

## Comment Letter

1a I somewhat support the proposed SQMS No. 1.

I see the benefit to having one set of rules, especially for firms like mine that need to follow PCAOB rules for certain engagements. My firm will embrace the proposal when approved, as we have the technical capacity to do so. Smaller firms, however, may need more time to comply.

Much is described about the need for these proposed standards and one should not argue against a desire to improve. However, many of the concerns about audit quality indicated by peer reviewers and studies of other regulators seem to relate to experience and to staffing constraints which, while they are important factors in “quality”, are issues of their own.

I’m also curious about the cost, in terms of hours, to develop, communicate and continuously monitor, remediate and improve a new style of system of quality management. While the extant standards also require these efforts, it seems that the proposed standards will require more hours.

1b I generally feel that the new and enhanced components are reasonable. The suggestion of implementation guidance related to monitoring and remediation would be greatly appreciated.

1c Yes

1d Yes

It’s hard to know what’s missing until you go through the process. Implementation guidance materials will be very important in implementing SQMS 1.

1e My main concern is the increase in effort (hours) required under SQMS 1. Clients will be the ones bearing the extra cost, as with all of the many, new, time-consuming standards, but foremost, we must have the capacity to perform the extra work. Also, I’m curious of the level of outreach done with users of middle-market financial statements.

2a Yes

2b Yes

2c As you have indicated in the Explanatory Memorandum, the proposed statement is more complex. That alone is a hinderance to scalability for smaller firms, as it is more to read, understand and comply with, at least initially. Have you considered a staggered implementation date for larger/smaller firms (or some other metric) to allow the smaller firms more time to learn from others and better understand the application materials?

3a I somewhat support the proposed SQMS No. 2.

This should not be a big change from current practice for my firm. However, I want to state that by mandating a cooling-off period, you are taking someone with great understanding of significant estimates on an engagement and removing them and their

knowledge/experience from the equation. This seems contrary to quality and may put an undue hardship on firms to seek outside EQRs, which are more difficult to manage and are costlier to obtain.

Similarly, by making the EQR eligibility requirements more robust, there may be fewer EQR options inside a firm, especially when eliminating a former engagement partner, which will lead to less use of the EQR as a tool in addressing firm quality.

Related to the “appropriate points in time” requirement, what about situations where it is only decided later in an engagement that an EQR should be performed? Would that be allowed under the proposed standard?

3b Yes

3c Yes

3d No other comments besides those in 3a above.

4a I strongly support the proposed QM SAS.

4b Yes

4c Yes

4d No other comments.

5 Yes

6 No

18 months seems like the minimum for a firm my size considering the level of communication that will be required. For firms without full-time dedicated personnel in the “quality” space, I’d like to see a longer timeframe so that implementation can occur while also doing their “day-to-day” work. Smaller firms might also benefit from the implementation lessons learned by larger firms.

7 Agree

I like this better as a recommendation, rather than a requirement, due to the impact to smaller firms. While the self-review threat exists, following a prescribed template, like the peer review checklists, would mitigate the risk. Also, someone familiar with the file would be more efficient at completing the inspection. Overall, I support this concept, but I don’t know if it fits well for all firms. If awareness about new standards is an area of concern (i.e. “you don’t know what you don’t know”), part of the inspection could be to review listings of recently effective standards for applicability.

8a No

8b n/a

8c I think we also need to consider the integrity of both the current and former engagement partners in this scenario, along with that of the team members.

9a Yes

Our firm requires that EQRs be completed before the report is dated. The alternative might lead to management representation letters becoming stale while the EQR is completed and engagement teams that are less receptive to EQR comments because the client signed the management representation letter already and thinks that the engagement is complete.

Name: Matthew Bishop

Organization Name: Katz, Sapper & Miller, LLP

Firm Size: 378