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International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Proposed International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, Proposed International Standard on Quality Management 2, *Engagement Quality Reviews* and Proposed International Standard on Auditing 220 (Revised), *Quality for an Audit of Financial Statements*

To the International Auditing and Assurance Standards Board:

We appreciate the opportunity to comment on the exposure drafts referenced above.

By way of background, Baker Tilly Virchow Krause, LLP is an accounting firm operating across the United States as well as internationally. We have approximately 330 partners and employ more than 3,100 persons. Our practice is diverse, offering accounting and auditing services as well as tax and consulting services across a broad spectrum of industries and geographies.

Our comments will be in the form of responses to specific questions included in the exposure drafts.

I. Responses to Section 7 Request for Comments of the Overall Explanatory Memorandum

- 1) ***Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?***

Due to the scope of the proposed changes we believe that an implementation period of at least 24 months is necessary in order to achieve the objective of the proposed standards.

- 2) ***In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for small- and medium-sized practitioners (SMPs)?***

We believe that providing robust and comprehensive examples detailing the implementation of all aspects of the proposed standards at firms of varying sizes would be most helpful to small- and medium-sized firms.

II. Responses to Section 4 Request for Comments of ED-ISQM 1

Overall Questions

- 1) ***Does ED-ISQM 1 substantively enhance firms' management of engagement quality, and at the same time improve the scalability of the standard? In particular:***

- (c) ***Are the requirements and application material of proposed ED-ISQM 1 scalable such that they can be applied by firms of varying size, complexity and circumstances? If not, what further actions should the IAASB take to improve the scalability of the standard?***

We believe that providing robust and comprehensive examples detailing the implementation of all aspects of the proposed standard at firms of varying sizes (as suggested in our response to question I.2) above) will improve scalability.

- 2) ***Are there any aspects of the standard that may create challenges for implementation? If so, are there particular enhancements to the standard or support materials that would assist in addressing these challenges?***

Due to the scope of the proposed changes we believe that the implementation will create challenges, but as suggested in our response to question I.2) above, we believe that providing robust and comprehensive examples detailing the implementation of all aspects of the proposed standards at firms of varying sizes would greatly assist firms in overcoming those challenges.

- 3) ***Is the application material in ED-ISQM 1 helpful in supporting a consistent understanding of the requirements? Are there areas where additional examples or explanations would be helpful or where the application material could be reduced?***

Please see our response to question I.2) above.

Specific Questions

- 4) ***Do you support the eight components and the structure of ED-ISQM 1?***

We believe that the eight components are appropriate, although, we believe that the proposed standard and related application guidance should make it clear that the eight components are not required to be separate and distinct functions within a firm in order for the firm to be in compliance with the proposed standard.

- 6) ***Do you believe that application of a risk assessment process will drive firms to establish appropriate quality objectives, quality risks and responses, such that the objective of the standard is achieved? In particular:***

- (a) ***Do you agree that the firm's risk assessment process should be applied to the other components of the system of quality management?***

Yes, we agree that the firm's risk assessment process should be applied to the other components of a firm's system of quality management.

(b) Do you support the approach for establishing quality objectives? In particular:

ii. Is it clear that the firm is expected to establish additional quality objectives beyond those required by the standard in certain circumstances?

We believe that the quality objectives in ED-ISQM 1 are comprehensive, therefore, we do not believe that it will be necessary for most firms to establish additional quality objectives. To assist firms in determining when establishing additional quality objectives would be necessary, we believe that it would be helpful if additional application guidance was added to the proposed standard indicating the types of circumstances under which the Board believes it would be necessary for firms to establish additional quality objectives.

(d) Do you support the approach that requires the firm to design and implement responses to address the assessed quality risks? In particular:

ii. Is it clear that in all circumstances the firm is expected to design and implement responses in addition to those required by the standard?

While we believe that it is clearly stated in paragraphs 10. and A59., we believe that it should also be stated in paragraph 30. which discusses the required risk assessment process.

10) Do the requirements for communication with external parties promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders? In particular, will the proposals encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so?

We believe that the proposed requirements will encourage firms to communicate with external parties when it is appropriate to do so. We do not believe that communications with external parties should be required as in many smaller firms this is done informally, on an as needed basis, and requiring those communications would reduce the scalability / flexibility of the proposed standard.

12) In your view, will the proposals for monitoring and remediation improve the robustness of firms' monitoring and remediation? In particular:

(b) Do you agree with the IAASB's conclusion to retain the requirement for the inspection of completed engagements for each engagement partner on a cyclical basis, with enhancements to improve the flexibility of the requirement and the focus on other types of reviews?

While we agree that at least one completed engagement for each engagement partner should be inspected on a cyclical basis, we believe that the inspection of engagements originally inspected while in-process should be able to be updated after engagement completion and counted toward the fulfillment of this requirement (i.e. as opposed to having to select an additional, previously uninspected completed engagement for a particular partner). This would encourage firms to perform more timely monitoring and increase the scalability / flexibility of the proposed standard.

(c) *Is the framework for evaluating findings and identifying deficiencies clear and do you support the definition of deficiencies?*

We believe that the Board should include more guidance related to the evaluation of identified deficiencies, particularly as it relates to evaluating their severity. In addition, we believe that more guidance is needed related to how to evaluate the effect of deficiencies on whether the system of quality management provides reasonable assurance that the objectives of the proposed standard have been achieved.

(d) *Do you agree with the new requirement for the firm to investigate the root cause of deficiencies? In particular:*

i. Is the nature, timing and extent of the procedures to investigate the root cause sufficiently flexible?

We believe that the nature, timing and extent of the procedures to investigate the root cause is sufficiently flexible, however, we believe that including detailed examples in the proposed standard would greatly improve the quality and effectiveness investigations performed.

III. Responses to Section 4 Request for Comments of ED-ISQM 2

1) *Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?*

We agree with the creation of a separate standard to address the aspects of engagement quality reviews not addressed by ED-ISQM 1 (i.e. all aspects other than the engagements for which an engagement quality review is to be performed).

4) *Do you support the requirements for eligibility to be appointed as an EQR or an assistant to the EQR as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?*

(a) *What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?*

We believe that such guidance is appropriate.

(b) *If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?*

We agree with the inclusion of such guidance in ED-ISQM 2, but recommend that the IESBA Code be reviewed to verify that it is consistent with the proposed guidance in ED-ISQM 2.

IV. Responses to Section 3 Request for Comments of ED-220

2) *Does ED-220 have appropriate linkages with the ISQMs? Do you support the requirements to follow the firm’s policies and procedures and the material referring to when the engagement partner may depend on the firm’s policies or procedures?*

We believe that it is appropriate for engagement partners to be able to rely on their firm’s policies and procedures unless they have knowledge that those policies and procedures are not in compliance with applicable professional standards. While it appears that this was the intent of the proposed standard, we believe that this should be further clarified in order to avoid any misinterpretations.

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We appreciate the opportunity to provide the above comments and are available for further discussion with the Board if that would be useful to the process. Should you wish to discuss any of these comments, please contact David Johnson, Professional Practice Group Partner, at david.johnson@bakertilly.com or 608 240 2422.

Sincerely,

A handwritten signature in black ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

BAKER TILLY VIRCHOW KRAUSE, LLP