



August 31, 2021

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AICPA Auditing Standards Board

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RE:

Proposed Statements on Quality Management Standards (SQMS):

- **Quality Management: A Firm's System of Quality Management (SQMS No. 1)**
- **Quality Management: Engagement Quality Reviews (SQMS No. 2)**

Proposed Statement on Auditing Standards:

- **Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standard (QM SAS)**

Dear Board Members:

The Kentucky Society of Certified Public Accountants (KyCPA) is a statewide, non-profit professional organization serving nearly 4,500 CPAs in public accounting firms, business, industry, government, and education.

The KyCPA membership and Emerging Standards Committee are pleased to comment on the proposed standards listed above. These comments and recommendations represent the positions of KyCPA rather than any individual members of the Society, the organizations with which such members are associated, or the KyCPA Board.

Proposed SQMS No. 1

1. *Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 1 are clear and understandable and whether the application material is helpful in supporting the application of those requirements.*

KyCPA generally agrees with the development of the current Statements on Quality Control Standards (SQCS) into the proposed Statements on Quality Management Standards (SQMS). The addition of the risk assessment process and information and communication components to the current six elements of quality control under SQCS along with the expansion of the human

resources element to the more broad-based resources component are positive changes. These requirements are clear and understandable as presented.

However, identifying, assessing, and responding to quality risks in an effective, efficient manner may be a challenge for many firms unaccustomed to assessing firm structures and operations, especially for sole practitioners and smaller firms. The Society requests additional clarity and examples on several components of the risk assessment process and that additional guidance be provided for the proposed SQMS No. 1 before moving forward with implementation.

- 2. Respondents are asked to provide their views on the scalability of the new quality management approach. In addition, the ASB is seeking respondents' views on specific requirements in proposed FINAL DRAFT SQMS No. 1 that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful.*

The standard's use of "scalability" as proposed appears to be abstract and prior to uniform application of the concept, will require additional specific guidance. The addition of prescriptive requirements could negatively impact scalability and audit efficiency.

Proposed SQMS No. 2

- 3. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in proposed SQMS No. 2 are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.*

The requirements proposed in SQMS No.2 are clear and understandable however, the requirements may pose a financial and accessibility barrier for sole practitioners and smaller firms. Viable options for sole practitioners and smaller firms will need to be identified prior to the implementation actions or dates for these standards.

Proposed QM SAS

- 4. Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in the proposed QM SAS are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.*

No additional comments are needed regarding the proposed Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standard (QM SAS).

Effective Dates

- 5. Respondents are asked to provide their views on whether the effective dates are clear.*

Effective dates are clear and understandable.

6. *Respondents are asked to provide their views on whether an 18-month implementation period is appropriate. If that period is not appropriate, please explain why and what implementation period would be appropriate.*

An 18-month implementation period is not sufficient for firms to adhere to the newly proposed standards. Due to the delays of COVID-19 and the backlog in auditing and attestation services firms provide, KyCPA requests an extension to the implementation period. Providing for an extension period of up to 18 – 24 months would allow firms additional time to review and implement compliance to the proposed standards.

Any time period of 12 months or shorter would not be sufficient relief to firms that are continuing to recover from the COVID-19 pandemic economy.

Issues for Consideration

Issue 1 – Self Inspection

7. *Respondents are asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. If not, please explain why and provide examples of safeguards that could lower the self-review threat to an acceptable level.*

The preclusion of individuals that conduct inspections of completed engagements who are also involved in those engagements can be beneficial. A third-party review of an engagement allows for detection of errors that the engaging parties may not detect in their own work. Familiarity with clients can lead to overlooked mistakes however, there are concerns amongst KyCPA members on the standards that govern third-party inspections of engagements.

Conversely, the preclusion of individuals that conduct inspections of completed engagements who are also involved in those engagements does not guarantee enhanced and improved audit quality. Requiring a firm to utilize an alternative inspection of a completed engagement that has no background experience with the specific client can potentially be a detriment to audit quality due to unfamiliarity with the assessed client.

In addition, these precluding requirements could create financial burdens on sole-practitioners and small firms that participate in these engagements. The process of obtaining and securing a third-party review of an engagement would be less cost-effective than utilizing self-inspection procedures.

Issue 2 – Cooling-Off Period for Engagement Quality Reviewers (EQR)

8. *Respondents are asked for their views on whether a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement, and (a) if so, the appropriate length of the required cooling-off period, or (b) if not, please explain why and provide examples of safeguards that could lower the objectivity threat to an acceptable level.*

No current substantial research exists that provides evidence that the implementation of a cool-off period of a former engagement partner improves audit quality. The addition of this new standard would only increase compliance and financial burdens on sole-practitioners and smaller firms engaged in EQR.

Issue 3 – Completion of Engagement Quality Review and Dating of the Auditor’s Report

9. *Respondents are asked for their views on whether the engagement quality review should be required to be completed before the report is dated, rather than before the report is released.*

KyCPA finds no issue with requiring the EQR be completed prior to the report dated because any issues or errors can be detected and remedied to improve engagement quality.

The KyCPA membership and Emerging Standards Committee appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Darlene Zibart, CPA

KyCPA CEO, Emerging Standards Committee