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Auditing Standards Board
American Institute of CPAs

Re: Response to Quality Management Exposure Draft

Thank you for the opportunity to comment on the prosed new quality management standards.

I strongly oppose the more significant aspects of this exposure draft for the reasons noted below.

Self-review and EQCR cooling-off provision

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.

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 it EQCR criteria. Standards should be encouraging more EQCR or other second person reviews rather than discouraging them by make the rules for their implementation overly complex or costly

Standard is overly complex

The length of the exposure draft (almost 200 pages) strongly suggest that the standard is overly complex. After reading through it, is not clear what the expectations would be regarding documentation required under this standard, especially for a small firm. The ASB should consider the difficulty firms will have in understanding and implementing such a complex standard. It is difficult for me to see the cost-benefit of this standard. While the standard make reference to "scalable for small firms" it is not clear what a small firm's quality control document might look like and the effort involved in developing such a document.

Change in quality control standards will likely not improve quality

Many small firm's (the majority) have had considerable challenges in understating and implementing provisions of the existing quality control standards. A wholesale change of those standards, would in my view be counter-productive and result in widespread "process violations" that have no impact on engagement quality. Based on my peer review experience, I question that the proposed standard will have any meaningful impact on audit quality. I believe that modifying the existing quality control standards for some of the new concepts introduced in the exposure draft, would be a much more effective approach in communicating and implementing these proposed changes. The statement in the ED that section 10 of the quality control standards is more prescriptive in nature and does not promote scalability is simply unsupported by how small firms have implemented the existing standard.

If this proposal is passed, it is incumbent on the ASB and the AICPA to provide in-advance significant resources and training on these proposed changes and therefore recommend a very extended effective date and implementation period.

Substantially compliant with IAASB standard using existing safeguards

I believe that the ASB can maintain current quality control standards, with some modification and still be substantially compliant with IAASB standards on this standard.

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.

I believe that these factors more than compensates for not prohibiting self-review and not requiring EQCR cooling-off.

Thank you for your consideration of my comments.

Respectfully,

Daniel J. Hevia

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