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To: Peer Review Board

From: Robert Loe, CPA, and AICPA member 

Re: Response to Exposure Draft "Proposed Statements on Quality Management Standards" and
"Proposed Statement on Auditing Standards"

Date: August 30, 2021

I have read the exposure draft. Since the emergence of the PCAOB, following the Enron debacle, the AICPA has dramatically increased the complexity of auditing standards, and peer review standards, specifically in the area of audit documentation and audit risk assessment. This has resulted in an increase in the time and effort required to complete all audits, not just those audits of employee pension plans, governmental units and not-for profit organizations. Many smaller CPA firms have found that it is no longer profitable to perform attest services, due to the increased time required to complete additional forms and checklists, resulting in a steady decrease in the number of firms who participate in our state's peer review program. In recent years there has been a corresponding decrease in the number of CPAs who are interested in to serving as peer reviewers, and it has become increasingly difficult for our state society to find CPAs who are willing to serve on the RAB.

Convergence: One of the reasons stated in the exposure draft is the ASB's strategy to converge its standards with those of the IAASB. Most smaller CPA firms don't care about convergence.

A New Approach Focused on Quality Management: "The new approach requires the firm to transition from policies and procedures that address standalone elements, to an integrated and iterative approach that reflects on the system as a whole." There are two components of the proposed system of quality management that I have some doubts about:

1. Risk assessment
2. The monitoring and remediation process

For the first twenty years or so, from the inception of the AICPA Peer Review Program, I believe that the quality of audits, compilations, and reviews increased substantially in the areas of reporting and financial statement disclosures. During that time period, less emphasis was placed

by peer reviewers on audit documentation. In the past ten years there has been a much greater emphasis by the AICPA on audit documentation, notably in the area of risk assessment.

During the last three years, I have served as a member of our state board of accountancy's Peer Review Oversight Committee. Most of the deficiencies that have been discussed at RAB meetings seem to be related to documentation of risk assessment, and errors in boilerplate communications, specifically engagement letters and client representation letters, rather than erroneous auditor's reports, and missing or incomplete disclosures.

Personally I believe that the auditor's report, and the financial statements and disclosures are more important to users of financial statements, than the content of the auditor's workpapers.

Clients and other users of financial statements never see and don't care about audit documentation. Audit documentation only exists to support the auditor's opinion.

The risk assessment standards have become so complex that many firms have decided they no longer want to perform attest engagements that are subject to peer review.

CPAs understand that their audit documentation must support the auditor's opinion. Every auditor knows that they must assess audit risk as a part of the planning process for each engagement. They just don't agree on what it should look like. The auditor's documentation of risk assessment will not look exactly the same for every audit. Auditors are concerned more about litigation risk, than the risk of not receiving a pass report from their peer review. A documentation standard that is principles based, rather than rules based, would result in a more efficient audit process. Standards that are rules based are harder to apply consistently to all engagements. For example, assessing (and documenting) audit risk for the City Fish Market, would be much different than for Amazon or Microsoft.

Peer review should address the substance of the audit documentation, rather than the form, with the task of determining whether or not the audit documentation supports the auditor's opinion. If the peer reviewer is able to determine that the firm's audit documentation supports its' opinion, the firm should not fail peer review for lack of documentation.

Merely increasing the complexity of the risk assessment standards and adding additional monitoring procedures will not increase audit quality.

The exposure draft itself repeatedly states that there will be challenges experienced by smaller firms in applying the standards. Why do we want to increase the complexity of the standards, if the net effect is simply to increase the time and cost to the auditing process without any apparent benefit?

Another area where the exposure draft seems to be overly ambitious is in the area of monitoring and remediation. Looking over old engagements has always seemed like a waste of time. Furthermore, most small firms are not members of associations. This is another area where there

could be challenges that will be experienced by smaller firms in applying the standards. The monitoring for smaller firm is not going to be the same as it would be for a larger firm.

Rather than adding a lot of additional rules in this area, why not require that as a part of the planning process the firm perform an inspection of the prior year's engagement documentation in order to determine, what changes need to be made, and what if any additional work will be required on the current year's engagement, in order for it to follow professional standards?

The Peer Review Board when promulgating the standards that peer reviewers and reviewed firms must live by, should place more emphasis on clarity, rather than obfuscation.

Approval of the exposure draft in its' present form will result in the further decline of the number of firms participating in the AICPA Peer Review Program, and the continued attrition and reduction in the number of CPAs who will want to participate as peer reviewers or RAB members.

The AICPA is a member-supported organization. It is not in the interest of the AICPA membership for the Peer Review Board to continue its present practice of developing standards that result in fewer of its' members engaging in attest work, nor is it in the public interest.