

August 31, 2021

Tracy Harding, Chair
AICPA Auditing Standards Board
220 Leigh Farm Road
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CommentLetters@aicpa-cima.com

RE: Proposed Quality Management Standards

Ms. Harding:

As CPA on Staff and Chair of the Peer Review Committee of the Oklahoma Society of Certified Public Accountants (OSCPA) we appreciate the opportunity to comment on the proposed standards.

- Proposed Statement on Quality Management Standards (SQMS), A Firm's System of Quality Management (SQMS No. 1)
- Proposed SQMS Engagement Quality Reviews (SQMS No. 2)
- Proposed Statement on Auditing Standards Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards (QM SAS)

We understand the elements of quality management are highly integrated and do not operate in a linear manner. We support the integrated approach in Illustration 1 of the Explanatory Memorandum. We also understand the benefits of converging standards when possible. While we support improving quality of all engagements, we do not believe the cost of some of these changes outweighs the benefits received by the public.

The OSCPAs as an administering entity of the AICPA Peer Review Program is responsible for administering the reviews of firms in Oklahoma, Kansas, and South Dakota. Many of the peer review firms being administered by the OSCPAs would be adversely affected by SQMS No. 1, SQMS No. 2 and QM SAS. The added cost of implementing some of the requirements in the proposed standards would not necessarily improve quality of engagements. The added cost of complying with the proposed standards of quality management would need to be passed on to the entities for whom these standards were designed to benefit.

Our specific comments are discussed below.

1. Risk Assessment Process

Developing and documenting the risk assessment process for smaller firms will be costly and will require implementation guidance. Firms who currently do not perform audits may be unfamiliar with the risk assessment process and therefore may struggle to develop the risks associated with their practices and the responses thereto. In addition, small firms who do not have teams of quality management professionals will find it difficult and costly to continually reconsider whether all risks have been identified, documented and appropriate responses developed.

2. Governance and Leadership

SQMS No. 1 requires the assignment of ultimate responsibility and accountability for the system of quality management to the firm's managing partner or equivalent. In smaller firms it would not be unusual for the managing partner to be a tax practitioner. How will this individual be able to assess whether the system of quality management is appropriately designed and that proper responses have been established for all identified risks? How much training will be required for such an individual and how much reliance can this individual place on other personnel assigned to operational responsibility for the system of quality management or personnel assigned to specific aspects of the system of quality management?

3. Self-Inspection Prohibition

We do not agree that self-inspection should be precluded. Sole proprietors and small firms can, and often do, meet the objective in SQMS No. 1 of the system of quality management. This objective is to provide reasonable assurance that (a) the firm and their personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements and (b) engagement reports issued by the firm are appropriate in the circumstances. As long as the sole proprietor or small firm is meeting this objective, why is it necessary to add an additional burden to these firms which would be unnecessary? Peer review of these firms can determine if the objective is being met and if not, the RABs can assign implementation plans or corrective action to address this inability to meet this objective.

4. Cooling-Off Period

The arguments against the proposed cooling-off period in SQMS No. 1 as presented in the explanatory memorandum seem to be more compelling than achieving convergence with IAASB. The ASB noted that the AICPA Code of Professional Ethics does not require a cooling-off period but the International Ethics Standards Board for Accountants does.

In addition, the ASB noted that there is no research to support the supposition that a cooling-off period improves audit quality. A prescriptive requirement should not be promulgated that has not shown to improve audit quality.

The ASB also noted that small firms might have difficulty identifying qualified personnel to perform this review which would lead to the unintended consequence of fewer engagement quality reviews being performed. We believe this argument should not be overlooked and is highly likely.

5. Effective Date and Implementation Period

The proposed effective date of 18 months from the date the proposed standard becomes final seems to be too short. The ASB has said that it will issue guidance and we believe the ASB will need time to prepare such guidance. In addition, practice aids will need to be developed which will require implementation guidance from the ASB.

The Peer Review Board will need to develop new standards and checklists to address the changes made by this proposed standard.

We believe that a staggered approach to implementation as suggested by the AICPA Peer Review Board makes good sense. Larger firms could begin implementing the proposed standard first. This approach would allow smaller firms more time to prepare for the transition.

6. SQMS No. 2

We support the notion of an Engagement Quality Review based on appropriate criteria established by the firm. However, there are certain aspects of the performance requirements that we believe need to be clarified.

1. The engagement quality reviewer is responsible to perform procedures at appropriate times during the engagement. This requirement does not seem practicable for small firms and sole proprietors who will more likely than not have to find an engagement quality reviewer from outside of their firm. There is a variation in practice of how working papers are maintained so does the ASB anticipate the engagement quality reviewer making multiple visits to the firm to complete the engagement quality review?
2. The engagement quality reviewer is required to take overall responsibility for the performance of the engagement quality review and for documenting the engagement quality review. The documentation of the engagement quality review is required to be included with the engagement working papers of the engagement on which the engagement quality review was performed. Has the ASB considered to what extent a contracted engagement quality reviewer has exposed themselves to litigation since they could be perceived as

being part of the quality control of the firm to which they were contracted?

7. QM SAS

We have the same issues with the proposed Statement on Auditing Standards as it does with the proposed Statement on Quality Management.

We would like to thank you for the opportunity to comment and we appreciate your consideration of our input. As a closing thought, we would like to suggest that no quality standard can achieve the stated objectives without the commitment of personnel in the firm wanting to make it happen. In that regard, the proposed standards will not be any better in achieving quality than the extant standards.

Sincerely,

David L. Eatmon

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CPA on Staff

Ross H. Roye

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