

From: Sarah Hardee <sarah@phbcpas.com>
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To: Comment Letters <CommentLetters@aicpa-cima.com>
Subject: Quality Management

I apologize for not using the template. I have been out of the office and wanted to get this you by the deadline and this is the format in which I already had my thoughts. I do have concerns with a couple of the elements. Not surprisingly they are the self-inspection and two year cooling off period for EQCR. I recognize my situation may be unique, but considering all the firm mergers recently, it might not be that rare.

I've recently moved from audit partner to managing partner. It's critical for the health of my firm and my clients that I maintain a watchful eye over the audit department and I intend to that by performing EQCR and peer reviewing the department annually during the inspection period. This year in particular it is critical for me to perform that task. I have stepped out of the engagement team but I still know all those clients well. While I'm curious to see what new approaches the engagement team will take and new risks they will identify, I know where the risks have always been and I want to know the team is covering them. I'll do that through EQCR for our highest risk clients, I'll spot check CPE records and independence forms, I'll review agendas for the audit department meetings and at the end of our next period I'll conduct the annual inspection (catching some engagements that were not selected for EQCR). It's most effective for me to perform the EQCR function the year after exiting as the audit partner. With a 2 year cooling off period I won't know what I know now and my knowledge is relevant to the audit. Also, I don't understand the point of the two year cooling off period. If I'm off the job for 2 years, but then perform the EQCR every year afterwards, doesn't this make me somewhat familiar with the client again? If it's that important to have no understanding or familiarity with the client, except what's written in the file, why wouldn't the rule be that you could only perform the EQCR every two years? Not that I'm recommending that!!

Also I have issues with the recommendation that the inspection be performed by someone independent of the engagement team. I understand that this means the inspector can't be someone on *any* of the audit jobs. Exactly who would that be? The only people in our firm who aren't on any audit jobs (including me as EQCR) are tax accountants and bookkeepers. So they definitely are not qualified. Even huge firms don't have auditors (or audit partners) who aren't on *any* audit jobs. Why would they?...and wouldn't they cease to be auditors if they aren't on any engagements?...and wouldn't they cease to have the expertise to perform inspection if they aren't on any audit engagements for the entire year? Please let me know if you think I have misunderstood this requirement.

It seems as though the AICPA is removing the most important parts of monitoring from the firms' responsibility and placing it on an outside party. When these firms then choose the cheapest inspector possible (and you know they will) or ask their tax partner to do it and still fail peer review it will be the peer reviewers who get the blow back.

So would it include a requirement that the firm doing inspection pass scheduling with the AE's? Otherwise you know as well as I do that people are going to start by asking their tax partner (or lowest bid) to do inspection then they're going to hire an unqualified inspector.

If the AICPA wants to make a requirement that all EQCR and inspections be performed by persons hired outside the firm, why aren't they just saying that? In my reading of the standards; we do this often to ourselves. We don't just say in the standard what we really want. I know the AICPA didn't write the YB but as an example, we saw it with the 2011 YB and the safeguards for nonattest. It had to be clarified in the 2018 YB. We thought we said what we meant but we got so tied up in not taking judgement away from the firms, we ended up being vague. If you just said it has to be an outside qualified person approved by the AE, I still wouldn't like it, but we'd have a lot easier time as peer reviewers defending why we'll be failing firms left and right for the next 9 years. Firms are going to tie themselves in pretzels to "interpret" the standard in a way other than the way the AICPA wants.

I believe I'm qualified and can perform this task better and more efficiently for my firm and my clients. In my firm, my expertise is too valuable to be placed on a shelf. That's exactly what this new standard would do. Sure; I could be 2nd partner review and get all tangled up in audits whenever 2nd opinions are required...but I'd still have to hire someone to give a 3rd opinion -and you can bet, I'll pay for a quality person. So from a business perspective, why would I choose to triple review a file? Hiring an outside EQCR would also require scheduling logistics which will delay the issuance of the audits. Peer reviewers are busy and they're usually busy at the same time of the year that firms will need EQCR and Inspection. If you care about quality you'll plan to hire a peer reviewer. So now we're cutting an already small number of reviewers in a third. You're not just going to have to find 1 reviewer every three years. You're going to need a different one throughout the year for EQCR and a 3rd one to do inspection each year. If you're a member of EBPAQC and GAQC you're also going to hire an inspector in the same 6 month period you're hiring a peer reviewer to look at most of the exact same engagements at the exact same time.

Certainly there would be cost concerns but there will also be an illusion of better quality without actual quality. Many firms will hire an EQCR or inspector who is not qualified but cheap. See my above comments about them needing to go through scheduling with the AE's if they do this. So now, because we are a quality firm and we will always take the standards seriously, we will be at a competitive disadvantage against firm's who cheap out.

I understand the AICPA wants to know why we think we can be effective at doing it ourselves. We have always had a pass peer review report and that should be considered. I am in CPE throughout the year and not just crammed all into the last few months. At our firm we don't all sit in the same CPE class, learning the same material, from the same instructor. We've identified that as a risk. So some of us will attend the TSCPA EBP conference, while others attend the AICPA EBP conference. We choose different classes and different providers and then assign tasks at audit meetings to discuss what we learned in our individual classes. If we all do take the same webinar, it's best to have it on demand. When it's on demand, we can pause it and explain to the young auditors how what we're learning relates to our specific clients so they have examples and we have discussions about it. A 2 hour webinar might take us 3 hours or more to complete. My knowledge of the standards is different and complex from my staff's knowledge and therefore I can provide effective quality control. Occasionally my staff will push back on review notes and I encourage that because I have smart auditors. They have taken different CPE than me and have a different perspective. A healthy debate of the standards means they've done independent research and they don't just take my word for it. It's my favorite thing when they are right.

If the AICPA goes forward with this as written they need to:

- 1) be more specific so firms are not going out of their way not to get it

- 2) make more of an effort to make sure firms know the stds have changed – think big advertisement campaign
- 3) make it mandatory to hire outside (qualified and approved through AE's) EQCR and inspectors or you need to remove it altogether
- 4) if they make it mandatory or leave it vague (the way it is) you should have to schedule your EQCR and Inspectors through PRIMA so we know they are qualified

Thank you for your consideration of my comments.

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