

August 30, 2021

AICPA Auditing Standards Board
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, North Carolina 27707
Attn: Tracy Harding, Chair

Via e-mail to: Sherry Hazel at CommentLetters@aicpa-cima.com

RE: EXPOSURE DRAFTS DATED FEBRUARY 4, 2021

- PROPOSED STATEMENT ON QUALITY MANAGEMENT STANDARDS - A FIRM'S SYSTEM OF QUALITY MANAGEMENT

- PROPOSED STATEMENT ON QUALITY MANAGEMENT STANDARDS – ENGAGEMENT QUALITY REVIEWS

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

Ladies and Gentlemen:

The Accounting Principles and Auditing Procedures Committee (“Committee”) of the Massachusetts Society of Certified Public Accountants is forwarding this comment letter in response to the above referred to exposure drafts. The Accounting Principles and Auditing Procedures is the senior technical committee of the Massachusetts Society of Certified Public Accountants. The Committee consists of members who are affiliated with public accounting firms of various sizes as well as members in both industry and academia. The majority of the members of the Committee primarily serve small and medium sized clients. The Committee has reviewed and discussed the above referred to proposals. The views expressed in this comment letter are solely those of the Committee and do not reflect the views of the organizations with which the Committee members are affiliated.

First the Committee thanks the AICPA Auditing Standards Board (“ASB”) for the opportunity to comment on these Exposure Drafts.

The members of the Committees mainly are preparers, auditors and advisors to small and medium sized entities.

It is stressed that the comments included in this letter are from the standpoint of the small and medium sized firms which make up the majority of the Committee members.

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Thank you for allowing us to comment on these proposals.

General Comments

The Committee in this section will address specific concerns that the members of the Committee have with the Proposals. In the following section specific questions asked will be addressed as applicable.

Implementation and Understandability

The majority of the Committee believes the proposals is overly complex and will be difficult for small and medium sized firms to understand and implement.

The majority's reasons for this belief are as follows:

a. There is concern among the members that the language required to understand and implement the management system is not clearly defined and is very subjective. This could result in a wide divergence in how each system is operated by small and medium sized firms. This divergence in practice could result in future disagreements between firms. See risk assessment below.

b. Members believe there will be an undue burdensome cost to initially implement and then maintain the proposed management system. A cost that the small firms will not be able to pass onto its clients.

Larger firms with multiple partners and managers already have QC systems in place and/or an appropriate staffing infrastructure that implementation of the new QCM standards will be less burdensome and implementable with minimal if any additional costs. Smaller firms will find it necessary to seek outside parties to achieve compliance with the standards, costs that they will have to absorb.

c. Small firm members are concerned about the amount of time needed to both properly implement and maintain the management system. In addition to providing client service managing, members of small and medium size firms typically have administrative responsibilities. Implementation of a new QC system, including drafting new firm policies, determining how a firm will obtain compliance with the new standards and the myriad of other matters that will arise during the course of development and implementation will consume significant time. Many firms do not believe sufficient time has been provided to properly implement and ensure ongoing compliance. Since the belief is the quality management system will be complex there may not be enough time to implement and maintain the system in accordance with standards.

d. Small firm members believe the standards will be hard to implement and that compliance in accordance with standards will be hard to document. See further comments below.

As an example of the complexity faced by a small firm, as set forth in paragraph A113 third party resources used by a firm will require the firm to determine whether a resource from a service provider is appropriate for use in the firm's system of quality management or performing engagements. This will require the firm to obtain information about the resource provider from a number of sources. For small and medium sized firms this could be an overly complex exercise in obtaining and documenting the required information. There is concern that this requirement will result in no added value to the Firm if it properly performs engagements.

See our recommendation below on implementation timetable and extensive educational needs to overcome these concerns under the section titled **Timing of Implementation**.

Risk Assessment

The proposed SQMS No. 1 sets forth 8 components for a firm's quality management systems.

The first component is a risk assessment which requires a firm to perform a tailored risk assessment of its quality risks, considering the firm's nature and circumstance, the firm's engagements to be performed and the barriers to which the firm's specific operations could adversely affect the achievement of the firm's quality objectives. For each quality risk identified, the firm will be required to design and implement a response.

Under Paragraph 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 and related examples of quality risks that may arise are set forth. To paraphrase one example under this paragraph:

Example of the Firm's Understanding - The characteristics and management style of leadership: The firm is a smaller firm with a few engagement partners with shared authority.

Example of Quality Risks that Might Arise - In the context of governance and leadership, this may give rise to a number of quality risks such as that Leadership's responsibilities and accountability for quality are not clearly defined and assigned and that the actions and behaviors of leadership that do not promote quality are not questioned.

Members believe this leadership process will not be instinctive and that small and medium sized firms will find the process hard to implement. This will result in quality management failures.

Paragraph A49 provides an additional example of how complex this process could be. Specifically, it explains that responses to quality risks could cause additional quality risks. Members see these additional risks after assessment of the first risks as evidence that this process could be overly complicated.

The risk assessment process will need to be ongoing. Firms will need to be aware of potential changes to its quality risks at all time including in the middle of performing engagements. This will be

particularly burdensome for small firms with limited accounting and auditing practices.

Members further are concerned with how to define systematic causes in order to properly assess and design procedures to overcome any systematic deficiency.

Finally members are concerned about how to properly define "risk assessment" and how to document the risk assessment process properly. The documentation process could be viewed as overly complex. Improper documentation will result in quality management failures.

Smaller firms monitor their risks in a very different way than larger firms. A smaller firm when assessing engagement level risks during the course of the engagement will address the risk, but not professionally document this. With the peer review mantra of "*If it isn't documented it wasn't done*" this is akin to "set up to fail" for these firms.

Implementation of risk assessment procedures in audits has taken more than a decade including a 3 year "bye" period. Firms will need more than the allotted time for the proper implementation of applying risk assessment to themselves. Many of the difficulties firms confronted in applying the audit procedures will be encountered internally

See our recommendation below on implementation timetable and extensive educational needs to overcome these concerns under the section titled **Timing of Implementation**.

Self-inspection threat

The members of the Committee strongly disagree on the prohibition of any engagement members or engagement quality reviewer from performing monitoring activities.

The members contend that there are small and medium sized firms that are perfectly capable of inspecting engagements and properly performing monitoring so that their monitoring is in accordance with standards.

The members have two basic concerns. The concerns are cost of bringing outside reviewers to perform monitoring plus the availability and timely scheduling of those outside reviewers to perform monitoring services for small and medium sized firms. Members concerns on the timely scheduling of the outside reviewer is that the lack of availability will not meet client needs and/or deadlines.

The Committee puts forth three possible "safeguards" to overcome this self-inspection threat. The Committee has tried to tie these safeguards into peer review standards.

A) As part of the Firm's regular peer review, if a firm's work is not up to standard in a significant way the peer reviewer should take a close look at the design of the monitoring element. If the firm relies on self-inspection as part of monitoring and it proves to be ineffective in causing the firm to comply with professional standards, that would, at a minimum, generate a design MFC and the remediation of that might be to change away from self-inspection and retain an outside person to perform

monitoring until the next peer review. This way, for firms that presently perform self-inspection and it is working for them, they can continue that policy.

This provision is a presently built into the Peer Review Standards

B) Allow self-inspection as part of monitoring during the 2 year period between the triannual peer reviews if the Firm has a "clean Peer Review" for the year preceding that 2 year period. A "clean Peer Review" can be defined as a Pass Report under the Peer Review Standards.

C) Allow a carve out exception for Firms to self-inspect their engagements and perform monitoring that will only apply to firms that are required to have Engagement Peer Reviews under the Peer Review Standards.

The reasoning behind this carve-out exception for engagement review firms is risk based, which would be in accordance with the Standard. The Committee does not visualize that a Firm that performs only these type of engagements is exposing the public users of the result of the engagement to a great degree of risk. Any non-conforming engagement will be subject to Peer Review corrective action.

Beyond the "safeguards" the Committee proposes two other alternatives

A) Allow the present self-inspection procedures to remain in place.

B) A requirement that if the engagement is assessed at a higher risk such as an Employee Benefit Plan Audit, Government Audit or any other high risk assessed engagement then the self-inspection threat could not be overcome and the engagement would require an outside party to look at that engagement. Government audits presently have this requirement as related to the preparation of the financial statements.

If one of these type of high risk engagements is assessed as a lower risk it is recommended that the risk assessment criteria used for these engagements be subject to review as part of the monitoring process. Proper documentation of the result of that review would be required.

Under this monitoring alternative the risk assessment per engagement will need to be documented by the Firm. See concerns about risk assessment above.

The Committee under paragraph A168 sees the wording "A self-review threat may arise when an individual who performs another type of monitoring activity participated in designing, executing or operating the response being monitoring." The Committee is unclear what this means and asks for further clarification via examples and/or other explanatory material.

The present interpretation of A168 is that the individual who designed, executed or operated the system is ineligible to be part of the inspection of the system. This will be a burden to the small and medium sized firm.

Engagement Quality Review

The majority of the Committee members from the standpoint of small and medium sized firms are in agreement with the Engagement Quality Review Standard. It is the belief that Firms could assess an engagement at a lower risk and thus perform a lesser review of that engagement such as a technical review of that engagement. The majority believe this will be of benefit to the small and medium firms when performing less complex audits and other engagements.

The downside is that the small firm may be forced out of performing complex audits if it does not have non-engagement members with expertise to perform the review. The majority of the Committee contend this engagement quality review requirement will require that a Firm reflect on its ability to properly perform that audit and take appropriate step to insure compliance.

Cooling off period

The majority of the members of the Committee do not visualize a cooling off period as an issue for the small and medium sized firm.

The members' engagement clients are usually ongoing and thus it is not visualized that a cooling off period will ever come to pass.

A minority of the members disagree with this stance. Some firms as policy require engagement partner rotation and thus see this cooling off period as a detriment to maintain quality. These members recommend a carve-out provision for small firms.

The Committee does recommend that a carve-out be allowed for a period not to exceed two engagement years for a retiring partner to act as the engagement quality reviewer. This will facilitate a better transition resulting in greater ongoing quality.

Timing of implementation

If none of the recommendations above are affirmed, the Committee believes carve-out provisions to exempt small firms from parts of this standard should be considered. The parts to be included as possible carve-outs are self-inspection during both monitoring and the engagement quality review when assessed applicable and the two year cooling off period.

The Committee recommends that the ASB apply a three bucket approach to determine the level of each firm to which the carve-outs would apply. The three level approach would be:

- Bucket 1 - Firms that perform "public interest" audits and other engagements
- Bucket 2 – Firms that perform audits and other engagements not included in bucket 1 and are staffed by 20 or more professionals and/or have more than one office.
- Bucket 3 – Firms that are not included in buckets 1 or 2.

The Bucket 3 Firms would be eligible for the carve-outs. Bucket 3 firms should have the option to elect to forego the carve-outs if they so choose.

“Public interest” engagements would need to be defined.

Firms in bucket 3 would be subject to the first self-inspection threat “safeguard” the Committee details above and remedial action would be required if deficiencies exist.

One member of the Committee used the analogy that there are different rules for cars versus trucks on the highways. Thus there should be different rules for small and medium sized firms from larger firms.

In addition to the proposed carve-out provisions the Committee recommends three items with regard to timing.

The first is the recommendation that any proposed standard related to the Quality Management System be deferred until the PCAOB finalizes its standard(s) on the Quality Management System required of PCAOB firms. The PCAOB is presently deliberating those standard(s). That way there will be no need to adjust for any conflicts arising for firms in having to implement two different sets of standards.

The second recommendation is that the implementation date be staggered between large firms and small firms. It is recommended that a one or two year deferral be put in place for small firms after implementation by larger firms to enable the small firms to gain best practices from larger firms. The Committee recommends that the ASB consider the three bucket approach detailed above to determine the levels of each firm. Firms in buckets 2 and 3 referred to above would be eligible for a deferral for implementation and maintenance of the system.

The third is that the December 15, 2023 will be a hardship for all firms to implement. Some small firms are still recovering from the business impact of the pandemic. Staffing shortages has magnified the workloads for remaining staff. Due to the complexity a lot of training will be required with little available time.

It is recommended that the implementation date in SQMS #1 be pushed back at least one year to December 15, 2024. Some members have advocated that the implementation date be pushed back two years. The push back of the SQMS # 1 effective date will further necessitate the push back of the SQMS #2 effective date to coordinate with the implementation date. The reason for these requests are related to the learning curve that this standard will require.

There will also be downstream changes that will result from adoption of the standards. The downstream effects of the standard once adopted will require changes to peer review standards, Yellow Book standards, ethics standards and other standards. The Committee recommends that all affected updates be coordinated with the implementation date of the standard.

The new QMS standards are highly judgmental. Thus the roll out of the Quality Management System standards will require extensive training. No standard should be finalized until a full cost effective educational program is promulgated and implemented. One member of the Committee cited the learning curve on the present risk assessment standard as an example of the learning curve that all small and medium sized firms will face with this standard. This extensive training is also a reason to push back the implementation date.

The Committee members point out that small and medium sized firms will bear the brunt of training for this new standard, without the capacity to pass along these costs to clients, particularly for the firms that work with NFPs. NFPs are already feeling squeezed for contributions and are extremely fee sensitive.

The educational program must include implementation standards as to how the Quality Management Standards will be interpreted under Peer Review Standards.

Response to Specific Questions

PART 1: SQMS No. 1

Question 1a

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

Please choose only one.

- Strongly support the proposed SQMS No. 1.
- Somewhat support the proposed SQMS No. 1.
- XX** Somewhat oppose the proposed SQMS No. 1
- Strongly oppose the proposed SQMS No. 1

Please provide additional details regarding your response.

Answer

See our comments above under General Comments

Question 1b.

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

Answer

The fundamental aspects included in the explanatory memo can be basically understood. The Committee has concerns in the areas of Risk Assessment and Monitoring as detailed above under the General Comments section.

The Committee's main concern with the fundamental aspects of SQMS No 1 is how to implement, maintain and document the Quality Management System so it is in accordance with standards. The Committee has express its concerns in greater detail above under the General Comments section.

Question 1c.

Are the requirements in SQMS No. 1 clear and understandable? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

Answer

Qualified Yes

The requirements for the most part are understandable. The Committee has concerns with the understandability of some provision of the standard. These provisions primarily relate to risk assessment as detailed in the section titled **Risk Assessment** under the Committee's General Comments above. The Committee is concerned about how to define "risk assessment" and how to document it properly.

The Committee is also concerned with the understandable of how to document that the quality management system will be implemented and operated properly.

Question 1d.

Is the application material in SQMS No. 1 helpful in supporting the application of the requirements? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

Answer

Qualified Yes

The Committee recommends that if the standards are to become effective that an extensive educational process be put in place. The application material is very detailed and lengthy. There is a concern that small and medium sized firms will not have the proper time to get "up to date" once these standards are effective.

The educational process should include proper written policies and examples on how to implement, maintain and document the system.

Question 1e.

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

Answer

See our comments above under General Comments

PART 2: Scalability of SQMS No. 1

Question 2a.

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

Answer

Qualified No

There is great concern among the Committee members as to the proper scalability of the proposal and the effect of the approach on small and medium sized firms. See the Committee's comments above under General Comments.

Question 2b.

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

Answer

Yes

Additional material including example and sample language to be used plus education would be helpful. There needs to be a complete educational program not only for firms but for Peer Reviewers. See our the section titled **Timing of Implementation** comments above under General Comments

Question 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.

Answer

See our comments above under General Comments

PART 3: SQMS No. 2

Question 3a.

Which of the following best describes your view of the proposed SQMS No. 2?

Please choose only one

- Strongly support the proposed SQMS No. 2.
- Somewhat support the proposed SQMS No. 2.
- XX** Somewhat oppose the proposed SQMS No. 2.
- Strongly oppose the proposed SQMS No. 2.

Please provide additional details regarding your response.

Answer

See our comments above under General Comments

Question 3b.

Are the requirements in SQMS No. 2 clear and understandable? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

Answer

Qualified Yes

The requirements are clear and understandable. The effect on small and medium sized as detailed above under General Comments is where we have concerns about SQMS No 2.

Question 3c.

Is the application material in SQMS No. 2 helpful in supporting the application of the requirements? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

Answer
Qualified Yes

Additional material including example and sample language to be used plus education would be helpful. There needs to be a complete educational program not only for firms but for Peer Reviewers. See our the section titled **Timing of Implementation** comments above under General Comments

Question 3d.

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

Answer
See our comments above under General Comments

PART 4: QM SAS

Question 4a.

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

- Strongly support the proposed QM SAS
- Somewhat support the proposed QM SAS
- Somewhat oppose the proposed QM SAS
- Strongly oppose the proposed QM SAS

Please provide additional details regarding your response.

Answer

The Committee has no issues with QM SAS. The proposal strengthens engagement performance which the Committee believes is a positive approach. The Committee recommends that QM SAS be accepted as presented.

Question 4b.

Are the requirements in QM SAS clear and understandable? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

Answer
Yes

QM SAS is clear and understandable. See the Committee comments above under Question 4a

Question 4c.

Is the application material in QM SAS helpful in supporting the application of the requirements? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

Answer

The application material in QM SAS is helpful. . See the Committee comments above under Question 4a

Question 4d.

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

Answer

See the Committee comments above under Question 4a

PART 5. Effective dates and implementation period

Question 5.

Are the effective dates clear? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, describe what is not clear.

Answer

The effective dates are clear. However the Committee recommends additional time. The Committee has put forth three recommendation under the section titled **Timing of Implementation** above as part of the Committee's General Comments. The Committee refers the ASB to those comments.

Question 6.

Is an 18-month implementation period appropriate? Please answer yes or no. Please provide additional details regarding your response, and, if applicable, explain what implementation period would be more appropriate.

Answer

Please refer to our answer under Question 5 above.

PART 6. Other issues for consideration.**Question 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.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

Please provide additional details regarding your response, and if applicable, provide examples of safeguards that could lower the self-review threat to an acceptable level.

Answer

The Committee has set forth their views and recommendation to overcome the threat of self-inspection in the section titled **Self-inspection threats** as part of the Committee's General Comments above. The Committee refers the ASB to that section.

Question 8a.

Should a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement? Please answer yes or no.

Answer

The Committee has set forth their views on the issue of a cooling period in the section titled **Cooling off Period** as part of the Committee's General Comments. The Committee refers the ASB to that section.

Question 8b.

If you answered YES to 8a, what is the appropriate length of the required cooling-off period? Two years, one year, or a different length?

Answer

See answer to question 8a

Question 8c.

If you answered NO to 8a, please provide additional details regarding your response and provide examples of safeguards that could lower the objectivity threat to an acceptable level.

Answer

See answer to question 8a

Question 9a.

Should the engagement quality review should be required to be completed before the report is dated, rather than before the report is released? Please answer yes or no. Please provide additional details regarding your response. [Note that the ASB is interested in hearing whether your firm currently requires that the engagement quality review be completed before the report is dated.]

Answer

The Committee members in the great majority of engagements performed indicated that with rare exceptions that the engagement quality reviews were completed in advance of the issuance of the Report on the Financial Statements.

Some members noted that in some cases draft copies of financial statements were distributed to clients in advance of the EQR.

Other

There will be downstream effects of this Quality Management System standard once it is effective. A few are detailed below.

There will need to be changes to Peer Review Standards, Yellow Book standards and Ethics Standards. A joint implementation guide will need to be developed and issued by the ASB and various other Boards and Committees.

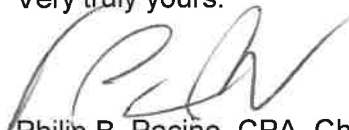
The future of the Engagement Review under Peer Review Standards will need to be addressed.

Third party research providers will need to adjust their processes to insure resource materials are in accordance with the Quality Management System standards.

Some members are concerned that the possible effect of this proposed standard will be that younger professionals will be reluctant to join small and medium sized firms thus resulting in further staff shortages and possible fewer small and medium sized firms.

Thank you for allowing us the opportunity to comment on these exposure drafts.

Very truly yours.



Philip B. Pacino, CPA, Chair
Accounting Principles and
Auditing Procedures Committee
Massachusetts Society of Certified Public Accountants