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Ms. Sherry Hazel
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We as a profession certainly appreciate the hard work that the committees have put into drafting the Exposure Draft of the Proposed Statements on Quality Management Standards and fully understand that like all other standards and practices it is best to look at what is working, what isn't and what can be improved. Also, we appreciate the opportunity to respond with our comments and perspective on the Proposed Statements.

One of the focus points that I have and is a critical issue that the IAASB has identified on page 7 of the document as "Challenges experienced by smaller firms in applying standards". While all agree that achieving and maintaining quality is to always be accomplished, we do need to be aware of some items in the QM document that may affect smaller firms in a more impactful manner than larger firms.

Re: Issues for Consideration – Issue 1 – Self- Inspection

Specifically, The engagement quality review and my understanding that small firms with for example, only one Partner having knowledge for an industry, will need to outsource the engagement quality review function. This will add a burden on the firm and ultimately the cost to the client without necessarily adding to the quality of the product. An outside reviewer does not necessarily have the proper knowledge of a client to assess the related financial reporting requirements.

I am not aware of the international standards (that are referenced in the proposed statement) but to me in a small practice, we are affected on a national and local level. That is in Illinois, there is a requirement that not-for-profit charitable organizations with gross contributions in excess of $300,000 have an audit. Also, the state of Illinois requires all municipalities with a utility system to submit an audit, regardless of its size. In the state of Illinois, approximately 1,600 audit reports are submitted to the Illinois Comptroller's office by counties, municipalities, and special districts, many of which have less than $1,000,000 in revenue. In addition, there are approximately 850 school districts, all of which require audits under Government Auditing Standards. These governmental entities make up the majority of many small firms' audit practices in Illinois. This underscores the need to be able to affordably implement these new standards.

So, the requirement of an external engagement review will be an additional financial burden to taller client base. When, if all things are the same year to year and no other issues have been identified, the self-review threat risk can be overcome by a cool down period by the engagement partner and their subsequent review.

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Getting back to the risk-based approach to quality management (as you have included in the QB document), wouldn't it make sense that if a risk is identified, such as a new "complex" accounting standard has been implemented or a "new industry" client for the firm that this would be the circumstance for a small firm to obtain an outside engagement quality review. This risk as identified by the firm should then be a Peer Review inspection item to ensure that this is in fact the practice of the firm. If the firm is found by its Peer Reviewer to not comply or have performed a questionable engagement quality review, then that firm should be required to outsource its EQR for the next two years. If, in the judgment of the Peer Reviewer, the firm has complied then the firm may continue to use the risk-based assessment noted above.

Regarding internal inspections, rather than outsourcing this process under all circumstances, We recommend that the if a risk has been identified that those engagement(s) internal inspection be outsourced. However, if a risk has not been assessed, we recommend that a cooling off period from the date of the financial report is adequate for a Partner to later inspect that engagement.

Also, the practice of outsourcing the engagement quality review and internal inspections is sure to hit roadblocks as the number of available practicing and qualified CPAs continues to decline. (The Illinois CPA Society has a 2021 Special Feature dedicated to "Decoding the Decline" in the CPA credential.) Who will perform these reviews if there are not available reviewers? This will impact the audited client. This will affect the audited organization in a financial way, e.g., from funder or financial institution requirements and timeliness of available audited financial reports.

Development of the SQMS

In the development of the Standards, have the committees considered the following:

1. How much latitude will firms have when determining quality risks?
2. Are there specific examples that always or in most cases pose a quality risk?
3. Are there examples or recommendations for the conditions, events, circumstances, actions, or inactions that create a quality risk?
4. Since the proposed language states "The assessment of quality risks does not require formal ratings or scores", is it appropriate to use low, moderate, and high or a score of 1 to 10 as appropriate ranges for risk? Without an end-result in mind for scoring and/or ranking risks, how will a firm determine, understand, and respond appropriately to the severity of the risks?
5. Will the firm be subject to the redetermination of the risk levels by the firm's peer reviewer? How does the firm's risk levels impact the peer reviewer's risk assessment process?
6. What if the peer reviewer determines the risks to be more severe than the peer reviewed firm?
7. When assessing the degree to which the factors may adversely affect the achievement of the quality objectives, are there examples that will assist firms in determining if a risk is low, moderate, or high?
8. Risk assessment is a complex process where mitigating procedures to eliminate risks could create other risks. Guidance needs to be established regarding when a firm should stop identifying risks. For example, if the firm uses an outside reviewer to mitigate the self-review threat, there is now a risk that the outside reviewer doesn't identify all key findings during his/her review because the outside reviewer may or

may not have been qualified. How should firms prevent being caught in a circular risk assessment process?

Effective Date

While the effective dates are clear, they do not take into consideration the strain the A&A community is currently experiencing due to implementing FASB 606 for certain clients due to COVID-19 delays, preparing to adopt the significant FASB standards that are effective for the 2022 year, and implementing SAS 134-137 over the next year, in addition to dealing with COVID-19 internally.

Extending the effective date an additional 18 to 24 months will allow the following to occur:

1. AICPA to develop implementation guidance and continuing education courses
2. Third-party providers to develop practice aids and other materials
3. Peer review team captains to discuss the new Quality Management Standards with firms undergoing peer reviews in the next couple years as part of their normal exit conference discussions on newer professional standards.

All three of these items should help to ensure a more successful implementation of the new requirements.

Thank you again for the opportunity to respond to this Proposed Statement

Sincerely,

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