RW GROUP
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August 31, 2021

Auditing Standards Board
American Institute of CPAs

Proposed Statements on Quality Management Standards – Quality Management
A Firm's Statement of Quality Management
Engagement Quality Reviews

Proposed Statement on Auditing Standards
Quality Management for Engagement Performance
in Accordance with Generally Accepted Auditing Standards

RW Group, LLC is pleased to offer our response to the above mentioned exposure drafts addressing firms' quality management of their practices. Although we hope that our response does not come off in its entirety as overly negative, or contentious, our first comment regarding the exposure draft is simply – "what's broken with what we already have?" Members of our firm have been performing peer reviews for nearly two decades and it is a rare situation that work not performed or reported on in accordance with professional standards is due to a poorly designed system of quality control. More likely, it is due to the firm not complying with their existing system. Changing standards, in our opinion, will not mean that firms who previously performed below expectations will become emboldened to mend their ways and automatically become firms of excellence.

Our existing Statement on Quality Control Standards (SQCS), in coordination with the AICPA peer review program, does an admiral job in not only identifying firms that need to improve their engagement performance, but gives them the tools and guidance to achieve just that. We see very little in the new proposed standards that seem to provide additional enhancements to our existing requirements. Although there are some additional requirements beyond what is currently required in the SQCS, we are not convinced that the benefit will exceed the cost of implementation, and in some circumstances, may be so cumbersome, that even high quality firms will find that the cost to comply will be prohibitive.

Further, we believe the proposed standards are overly intrusive on a firm. They go beyond addressing a system of quality solely ensure that engagements are performed in accordance with professional standards but go on to describe how a firm should be managed. I am unaware of any other profession in which their companies are instructed in how they should be managed.

Our responses will mostly be towards the impact to smaller firm's performing attestation services.

We note that one of the two new elements *The firm's risk assessment process* states that this is a new approach that focuses the firms' attention to risks that may have an impact on engagement quality. I would disagree that this is new, but rather inherent in the firm's current system of quality control. When a firm has developed its existing system of quality control, the policies and procedures included in that system are directly in relation to risks. Although inherent in the existing systems, it is most apparent in the firms' Engagement Quality Control Policy in which the firm's, through an evaluation of the make-up of their client base, specifically identify the types of engagements that present heightened risks and therefore require the firm to subject those engagements to additional review procedures.

The second new concept relates to information and communication. Although we recognize that there is a great deal of flexibility in the proposed standards in how firm's may design their system to address this component, the need to design procedures around this seem to result in minimal advantages to the firms.

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SQMS 2 requires a determination as to when an engagement quality review (EQR) is required. We recognize that this is not a new requirement, as it is already included in the SQCS. Our major concern with the proposal is the potential limitation on a previous engagement partner to perform the EQR. This can be a costly change for a small firm. Consider a single partner firm that admits a new partner. In every situation we can identify, when this happens the existing partner transfers a portion of their clients to the new partner. Under the proposal, this would mean that engagements would have to go to an external individual for the EQR. Of course, this would depend on the firm's risk assessment as to when an EQR would be required. In this situation, it would not be unusual for the firm to conclude that some of the engagements under the responsibility of the new partner would become subject to an EQR solely due to the fact that the individual has new responsibilities; the engagement may not have met the criteria for an EQR if it was still being performed by the previous partner. Further, in a smaller firm, firms may not have the breadth of expertise among a number of partners when an engagement rotated. Therefore, firms may make a decision not to rotate work to avoid having to out-source the EQR, which inherently could elevate other threats to engagement quality, or worse, create a situation in which firms do not promote/admit new partners because the system of quality management would create additional costs. We understand that economic considerations should not play a factor into engagement quality, but it is quite real that the proposed changes could cause that to slip into decisions, even if subconsciously.

Further, the United States is a much more litigious country than many others around the world. Based on our own firm's experience finding external EQR is extremely difficult. By bringing in an external resource to perform the reviews subject those participants to litigation risks. Risk a firm, or their insurance companies, may not be willing to assume. There is already a shrinking pool of peer reviewers, which is the likely resource firms will look to in order to fill this role. Compound the problem of the limited pool of potential reviewers with the fact that the engagement deadlines for both the reviewer and the firm are more than likely the same, and with the existing staffing shortage, it becomes even more unlikely that potential EQR reviewers would be able to assume more work. Another way to look at this, even if it was agreed that an external EQR would be the solution for a small firm, or when a partner is subject to a cooling off period, the requirement becomes unfeasible if firms can't engage a reviewer.

We suggest that the limitation on the previous partner's ability to perform an EQR be removed from the final standard.

Specific to the implementation date of the standards. Honestly, we have struggled with whether we feel the implementation period (18-months) is appropriate. Although we believe that it is incumbent upon firms and practitioners to be able to implement new standards, whether these proposed standards, or any others, the reality is that for some firms, especially smaller ones, they will either not understand how this impacts them, or will miss it altogether. This is not an excuse not to keep to a shorter implementation period, but we believe there will be a significant number of firms that don't comply timely, and it won't be discovered until the peer review occurs. Accordingly, we believe there will be better compliance if the implementation period extends long enough that the peer review program can be an resource to educate firms that this is coming, as opposed to penalizing the firms when they haven't appropriately adopted the standards.

We noted that there is a question as to whether self-inspection by those involved in the engagements should be prohibited. For the same reasons this was not included in QC Section 10, we believe this should be carried forward to SQMS 2. The reason stated that QC Section 10 did not require an independent inspection of engagements was that the peer review process provides a safeguard and provides evidence that the monitoring procedures involving self-inspection can be effective. Since QC Section 10 became effective, the peer review program has become more robust with various levels of oversight, and the statistics on the effectiveness of that additional oversight has shown significant engagement quality improvements. Accordingly, there is even more evidence that these improvements, and the potential self-review threat is reduced. If the proposed change prohibiting self-review is implemented, there will also be a significant increase to firm costs; generally, firms will need to undergo the equivalent of a peer review every year, albeit, without the review acceptance process. Lastly, the inspection of the completed engagements generally occurs weeks or months, perhaps up to nearly a year, after the engagements were performed; accordingly, there is ample time for those inspecting the engagements to be able to take a skeptical approach to reviewing their work.

Similar to our comment above regarding engaging an external reviewer, it is also highly likely that firms will reach into the peer reviewer pool to find individuals to perform the inspections. Also as noted above, the pool of reviewers is shrinking and highly probable that firms will have a difficult time finding individuals with the time and resources to perform the inspections. Again, as a litigious country, there becomes more risk to external resources as courts (plaintiffs) will look at these ongoing engagements as creating a relationship in which the reviewer is now a part of the firm's system of quality management; accordingly, the inspector and their firm will be subject to additional risks. This risk is mitigated in the peer review program due to (1) the frequency of the peer review, (2) the requirement is imposed by most (if not all) State Boards, and (3) under the peer review standards there is very limited documentation that is retained by the reviewer.

We suggest removal from the final standards the prohibition that those involved in the engagement be precluded from inspecting the completed engagement.

The proposed standards purport to require that firms take a risk based approach to designing and implementing a system of quality management. Rather than prescribe certain procedures or policies a firm must incorporate into their firms, we suggest that, as a profession, we rely on firms' ability to perform those risk assessments and develop a system appropriate to their individual needs. The suitability of the firm's system can then be evaluated during the tri-annual peer review, as well as annually during the firms' internal inspection.

We refer back to our first paragraph in this response – "what's broken with what we already have." Our final remark/question is, has anyone performed a cost-benefit analysis in relation to the adoption of these standards.

Respectfully submitted,

RW Group, LLC