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August 30, 2021

Members of the Auditing Standards Board
Via email to Ms. Sherry Hazel
CommentLetters@aicpa-cima.com

Members of the Auditing Standards Board
c/o Ms. Sherry Hazel

Thank you for the opportunity to address two specific requests for comment on the Proposed Statements of Quality Management. These comments are being respectfully submitted from a small local firm perspective in opposition to both proposals.

Response to Issue 1, request for Comment #7

Respondents are asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. If not, please explain why and provide examples of safeguards that could lower the self-review threat to an acceptable level.

I disagree strongly with your proposal to change monitoring standards in circumstances where a firm would have to obtain an external quality control reviewer to comply.

First, a little bit about our firm. I have been in the profession since 1998 and was licensed in 2002. I have been a partner in our firm since 2007. Our firm is a two partner practice (myself and Johnny Fricke, Jr.). Johnny Fricke, Jr. has been in the profession since 1964 and was licensed in 1968. Our firm performs several audits and reviews for clients with assets ranging up to \$50,000,000. Our firm collectively has over 50 years of experience in performing auditing and accounting services.

My reasons for disagreement are numerous, and are as follows:

1. **This proposal is not warranted in the first place based on the evidence presented.** The proposal indicates in a VERY brief background that there have been "issues and challenges" faced by firms as pointed out by peer reviewers and regulators. What you don't cite is the size of firms involved in those challenges and the degree of issues or how big the problem really is among local firms (I'll define them as firms with 20 or less professionals, which make up the VAST majority of CPA firms in the United States). I have searched for results of peer reviews from the last three years and can't find the "issues" you are basing this standard on from the perspective of local firms. We all know it was the "big boys and girls" that embarrassed our profession greatly back at the turn of 2000 but SOX only applies to them, not to the entire body of CPA firms. Could you possibly be talking about the national ethics embarrassment that another big firm has become (search \$50,000,000 fine, cheating on ethics exams that were punishment for cheating on PCAOB examinations and you'll see what firm I reference)? Once again, that's not the problem of local firm America. Show me, in statistics, the exact degree of the problems cited caused by local firms. We are not the ones involved in "high-profile" business failures (which are also undefined in the background section of the proposal). I certainly don't see "Local Firm Involved in Parmalat Failure" anywhere in the newspapers in Cullman, Alabama or even in Birmingham, Alabama. I imagine what you could be referring to may be the failures in the Employee Benefit Plan (EBP) area quite a few years ago. The failures resulted in the

government threatening to remove the audits of those plans from the private sector. Those studies resulted in the AICPA charging firms like mine \$300 per partner per year to fund an oversight committee which does not even directly benefit a firm that doesn't do EBP work. In addition, AICPA personnel were quoted as basically saying "if you do less than 10-15 EBP audits, you need not to be doing them". There is little doubt among local practitioners that the AICPA has taken the bully pulpit to practitioners who work in the EBP area. Could this proposal be a continuation of "never letting that EBP crisis go to waste" in tormenting all local firms for the substandard work of a select few?

As to the IASSB issue, I see no benefit whatsoever to making all firms subject to the standard just because an insignificant number of local firms have IFRS work. Do you have any statistics as to how many local firms issue a financial statement that is used outside their community, much less outside the country? This rationale is confounding at best. I work in Cullman, Alabama, not Paris. Just as the convergence project stopped short of selling all firms out to IFRS, I encourage the Board to stop short again. Local firms DO NOT equal international firms in our need for overregulation! If I ever have clients in Germany or other foreign country, I will contemplate how they do things over there. Are we not the gold standard? Has that changed?

2. **I don't believe you have obtained adequate information from local firms as regards to this proposal.** The proposal indicates that the Board consulted the PCPS Technical Issues Committee (TIC) as all its (TIC) members "are from small firms". Your definition of "small firm" and mine differ greatly. While I searched diligently for a complete listing of the 14 members of the TIC, I was unable to find one. However, I was able to locate the names and CPA firm employers of the last three chairs of the committee that "represents" all small firms. One works for BKD, which lists its current employees on its website at 2,981. One works for PKF Texas which lists its current employees at 137 (Texas office only, probably a few thousand nationwide). And lastly, the current chair works for Dixon Hughes Goodman, which lists 2,000 employees on its website. Now, let's take a look at accurate statistics of how many a "small firm" employs. An article in Accounting Today from September of 2018 states "there are around 46,000 CPA firms in the United States and the 500th largest has about 20 people and \$3 million in revenue." That equates to 45,500 firms with 20 or less employees (99% of the total). While TIC is labeled a "volunteer committee", its members are appointed to it by the AICPA. In my opinion, at least 7 of the members of TIC should be from firms of 20 or less before it could ever be considered "representative" of the CPA firm population. I am unaware of any "real" local firms that have indicated support for this proposal. However, I am aware of fear and disdain of the perceived inappropriate and overreaching regulation of their practice and, thus, their clients. Item number 3 below lists reasons why local firms don't like this proposal.
3. **The proposal leaves only bad choices for local firms.**

The firm can:

- a. **Utilize the services of an external reviewer who has to complete the review and sign off before the issuance of the audit report.** Given that many audits performed by local firms are in the midst of "busy season", what firm in the local area would have the resources to loan experienced professionals to do the work of another firm without asking astronomical rates, which, of course, then would have to be passed on to the client? How am I supposed to explain that fee increase to my client? "Well, our regulators think we aren't big enough to do your job appropriately?" Hmm. Where does the client then go? Correct! To the larger firms who would be largely unaffected by this provision. And who is the Board looking for in relation to guidance (and who will be voting) on this provision? Right! Firms that meet that profile; NOT true local firms.

Other practical issues would be finding a quality reviewer that exists in, say, rural locations where the local firm is also the local expert in a particular industry, coordinating schedules so the poor client in all of this doesn't have their reports needlessly delayed. In addition, what are the legal ramifications if all parties miss something? Can you sue your quality reviewer? Wouldn't the client need to know that their files were being examined by someone other than the CPA Firm? What about risk of client poaching by the quality reviewer? Who breaks the tie if the local firm disagrees with the quality reviewer and the reviewer is clearly wrong in their position? Would there be another AICPA hotline for that "(Non-employee technical reviewer hotline, can I help you?)" I mean it's what happens in peer reviews. Don't

think it wouldn't happen under this new proposal. Finally, this would set up a situation where other reviewers may "squeeze" one of their competitors by ganging up and refusing to quality review their files so as to force the "victim" firm to either not comply with the rules, skip the engagement quality review altogether or release the client. None of these options are an appropriate outcome.

Let's be honest. The true objective in this proposal is to have continuous peer reviews of most all local firms. The Peer Review Committee had an idea 5 plus years ago to place hardware in a firm whereby all engagements could be continuously monitored with little flags popping up to indicate a potential deficiency occurring which required action by a partner or the AICPA would swoop in to "help" and that proposal didn't come close to happening. So, now, the Board is looking to accomplish that utilizing another path. We have peer review for a reason every three years. That is all we need! It would be incredibly burdensome on local firms to add an outside quality reviewer mandate to the list of things we have to look after and ask our clients to cover the costs.

- b. **Firms may not subject as many engagements to quality reviews.** Since firms are allowed to determine which engagements will be subject to engagement quality control reviews in the current standard, this could certainly occur. Of course, that would devastate the original intent to look closer at our engagements.
 - c. **Firms may get out of the audit business.** The AICPA made it clear a few years back telling firms in the EBP business to, in essence, "go deep or get out" (nice advice from a trade organization). One wonders if this is just the next step to forcibly consolidate audits in the hand of much bigger firms by making it impossible for local firms to compete. In my opinion, this provision would be dangerously close, if not over the line, to being an "unreasonable restraint on trade" under the Sherman Act for local firms.
4. **Can the ASB prove that change, if necessary, would be successful in improving local firm audits?** Given that the ASB has not provided the statistics related to the "issues" related to local firms in the United States (where we live and work and our clients live and work), it is hard to make a case that a change would succeed as the problem hasn't even been quantified or defined in the case of local firms. The ASB makes a vague statement in the background that there is too much dependence on third-party materials (a vague reference no doubt to the AICPA's product nemesis PPC). How would that change if you have to hire some external experienced person who most likely utilizes PPC themselves? Is the AICPA intending to maintain a list of approved Quality Control Reviewers who swear allegiance to only using AICPA materials? In fact, if rules and regulations didn't change so much and so often, we wouldn't need nearly as much third party guidance!

The next part of my response to this provision is alternative suggestions. I would respond like this: Usually in a debate or court case, the plaintiff (in this case that would be the ASB) makes a case indicting the status quo (what is referred to as "extant" in the professional literature) with specific evidence to establish that the current way we do things as local firms is flawed. As indicated above, that evidence has not been presented so there is nothing to change from our three year peer review approach or extensive CPE requirements currently utilized. However, I'll play along.

1. **If the Board believes there is still a problem in the EBP area, then require that EBP engagements get additional scrutiny and have additional CPE in that area.**
2. **For firms who have had clean peer reviews for the past three cycles, extend their cycle to four years or five years from three. Then, take the resources you would save on that vast majority of firms and shorten the failing firms cycle to 1-2 years or continuous.**

As a last thought on the matter, I can sum up my response to this proposal quite succinctly: You (the Board) keep trying to punish the entire population for the sins of a very few. There is nothing in any concept of equity that supports that treatment among local firms. In fact, as I understand it, a requirement to have an external reviewer on engagements is currently a punishment dispensed out for peer review or ethical violations of the very few. Why must all local firms be treated as if we are and were the problem? If you must pass this proposition, I would give an exception to it for firms who would have to hire an outside quality reviewer.

Response to Issue 2, request for Comment 8

Respondents are asked for their views on whether a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement, and (a) if so, the appropriate length of the required cooling-off period, or (b) if not, please explain why and provide examples of safeguards that could lower the objectivity threat to an acceptable level.

I strongly oppose any cooling off period for engagement quality control reviewers in situations where the firm would need to go outside the firm to hire an engagement quality reviewer.

I want to start my discussion of this with an overview/indictment of the process the ASB is using to develop the proposed standards in their entirety. In the background section, the Board seems to treat the International Auditing and Assurance Standards Board (IAASB) as if their policies are universally "Godlike" and appropriate for audit firms of all sizes. I think that is an enormous mistake on the Board's part. From reading the IAASB statements, it's as if we are just cutting and pasting what the IAASB has already passed across the pond and subjecting all auditors to it.

The Chair of the IAASB is an individual named Mr. Tom Seidenstein. His resume', taken directly from the IAASB website, reads as follows (look for ANY evidence of an audit background):

Mr. Tom Seidenstein is the chair of the International Auditing and Assurance Standards Board. He commenced his three-year appointment on July 1, 2019. His career has spanned both the private sector and international standard-setting. Prior to joining the IAASB, Mr. Seidenstein has held senior strategic leadership positions at the Federal National Mortgage Association, commonly known as Fannie Mae (Senior Vice President, Strategy, Innovation & Capital Management: 2012-19); and the IFRS Foundation (Chief Operating Officer: 2000-2011).

Additionally, Mr. Seidenstein has served at a consulting organization for not-for-profits, CCS Fundraising (Executive Director: 1999-2000), and the Center for Strategic and International Studies (Special Assistant to the Managing Director: 1995-1997). Mr. Seidenstein has also served as a Trustee of the International Valuation Standards Council (IVSC) and on XBRL International's Board of Advisors.

A strong believer in volunteer service, Mr. Seidenstein has held or holds volunteer leadership positions serving school education the USA and the Make-A-Wish Foundation (both UK and international boards). He holds a Masters in Public Policy from the Kennedy School of Government at Harvard University and an undergraduate degree (*cum laude*) from the Woodrow Wilson School of Public and International Affairs at Princeton University.

Why are we relying on an international committee led by a non-auditor with no real world experience to seismically change our audit landscape for local firms in the United States?

If you don't believe that he has no audit background, read the first paragraph of the following article posted on the IAASB website and see if it sounds like the IAASB plans to stop their audit regulatory changes at these same standards the Board is trying to push on all local firms. Also, note the very close wording the Board has given in its background section to propose radically transforming local firm audits for no evidenced reason.

With New Standards in Place, Proactive Quality Management Will Underpin the Next Era of Audit Transformation

Tom Seidenstein

Chair, International Auditing and Assurance Standards Board

Published Sep 23, 2020

Last year, as a non-auditor, I joined the International Auditing and Assurance Standards Board (IAASB) with a firm conviction in the value of the audit profession. At its best, the audit profession should drive greater confidence and trust in our economy and the functioning of our markets. At the same time and despite the good work of many auditors, recent corporate failures have raised fundamental questions regarding the relevance and quality of audits.

"Era of Audit Transformation". Seriously? What else is the Board willing to tag along with the IAASB on that you aren't yet disclosing? As a local practitioner in the UNITED STATES, I don't care that the Parmalat audit blew up across the pond. That's the big firm's problem. It's not something that should be leveraged to alter how firms of 20 people or less do their work in this country, where we live, and where our clients live. Tom makes no mention in his article of the impact on local firms. Our Chairman of the ASB called it a "heavy lift" for small firms in a meeting where CPE speaker, Jim Martin, attended virtually some months ago. At least his assessment is more transparent.

Once again, the Board may state they are in touch with local firm needs. See the indictment on the claim the TIC is made up of folks from small firms above. The Board itself is just as bad. Of the 12 committee members that worked on this proposal's task forces, 7 work for firms with 2,000 or more employees, 3 work for firms with 50 or more employees, 1 appears to be a sole practitioner specializing in the "blown up area" of EBP that I suggested you regulate further in my prior comment above and the other firm represented on the task force doesn't list a number of employees (but has 7 partners). Where is the true local firm representation of the other 45,500 firms with 20 or fewer employees? Once again, it is non-existent. Where is the proof that the IAASB models will even work? They are just a deliberately created group of thinkers with lots of ideas, but with no real world results. By the time the dumpster fire gets going, the committee is long gone. By the time the fire is out, our local firms are greatly diminished. We have just as much of a right to provide these services to our clients as the big firms and should not be pushed out of providing these services when we provide quality work.

Why is a mandatory cooling off period a bad thing for local firms?

1. **It invites a reduction in engagement quality reviews.** As indicated in my earlier comment, if the firm will have to go outside its doors and hire a quality reviewer, the incentive is there to opt out of some quality reviews, which, of course, crushes the Board's intent to make the audit a better product.
2. **It hinders training of up and coming partners.** Who is going to review the engagement file of a new partner when the immediately past partner is barred from doing so, especially when the firm only has two partners qualified in the area? Once again, refer to the issues with external monitoring in my comment above.
3. **Where is the empirical evidence, which major policy decisions should be based on, that having a former engagement partner review files within two years after being replaced on the engagement will damage the engagement on a local firm level? Where is the empirical proof it will improve it on a local firm level?**
4. **What is "cooling off" to a local firm anyway?** Is the former partner allowed to still communicate with the client, advise them, go to church with them, attend their child's wedding, or do estate planning for them? In the world of the local firm, we do all that. In fact, the client stands to incur substantial harm if we suddenly have to shut up and move on from them for two years just because we aren't the engagement partner any longer.
5. **It could encourage firms to "mislabel" the engagement partner on the job.**
6. **It probably constitutes a restraint of trade.** It seems to me this is a trade organization (the AICPA), subject to antitrust laws such as the Sherman Act. How can the AICPA constrict my ability to do business while allowing firms of larger size to not be subject to the same requirement of having to go outside the firm to find a reviewer? Doing so would require my firm to pay extra fees and be subject to the market forces mentioned in the comment above while larger firms, such as the ones represented as the voting members on this proposal, are not subjected to that issue. This clearly stifles competition among firms and potentially costs me clients. That is the definition of an unreasonable restraint on trade.

My suggestion to solve this non-existent problem in local firms is to drop the proposition from the proposal, at least for local firms where it would require the use of an outside quality reviewer. Once again, local firms are being asked for ways to solve a problem it hasn't been proven even exists! The concept of being asked to prove a negative is simply unfair.

Members of the Auditing Standards Board
Via email to Ms. Sherry Hazel
CommentLetters@aicpa-cima.com
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As stated at the start, I appreciate the opportunity to submit these comments.

Sincerely,

A handwritten signature in cursive script that reads "Chasity L. Sweatmon". The signature is written in black ink and is positioned above the printed name.

Chasity L. Sweatmon, CPA