

August 31, 2021

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Sent via email: CommentLetters@aicpa-cima.com

Proposed Statements on Quality Management Standards-Quality Management (A Firm's System of Quality Management and Engagement Quality Reviews) and Proposed Statement on Auditing Standards (Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards)

This letter is in response to the proposed aforementioned standards issued by the AICPA dated February 4, 2021.

Background

415 Group is a firm of certified public accountants with 8 partners and approximately 70 other individuals. Our practice includes accounting and attest services in addition to tax and other non-attest services to organizations in a wide variety of industries. For a firm our size we have a relatively robust Quality Management system that was developed by former audit partners and senior managers with significant Big 4 firm experience.

We appreciate the opportunity to provide responses to the certain specific questions included in the exposure draft as well as other comments we believe to be relevant.

Specific Request Part 1: SQMS No. 1

Part 1a – Provide your views on the proposed SQMS No. 1

We are somewhat in support in support of the proposed SQMS No. 1.

Part 1b – Provide your views on (any or all of) the fundamental aspects

We are in support of the concept of improvements to Quality Management including the concept of scalability for differences in firm size. The requirement that firms identify information indicating the need for additions or modifications to quality objectives, quality risks or responses is reasonable, however we have concerns that as the AICPA continues to emphasize convergence with International and PCAOB standards that the concept of scalability will be lost with bright line requirements not currently in place or contemplated by these other standard setters.

We believe that the consideration of the technological, intellectual resources in addition to the existing consideration of human resources may impose a measurable burden on smaller organizations.

While well intended, and particularly helpful with large national and global firms, we do not believe that for smaller firms the added cost is outweighed by the benefit of providing meaningful information to external parties about a firm's quality management systems.

Part 1c – Are the requirements in SQMS No. 1 clear and understandable.

We believe the requirements are clear and understandable.

Specific Request Part 2: Scalability of SQMS No.1

Part 2a. - Is the new quality management approach in SQMS 1 scalable?

We support the concept of scalability depending on firm size, however there are not enough specifics or application material in the Exposure Draft to form a conclusion.

Part 2b. - Would additional application material regarding scalability be helpful?

As delineated in our response to Part 2a, we believe additional application materials would be helpful. This will be particularly important for smaller firms which will likely need to invest significant financial and human resources to achieve what is required.

Part 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

Without specific details provided, we cannot effectively comment on what might inhibit scalability. We do observe, however, that while there are inherent benefits of convergence of audit standards, there may be unintended consequences that impact scalability in the future as other standard setters (i.e. IAASB and PCAOB) implement more rigorous requirements that the AICPA Auditing Standards Board may subsequently feel compelled to adopt.

Specific Request Part 3: SQMS No.2

Part 3a. – Which of the following best describes your views of the proposed SQMS

We are somewhat opposed to the proposed SQMS No. 2

Part 3b.- Are the requirements in SQMS No. 2 clear and understandable?

It is not entirely clear what the required firm policies or procedures should be that will include limitations on the eligibility of an individual to be appointed and serve as an engagement reviewer where the individual previously served as engagement partner.

Part 3d. – Do you have any other comments on proposed SQMS No. 2

The restriction on the engagement partner being precluded from dating the engagement report prior to receiving notification from the engagement quality reviewer is common sense and need not be reduced to a formal rule/requirement. We have concern that as this requirement (and others) is expanded in greater detail, that it may be accompanied by additional, narrow, and possibly onerous requirements (e.g. nature and format of the documentation of the notification) that are unnecessary.

The requirement that the engagement quality review perform the procedures at certain points in time during the engagement is generally more important when audit engagements have thousands or tens of thousands of hours during the period of professional engagement. For smaller firms that perform audits that have hundreds of hours, this requirement appears less necessary and becomes burdensome and overly restrictive. Audits that have several hundred hours are performed more fluidly and the benefit of coordinating and documenting the performance of certain aspects of the quality review is not cost effective by starting, stopping, performing certain procedures and ensuring the documentation and sign-off before other procedures can be performed. We do however support the requirement that the documentation of the engagement quality review be filed with the engagement documentation and that it be in sufficient detail to allow an experienced practitioner to understand the nature timing and extent of procedures performed.

Specific Request Part 4: QM SAS

Part 4a – Which of the following best describes your view of the proposed QM SAS?

We somewhat oppose the proposed QM SAS

Part 4b. - Are the requirements in QM SAS clear and understandable?

We believe the requirements are generally understandable, however, we believe more information is necessary to fully appreciate the new stand back requirement and the engagement resources requirement.

Part 4d- Do you have any other comments on the proposed QM SAS

The Exposure Draft references 'Other New Requirements' which apparently clarifies what an engagement partner needs to review and which are significant judgments and significant matters. We believe that generally the engagement partner is closer to the specifics of an audit engagement and is able to use his or her experience and judgment in determining what items need to be reviewed by the partner more so than the standard setters. This is true in general and especially relevant in smaller, less complex engagements handled by smaller firms.

Specific Request Part 5: Effective Dates and Implementation

Part 5a. - Are the effective dates clear?

We believe the effective dates are clear.

Part 5b. - Is an 18-month implementation period appropriate?

While many smaller firms (ours included), have relatively robust Engagement Quality and Quality Management processes already established, we do not believe an 18 -month period is sufficient to put into place the additional new requirements. This timeline is particularly troublesome for smaller firms that have less formal engagement quality and quality management processes in place. This timeline is overly aggressive and will be burdensome.

Specific Request Part 6: Other Issues for Consideration

Part 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.

We disagree. While it is desirable that the inspection be completely independent, we believe that in certain instances it is unavoidable. For instance, a smaller firm may only have 2-3 partners serving attest clients. This proposed requirement and the one with the cooling off period may make it impractical to achieve given that one partner serves as engagement partner and another serves as the quality control reviewer. We believe that effective resources and other practice aids already exist to allow a firm to make the appropriate decisions on which individuals to assign in the various roles of engagement partner, quality reviewer and engagement inspector. This requirement is overly burdensome for smaller firms and there is not sufficient evidence supporting the cost benefit relationship.

Part 8a. - Should a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement?

We believe there should be no cooling off period

Part 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?

N/A

Part 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.

This is not necessary for smaller firms that serve smaller clients. There is a benefit to having the knowledge of the systems, background and other matters that are learned by an individual serving as engagement quality reviewer; and that same benefit may serve a client best if that engagement partner is the best choice to serve as engagement quality reviewer the subsequent year. While there is an appropriate trade-off with the 'fresh set of eyes' that comes with cooling off periods for publicly traded entity audits, firms that serve such clients are generally larger and have a larger pool of audit partners to rotate in and out of the required periods. Smaller firms do not have the same sized pool of audit partners nor does the risk associated with the objectivity threat outweigh the cost (number of partners, disruption to client etc.) for the smaller, less complex non publicly traded clients.

We appreciate the opportunity to provide the above comments and are available for further discussion if that is helpful to the process.

Very truly yours,

A handwritten signature in black ink that reads "Four-Fifteen Group". The signature is written in a cursive, flowing style.

FOUR ♦ FIFTEEN GROUP