

August 30, 2021

AICPA Auditing Standards Board
CommentLetters@aicpa-cima.com

Re: COMMENT LETTER TEMPLATE FOR:

- PROPOSED STATEMENT ON QUALITY MANAGEMENT STANDARDS (SQMS), *A FIRM'S SYSTEM OF QUALITY MANGEMENT (SQMS No. 1)*,
- *ENGAGEMENT QUALITY REVIEWS (SQMS No. 2)*, and
- *PROPOSED STATEMENT ON AUDITING STANDARDS QUALITY MANAGEMENT FOR ENGAGEMENTS CONDUCTED IN ACCORDANCE WITH GAAS (QM SAS)*:

PART 1: SQMS No. 1

1a. Which of the following best describes your view of the proposed SQMS No. 1?

- I strongly support the proposed SQMS No. 1.
- I somewhat support the proposed SQMS No. 1.*
- I somewhat oppose the proposed SQMS No. 1.
- I strongly oppose the proposed SQMS No. 1

1b. The fundamental aspects of proposed SQMS No. 1 are summarized on pages 8-14 of the Explanatory Memorandum. Please provide your views on (any or all of) the fundamental aspects.

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. 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.

Role of managing partner to oversee quality –For firms where audit is not the predominant service area, it may not be practical for the Managing Partner to have “ultimate responsibility” for the firm’s quality control. There are many firms that have significant tax or other non-attest services, and as such, the managing partner may not have the requisite audit technical expertise to oversee firmwide audit quality initiatives. In these instances, the responsibility for managing quality for audits will revert (whether directly or indirectly) back to the audit partner in -charge, who may otherwise be an engagement or service partner. For these instances, it may be appropriate for the standards to enable someone other than the managing partner to act in this capacity. We believe the requirements work for large primarily audit firms, but for firms with smaller audit practices, the added responsibilities to the managing partner may not have any practical effect.

Client acceptance / continuance – The Committee feels that especially for smaller firms, a great deal of quality management arises from the initial acceptance / retention of clients. We would welcome more guidance and practice aids on integrating a firm-wide approach to client acceptance / continuance decisions.

Monitoring Activities – This requirement will be significant for smaller firms; see discussion under scalability below.

Network Requirements or Network Services – The committee feels that this places a large burden on firms that belong to a network where the lead firm in the network is significantly larger, has much more well-established policies and procedures than the smaller member firms. We think the quality management decisions of member firms in an association should be left as a practice decision of the association since they bear the ultimate risk to the result of firms using their network resources. In addition, smaller firms may not have the resources to fulfill the responsibilities required.

1c. Are the requirements in SQMS No. 1 clear and understandable? Please answer yes or no.

Yes, the materials are clear and understandable.

1d. Is the application material in SQMS No. 1 helpful in supporting the application of the requirements? Please answer yes or no.

Yes, the application material is helpful. The Committee feels that providing some small firm templates and decision-document practice aids would be helpful.

1e. Do you have any other comments on proposed SQMS No. 1?

None other than the items noted above.

PART 2: Scalability of SQMS No. 1

2a. Is the new quality management approach in SQMS 1 scalable? Please answer yes or no.

The committee believes there are challenges to scalability for small firms. Aside from high costs of implementation, as the standards are currently written, would require either having a minimum of two (2) or three (3) partners in the audit practice (engagement partner, and/or concurring / EQR partner, and/or quality review partner). This requirement creates an economic burden for smaller (one and two partner audit firms) where these firms will need to merge or outsource some of the review and monitoring roles (at a cost) to an individual with suitable skills, availability, and abilities to fulfill these roles.

We believe this requirement alone will cause many firms to cease providing audit services; an outcome which may not be in the public interest.

2b. Would additional application material regarding scalability be helpful? Please answer yes or no.

Yes, additional application materials and templates / decision documents for small firms would be helpful.

2c. Please provide additional details regarding your responses to 2a and 2b. If applicable, identify any requirements in proposed SQMS No. 1 that may inhibit scalability or requirements for which additional application material regarding scalability would be helpful.

As noted above, the standards are written in such a way as to exclude (without outside resource) a firm with fewer than two (2) or three (3) audit partners. This outcome will either increase cost burden to firms to look for outside resources to fulfill the EQR and/or quality review roles or cause smaller firms to cease providing auditing services.

PART 3: SQMS No. 2

3a. Which of the following best describes your view of the proposed SQMS No. 2? Please choose only one.

- I strongly support the proposed SQMS No. 2.*
- I somewhat support the proposed SQMS No. 2.*
- I somewhat oppose the proposed SQMS No. 2.*
- I strongly oppose the proposed SQMS No. 2.*

3b. Are the requirements in SQMS No. 2 clear and understandable? Please answer yes or no.

The requirements are clear and understandable. 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.

3c. Is the application material in SQMS No. 2 helpful in supporting the application of the requirements? Please answer yes or no.

Yes, the application materials are helpful.

3d. Do you have any other comments on proposed SQMS No. 2?

No

PART 4: QM SAS

4a. Which of the following best describes your view of the proposed QM SAS? Please choose only one.

- I strongly support the proposed QM SAS
- I somewhat support the proposed QM SAS
- I somewhat oppose the proposed QM SAS
- I strongly oppose the proposed QM SAS

4b. Are the requirements in QM SAS clear and understandable? Please answer yes or no.

(.A49 – Acceptance and Continuance of Client Relationships)

In larger firms, the engagement partner is not necessarily involved in client acceptance decisions. For larger firms, many engagements are for clients where the national practice group delegates engagements assignments to local offices, or the managing partner or other service partners have ultimate responsibility for client acceptance and continuance. In these instances, the guidance in the SAS may be inoperable as written.

4c. Is the application material in QM SAS helpful in supporting the application of the requirements? Please answer yes or no.

See above

4d. Do you have any other comments on the proposed QM SAS?

No

PART 5. Effective dates and implementation period

5. Are the effective dates clear? Please answer yes or no.

Yes, the effective dates and transition path are clear. The committee should just consider allowing sufficient time after the standards are approved as final, and if there is a significant delay, push the effective date forward accordingly.

6. Is an 18-month implementation period appropriate? Please answer yes or no.

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.

PART 6. Other issues for consideration.

7. 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. Please choose only one.

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.

PART 7. Demographic data

The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 42,600 members. The Committee consists of 54 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

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We thank you for the opportunity to comment on these matters. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Paul Peterson, Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants