

August 30, 2021

AICPA  
Auditing Standards Board  
1345 Avenue of the Americas  
27th Floor  
New York, NY 10105

By e-mail: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

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

**Proposed Statement on Auditing Standards—*Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 22,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

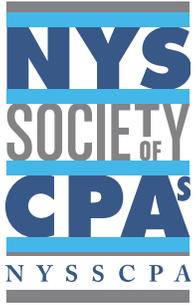
The NYSSCPA’s Quality Control and Peer Review Committee deliberated the proposed standards and prepared the attached comments. If you would like additional discussion with us, please contact George I. Victor, Chair of the Quality Control and Peer Review Committee, at (631) 321-8000, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

A handwritten signature in black ink, appearing to read "Rumbi Bwerinofa-Petrozzello". The signature is written over a faint, light blue watermark of the NYSSCPA logo.

Rumbi Bwerinofa-Petrozzello  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**PROPOSED STATEMENTS ON QUALITY MANAGEMENT STANDARDS—  
QUALITY MANAGEMENT: *A FIRM'S SYSTEM OF QUALITY MANAGEMENT  
ENGAGEMENT QUALITY REVIEWS***

**PROPOSED STATEMENT ON AUDITING STANDARDS—*QUALITY MANAGEMENT  
FOR AN ENGAGEMENT CONDUCTED IN ACCORDANCE WITH GENERALLY  
ACCEPTED AUDITING STANDARDS***

**August 30, 2021**

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## New York State Society of Certified Public Accountants

### Comments on

#### **Proposed Statements on Quality Management Standards—Quality Management: *A Firm’s System of Quality Management Engagement Quality Reviews***

#### **Proposed Statement on Auditing Standards—*Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***

We welcome the opportunity to respond to the AICPA Auditing Standards Board’s (ASB or the Board) invitation to comment on 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*.

#### **General Comments and Considerations**

We are generally supportive of the proposed standards and concur with the proposition that 1) Quality management should not be fundamentally different for professionals operating in different countries or under the oversight of different regulators; and 2) It is not feasible for firms who perform engagements under the standards of the AICPA, the IAASB and the PCAOB to comply with different standards for each engagement type.

However, we do have the following overall concerns:

- The proposed standards are written at a theoretical level and will require clearly understandable application materials. As noted above, firms with limited resources generally do not have anyone on staff that can dedicate the time necessary to read and absorb all of this information and determine what they have to do. Otherwise, the need to hire additional staff, increasing a firm’s cost structure, is likely.
- Without the application materials noted above, it is difficult to provide a more comprehensive informed response to the proposal. As often the case, “The devil is in the details” and what sounds reasonable from a theoretical level may not be practical once the “details” are provided. If the application material is not provided until after the standard is approved, it is then too late to make recommendations for improvement and raise any objections.
- It is going to be very difficult for firms whose resources for quality are already limited to devise and implement the iterative nature of this standard. Our Quality Control and Peer Review Committee members noted that implementing these

standards and performing the continual risk assessments for our firms may become our full-time jobs.

- 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.

Assuming the proposed standards are adopted, we request that the Peer Review Board consider a three year “leniency period,” similar to what was provided for the risk assessment standards, in order to give firms time to acclimate themselves with the new standards.

We offer below our responses to the questions for respondents (reprinted in bold).

### **Questions for Respondents**

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

**Response:** Overall, we support ASB’s convergence with the International Auditing and Assurance Standards Board’s (IAASB) International Standard on Quality Management (ISQM) 1. For firms that need to adhere to one or more of the different auditing standards, the more similar the quality management (QM) standards the easier it will be to establish an efficient and effective QM system. We appreciate the principles-based approach taken in ISQM 1 but have some concerns about the potential for “boiler plating” to meet some of the requirements and that the lack of clear guidance may lead to diversity in practice and ineffective adoption. We agree that QM systems cannot be “one size fits all” given that risk is relative, depending on the nature of the firm and the facts and circumstances of each engagement, and not linear, since the eight components that a QM system addresses are integrated.

#### *Definitions*

The definitions provided in proposed SQMS No. 1 provide an appropriate base for practitioners to begin to establish a sound quality management system. There are a few areas where we believe more guidance would enhance consistency and effective adoption.

- Under this principles-based model, firms are to define their own quality objectives. The directive and application material included in proposed SQMS

No. 1 appear to us as somewhat vague. Additional guidance would improve consistency in the objectives set by each firm.

- Using a risk assessment model in any risk assessment process is highly subjective, especially given the variability of quality risks among firms and the monitoring of those risks. We believe small firms will find the assessment of quality risk to be the most difficult aspect of the implementation of proposed SQMS No. 1. Without establishing more specific quality objectives in the areas of identification of quality risk, addressing those risks, and monitoring and remediation, significant variability can arise between how firms self-monitor on an annual basis and how peer review will identify a deficiency in a firm's system of quality management.
- Changing the terminology from engagement quality control review (EQCR) to engagement quality review (EQR), for the sake of convergence, could be confusing and misleading. Under PCAOB standards the engagement quality review is generally more extensive than an engagement quality control review under extant QC section 10. Small and mid-size firms tend to have a Quality Control or Quality Assurance department or process where they determine the level of review needed on an engagement. In many cases, an independent pre-issuance review of an engagement is performed, not an EQCR, for a variety of reasons including, but not limited to, risk assessment and resource constraints within a firm.

#### *The Firm's Risk Assessment Process*

As noted above, the risk assessment process is highly subjective, which will inevitably result in significant diversity in application, process and results. The diagram on page 10 of proposed SQMS No. 1 provides a good graphic depiction of what a risk assessment process needs to include, but more guidance would prove beneficial to fully execute this process.

- For consistency and effectiveness, further information on what the risk assessment process should look like and how that process should be documented is needed. We recommend an outlined framework to assist in assessing quality risk objectives, providing a scale (low, medium, high, for example) which would incorporate the factors influencing the auditor's professional judgment, and a methodology for monitoring at the conclusion of the engagement.
- Small firms face greater challenges in accomplishing a robust risk assessment process due to their limited resources to develop their own quality management system. These firms could become overly reliant on their third-party providers for sample models.
- Past peer reviews and other regulator inspections reported that auditors struggle with assessing risks in an audit of financial statements appropriately. Firm objectivity on its own risk assessment will likely be more challenging than the risk assessment performed for an engagement. Without more definitive and clear guidance, we believe firms may not adopt the standards effectively and be set up to fail external monitoring.

- Quality may be lacking because of poor or uninformed judgment when it comes to risk assessment. A framework that can be reasonably and consistently applied in combination with professional judgment may be necessary for an effective result.

### *Governance and Leadership*

We agree that quality begins with the tone at the top, where the leadership of a firm supports those with operational responsibility for the quality system and establishes governance that enables the partners and staff to understand how the culture, ethics, and monitoring impact the firm's decisions. The substantial enhancements addressing governance and leadership provide improved, more specific guidelines to the managing partners, chief executives, and other leaders. Proposed SQMS No. 1 makes quality the responsibility of everyone in a firm, not just the Quality Control Department, while providing guidance on firm structure of responsibility. We do recommend the following:

- Under extant QC section 10, paragraph .20, the "...person or persons assigned operational responsibility for the firm's system of quality control by the firm's leadership has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility." We do not see the same emphasis on authority for those with operational responsibility in proposed SQMS No. 1. Furthermore, putting the monitoring responsibility with the chief executives, managing partners, or top leadership group (an executive committee for example) could lead to conflicts of interest depending on the extent of engagement responsibilities of those leaders. We recommend adding language emphasizing and clarifying the need for independent, objective, authority of those with operational responsibility for the quality management system and the need for independent monitoring of the quality management system. While small and mid-size firms may find this more challenging, they can consider a group of partners and staff, or a third-party who can monitor.
- Proposed SQMS No.1, paragraph 17, allows for policies to address quality risks that are "...implied through actions and decisions." We recommend taking out this phrase and emphasizing that policies should be documented in the QM manual or another centralized receptacle, at least in all but the most unusual of circumstances (such as the beginning of the pandemic). Unwritten policies lead to inconsistency and confusion within a firm, resulting in a breakdown of quality, not an elevation of quality. We believe that if an action or decision is important enough, a policy can be written and disseminated appropriately throughout a firm in a timely manner.

### *Monitoring and Remediation*

The shift of focus from the engagement level to the entire system of quality management is a positive change steered by the four factors listed on page 15 of proposed SQMS No. 1. While focusing on the design of the underlying system, the nature and circumstances of the firm and engagements it performs, the extent of changes to the system, and the results of other internal and external monitoring activities improves the monitoring

process, we believe that additional guidance on monitoring activities will improve consistency on evaluating the system of quality management. This consistency will enable firms and peer reviewers to appropriately evaluate the system of quality control. We suggest consideration of the following:

- We strongly support the AICPA’s consideration of implementation guidance that will assist firms and peer reviewers in the assessment and understanding of the evaluation of deficiencies. We recommend this additional guidance include options for small and mid-size firms with limited resources who might have a difficult time implementing an ongoing monitoring system.
- In general, auditors are not trained or skilled in root cause analysis. The requirement to perform an effective root cause analysis will potentially be a significant challenge for many firms, particularly those that are small and mid-size. Devoting internal resources to evaluate findings, identify deficiencies, assess the pervasiveness of deficiencies, and establish and monitor a remedial action plan, when necessary, may be near impossible with small and mid-size firms since objectivity and the ability to identify what one does not know could be compromised. These requirements may require a small or mid-size firm to seek external resources that could be costly and potentially expose the firm’s weakness to market competitors.
- Proposed SQMS No. 1 calls for at least an annual evaluation of the system of quality management to conclude whether the system provides the firm with reasonable assurance that the objectives of the system are being achieved. Additional guidance on the objectives of the evaluation and the formality of the conclusion reached would enhance the process, increase consistency, and clarify how small to mid-size firms can meet this requirement. The *Information and Communications* section addresses external communications. Firms may use results to include data in their “transparency reports” or other marketing material, provide information to potential and existing clients, or provide information to other regulators.
- See our comments in the Governance and Leadership section regarding monitoring by the leaders of the firm.

Overall, the proposed requirements are very conceptually driven, with little guidance on practical implementation. As noted above, we think that practice aids or similar tools would be extremely beneficial. Since this proposed standard is working toward converging with the IAASB standard, we recommend issuing implementation guides that build on those published by the IAASB. The ASB can use research performed by the IAASB to potentially incorporate additional improvements into this guidance.

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

**Response:** From a theoretical perspective the standard is scalable. Scalability is important as risks to quality objectives, responses and monitoring, and remediation will be very different depending on the size and focus of the services provided by the firm. In applying the risk-based approach, the nature and circumstances of the firm and the nature and circumstances of the engagements performed by the firm need to be considered and judgement applied in what a firm includes or excludes from its policies and procedures.

We believe however that the proposed scalability requirements will be difficult and impractical to implement for smaller firms considering the typical volume of attest services provided in comparison to the firm's general practice as a whole. Firms with limited accounting and auditing practices will be particularly challenged in the identification and documentation of quality objectives, quality risks, and responses to such risks. Although proposed SQMS No. 1 specifies that this process may be less extensive than for a more complex firm, there is no specific guidance provided for the firm to utilize as a reference source or starting point to determine the design and scalability of an EQ system appropriate to the firm. We believe that firms that perform only a handful of attest engagements will be challenged to meet the objectives of proposed SQMS No. 1 without more specific structured guidance for the process and criteria for quality objectives and risks. Accordingly small and potentially mid-size firms with limited resources we believe will be disproportionately impacted.

The application material that addresses scalability specifically in paragraph A36 provides only two examples – that of “a less complex firm” and that of “a more complex firm” – without providing any parameters against which one can measure one's own firm (i.e., what is a less complex firm, what does it look like, how is it structured, what type of engagements does it do, etc.). We suggest application material that provides scalability guidance to all firms, not just firms on the extremes, including guidance that the firm can use as a reference or starting point in determining scalability and designing a quality system appropriate to the facts and circumstances of each firm. Many firms, including those in networks, may need assistance or need to rely on a third-party services provider. All in all, having additional guidance will foster consistency under a wide variety of scenarios.

This guidance also sets a framework by which peer reviewers will be able to assess the quality system in place given the facts and circumstances of each firm. Guidelines are needed of the minimum requirements from a “formality of documentation” standpoint. For example, less complex firms may have informal policies or procedures, which may require more judgment by the reviewer in the assessment of application and appropriateness, while having more formalized policies in monitoring and remediation.

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

**Response:** We support having clear requirements for policies and procedures addressing the appointment and eligibility of engagement quality reviewers and performance of engagement quality reviews. The requirements in proposed SQMS No. 2 are clear and understandable and the application materials are helpful in supporting the application of those requirements. However, there are some areas of the standards that we believe need additional clarification or consideration.

In instances where the firm determines that an engagement quality review is required, the appointment and eligibility of reviewers may be difficult or costly for sole practitioners and small firms with limited personnel as they would be required to contract with individuals external to the firm to perform the engagement quality review, in addition to the cost of their peer reviewer. Guidance on vetting and retaining the services of qualified individuals and resources to assist firms with finding suitable reviewers should be made available.

Proposed SQMS No. 2 identifies threats to objectivity of the engagement quality reviewer and specifies a minimum cooling-off period of two years before the individual can be appointed to the role of engagement quality reviewer. This requirement could have an impact on sole practitioners, smaller firms, and even local offices of larger firms with specialty niche areas. The standards should allow for alternatives to the minimum cooling-off periods, in certain instances, while lowering the self-review threat to an acceptable level.

We support the requirement for the engagement quality review to be performed at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon. However, this requirement could be difficult to implement in a cost-effective manner when there is an external engagement quality reviewer involved. Some sole practitioners and smaller firms still manually prepare their audit documentation or may need information technology upgrades to allow for timely access to the data throughout the engagement.

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

**Response:** Overall, the application material is helpful in supporting the application of the proposed QM SAS. Some of the areas where we recommend additional guidance include:

- “Stand back” requirement – The requirement to assess the sufficiency and appropriateness of the partner’s involvement in an engagement has been inherent in the quality management system of a firm prior to the proposed QM SAS. We recommend expanding on this guidance to establish a framework by which partners and firms may make an assessment.

- Scalability (paragraph A29 of the proposed QM SAS) – We recommend providing additional guidance on the level of formality of the communication among the engagement team.

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

**Response:** While the proposed effective date is clear, we have concerns with respect to how this change will be applied by firms whose internal inspection or peer review year does not coincide with a calendar year end. We believe implementing the proposed standards in the middle of an inspection or peer review year will cause needless additional stress to firms, especially smaller firms with limited resources. Rather than requiring firms to adopt the proposed standards on a fixed date, we suggest adopting a rolling implementation date. Under this scheme, a firm would adopt the proposed standards as of the first date of their inspection/peer review year closest to December 15, 2023. For example, a firm whose inspection/peer review year begins on October 1 would adopt October 1, 2023, and a firm whose inspection/peer review year begins on June 1, would adopt the QCM standards on June 1, 2024. Alternatively, the proposed standards could be adopted on a rolling basis on the earlier of the beginning of the firm’s first or second inspection year after December 15, 2023. Either scheme would give all firms a minimum of one year to implement the new standard before their next peer review.

If the ASB retains a fixed effective date, we are concerned how peer reviewers will 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. For some firms, only a couple of months of the peer review year will be governed by these proposed standards. As proposed, the effective date does provide all firms an opportunity to evaluate their transition year. We are concerned that the proposed effective date is creating a situation whereby firms are being set up to fail their peer reviews. Our members require clear definitive guidance from ASB and the Peer Review Board prior to the finalization of the proposed standards as to how peer review will work in the transition year. It is not clear to us what guidance is forthcoming. We would like the opportunity to review and comment on such guidance prior to the finalization of these proposed standards.

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

**Response:** Thus far, the AICPA has not provided any guidance that might alleviate the concerns our members have regarding the transition to the proposed standards. In fact, as of mid-June, there is no proposed transition/implementation guidance from either ASB or the Peer Review Board. We need this guidance in order to provide a definitive response as to whether an 18-month implementation period is appropriate or not.

That said, we are concerned that an 18-month implementation period is not appropriate for all firms. We believe the proposed 18-month implementation period provides firms,

especially small and medium-sized firms, insufficient time to learn and execute the requirements of the proposed standards. Large and multi-national firms who perform engagements subject to the international standards will have, effectively, already changed to the proposed standards in 2022, through the adoption of ISQM No. 1 and No. 2. However, the majority of CPA firms in the United States do not operate in the international arena; they are smaller firms who operate locally or regionally and have limited resources capable of applying the changes required by the proposed standards.

Generally, such smaller firms have small quality control departments if they have such a department at all. We do not believe an 18-month implementation period provides 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.

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

**Response:** 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.

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.

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.

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.

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

**Response:** 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.

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.

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.

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.

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.

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

**Response:** 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.

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.