the changes in SQMS No 1 will appropriately address the objective of convergence with IAASB, thus providing comparable standards for firms that provide services for clients subject to various standards. The risk-based focus of the proposed standard will enable firms to use their professional judgement in designing a quality management system that is appropriate for their firm and clients.

The Group believes that the application materials could be more robust. Materials such as case studies, practice aids, and webinars that provide best practices and other considerations regarding applying the quality management process would be helpful. Specifically, the Group would appreciate specific examples that would enable SFSPs to effectively implement the new standards.

Request for Comment 2 – Scalability

Respondents are asked to provide their views on the scalability of the new quality management approach. In addition, the ASB is seeking respondents' views on specific requirements in proposed SQMS No. 2 (No. 2) that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful.

RESPONSE



The Group believes the Proposed Standard addresses scalability by using a principles-based approach that enabled each respective firm to identify and respond to its specific risks. However, the Group is concerned with the costs that will be incurred by SFSPs in implementing and complying with the proposed standards. On the other hand, the application material seems to indicate that several activities may not apply to SFSPs. It would be helpful to include examples of when the requirements apply and when they do not.

Although the Proposed Standard is expected to result in the more effective use of firm resources and improvements in engagement quality, the Group is concerned about the investment of time and in resources to implement the Proposed Standard. It would be helpful for the ASB to provide substantial guidance on how to efficiently comply with the Proposed Standard.

Request for Comment 3 – SQMS No. 2

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

RESPONSE

The Group believes the scalability of proposed No. 1 would be increased - by not including requirements that would not be relevant in circumstances when a firm determines that there are no engagements for which an engagement quality review is an appropriate response to address the quality risks is appropriate (Proposed Standard – page 18). The Group is not clear on how SFSPs are going to satisfy No. 2 when there are limitations on the eligibility of an individual to be an engagement quality reviewer.

The Group appreciates the clarification of the qualifications of an engagement quality reviewer, and the specified responsibilities of both the engagement partner and the engagement quality reviewer, and believes that for larger firms the proposed standard is appropriate.

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.

Request for Comment 4 – QM SAS

Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' view on whether the requirements in the proposed QM SAS



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

RESPONSE

The Group is neither agrees or disagrees with the changes described in – Proposed QM SAS - Overall Matters. It is unclear on how the application material for No. 1 links to the requirement in AU-C Section 700. Overall, it is difficult to find the application material that relates to the changes in the Proposed QM SAS related to this question. Cross references would be helpful when asking about the application material.

Request for Comment 5 – Effective Dates

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

RESPONSE

The effective dates are not clear. The effective dates as written appear to intermingle client financial statement dates with the dates that the firms are performing the audit services. The Group believes that the effective dates should be based on the dates when the firm is performing the services, similar to the effective dates for ASUs. This will help to ensure uniformity in implementation of the proposed standard among firms.

Request for Comment 6 – Implementation Period

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

RESPONSE

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.

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.



Request for Comment 7 – Issue #1

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

RESPONSE

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.

- a. 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;
- b. 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
- c. 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.

Request for Comment 8 – Issue #2

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

RESPONSE

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:

- a. 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;
- b. 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
- c. 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.

Request for Comment 9 – EQR Date

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 issued.



RESPONSE

The Group believes engagement quality reviews should be completed as determined by professional judgement and firm policy.

The Group appreciates the AICPA for requesting our professional views on the Proposed Statement on Auditing Standards. The Group would like to thank the ASB for taking the time to read this comment letter submitted on behalf of the members of the New Jersey Society of Certified Public Accountants Accounting and Auditing Standards Interest Group.

Respectfully submitted,

Accounting and Auditing Standards Interest Group
New Jersey Society of Certified Public Accountants

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