

To: AICPA Accounting Standards Board

Re: Proposed changes to quality management standards

My name is Stephen Hopkins and I have been a practicing sole practitioner since 2000. I have never actually provided feedback on any proposed AICPA or GASB standards as quite honestly I don't feel as though they are specifically designed for sole practitioners and thus the feedback of a sole practitioner won't be considered. Unfortunately, I don't feel as though these comments will make a difference but given the nature of the proposed changes I do feel it is important enough to at least provide feedback.

In reading your exposure draft communication letter I would disagree that part of the purpose of these changes should be related in any way shape of form to peer review findings. Page 7 of the exposure draft document further states that the proposed changes have been influenced by concerns about audit quality indicated by the results of peer reviews and studies by other regulators. Audit quality should not be correlated to the quality control management system rules that are in place because if they were actually being followed there should be no specific issues. If a sole practitioner or an auditing firm has poor audit quality then that is a direct result of the skills and quality of work performed by that individual or firm. Changing the quality control management system rules won't change whether that individual or firm can perform a quality engagement. If they don't follow the current rules with the result being a low quality audit then they are not going to follow new rules thus still resulting in low quality audits. That is just common sense. The exposure draft provides the following examples:

1 - Risks to audit quality correlated with audits, reviews, and attestation engagements performed by engagement partners who perform a low volume of such engagements. How is a new quality management system going to change what types of engagements firms accept? A firm is going to accept a type of engagement that they feel they are qualified to perform. I am a sole practitioner who only has a small number of clients but they are types of engagement that I feel very comfortable performing. In addition, I don't feel as though the number of such engagement that an individual or firm performs is a direct correlation to the quality of the engagement. The quality of the engagement is a direct correlation to the time and resources that one allocates to the engagement. A low quality engagement resulting from not enough time or resources being allocated won't change simply because of new quality management standards.

2 - Consistency issues in the performance of engagements and a lack of focus on planning. I don't know how consistency issues specifically relate to the quality management system and the planning requirements for audit engagement are very clear. If an individual or firm doesn't currently allocate an appropriate amount of time or focus to the engagement planning then I don't know why new standards would change that. It isn't always about the rules and regulations in place but rather the willingness to do the work to follow the rules and regulations in place.

3 - Over-reliance on intellectual resources, such as third-party quality control materials, that are not sufficiently tailored to the nature and circumstances of the firm. I am not even sure as to what this particular "concern" is really saying? As a sole practitioner I utilize audit programs and checklists as provided by PPC. I think that this third-party service is invaluable and should probably be utilized by more firms. This provides a more consistent basis for the documentation being used to show the steps and procedures followed during the engagement. These products are not designed to be used simply as is but should be tailored by the specific individual or firm for their specific circumstances which is the manner in which I utilize them. Changing the quality management system standards will not result in these products no longer being produced and as such utilized by individuals and firms. Thus including this as a reason or partial justification for changing the rules seems odd.

4 - Challenges experienced by smaller firms in applying the standards. As a small firm I can certainly attest to the fact that there are challenges in applying all of the standards issued by both the AICPA and GASB. However, the proposed standards are amending it looks like 16 standards or sections of standards and creating an entire new quality management system. For those of us that actually do follow the current rules and regulations and have taken the time to face the challenges of implementing the current rules and regulations I am not sure how changing so many rules and regulations and adding new quality management standards is not going to be an even bigger challenge. So if your concern is current challenges it seems like creating even more challenges wouldn't be the best way to address this concern.

5 - A need to improve firm governance and leadership and the culture and tone at the top of the firm. This is a great example of how it appears that the ASB looks past the role of sole practitioners in the current auditing environment.

Both the communication letter and the exposure draft indicate that part of the reason for the new proposed standards relates to a changing environment and more diverse services which are being provided and that the use of technological resources by businesses and firms have increased exponentially and the expectation of regulators given the high profile business failures. These particular statements and or provided reasons for the proposed changes unfortunately seems to be implying that all audit clients and in turn all auditing individuals or firms should be lumped into one specific set of quality management tools. Unfortunately this is similar thinking as the GASB uses when they come up with standards which are really only designed for the financial statements users of large municipalities. My practice focuses on audits of smaller municipalities which I can say from personal experience are not receiving any more diverse services and their use of technological resources is not increasing exponentially and they are certainly not high profile businesses that are failing. Your new proposed quality management standards seem designed for the audits of bigger businesses and bigger auditing firms while once again ignoring the very simple fact that there is an economy of scale within the auditing world.

Another example of this would be the apparent desire to align these new proposed quality management standards with those developed by the IAASB as stated in your exposure draft. I am not sure I understand why international standards have any bearing on AICPA standards? This once again seems like taking a large view of a topic that totally ignores the economy of scale within the auditing world. My small municipal clients and their specific financial statement users quite frankly don't care about international auditing standards.

I was very disappointed to see that the proposed new quality management standards are incorporating a risk assessment process. I was very disappointed when the audit risk assessment standards were implemented several years ago as I don't believe they increased the quality of audit engagements but rather provided firms with a tool to not audit or review certain aspects of a clients trial balance based on a low level of assessed risk. I do realize that is a very simplified reference to the risk assessment standards but from my point of view the biggest result of the standards was an incredible amount of paperwork to fill out. Though there is of course some inherent benefit to utilizing a risk based approach, I learned the auditing profession by auditing all of the assets and liabilities on a clients trial balance rather then determining which areas should be audited and to what extent based on a self completed risk assessment. Your proposed quality management standards want to eliminate the self inspection aspect (which I will address separately) though the auditing individual or firm is able to self complete a risk assessment on what aspects of a client they feel need to be audited and to what extent. This assessment can be completed and documented in an effort to guide what you have to audit and what you don't want to audit simply by documenting the justifications for your assessment. As there is always a level of professional judgement involved in this process it would be difficult for any external review to realistically question the assessments made. Based on the way I learned the auditing professional I probably over audit a bit in order to make sure nothing is missed. I doubt that is the predominant philosophy.

The three step risk assessment process seems like unnecessary additional steps to what should already be the expectation in completing an auditing engagement. The first step being the establishment of quality standards seems particularly unnecessary as the main objective of the auditing engagement should be to perform the audit in accordance with all of the applicable rules and regulations. If this is done it would seem as though the natural result would be a high quality engagement. I am perhaps over simplifying this aspect but it could also be argued that the new standards are over complicating this aspect.

Feedback on specific Issues for Consideration:

#### Issue 1 - Self inspection

I very strongly disagree with the ASB's decision to prohibit self inspection. As a sole practitioner this change would now require me to hire someone to do inspections when necessary. This is just another added cost that will simply need to be passed onto the client. When this added cost is passed on to the client now they will have to make the decision as to whether or not to stay with me for auditing services if a larger firm can complete this requirement from within their own firm.

The premise behind this proposed change seems to be the perception that self inspection in some way may lessen the quality of an audit. My firm only performs governmental audits so therefore I am very versed in the rules and regulations of this industry and feel that I am more than qualified to perform a self inspection. I obtain all of my continuing professional education with topics directly or indirectly related to governmental auditing and attend an annual government auditing and accounting conference to make sure that I am up to date with all aspects related to governmental accounting and auditing. The premise that I would not be qualified to perform a self inspection of the engagements that I perform would be incorrect.

The comments received from small firms included in the exposure draft seem to indicate a number of burdens that eliminating the self review threat would create for small firms. One question that I would pose is whether or not the referenced technical issues committee which states that it is made up of members of small firms actually include any sole practitioners. Any member of a small firm is not a sole practitioner as they would most likely refer to themselves as such. Without specifically considering all types of firms or sole practitioners who perform audit engagements for all types of clients how is an adequate evaluation of the effects of such a change possible. As I referenced earlier there is an economy of scale within the auditing world though this particular change seems to simply be tailored to larger firms that can very easily implement such a change then from a sole practitioner who would be seriously affected by the change.

The respondent that stated "a self inspection cannot identify one's own lack of knowledge" is exactly correct. However, the obvious response to that statement is that simply because a review is being performed by someone other than the individual who performed the engagement doesn't mean that they can't miss something based on their own lack of knowledge. It seems like the quality of an audit is being directly linked to whether someone outside of the engagement performance is reviewing the engagement. That someone outside of the engagement performance can somehow do a better job of reviewing the engagement. The document states that the ASB could not find anything unique in the United States in regard to self inspection and as such considered that in their determination that it should be prohibited in the new proposed standard. That statement creates the obvious question that I would presume that the ASB considered in relation to why is the international standard automatically correct in prohibiting self inspection? Why is their standard correct and ours wasn't correct in relation to self inspection? If I performed any audits under the international standards I would have disagreed with the inclusion of this prohibition in their standards as well.

I certainly would agree that self inspection would be a threat but I would not agree that safeguards can't be put in place to lower the threat to an acceptable level. The first issue with this is that applying safeguards to reducing any threats to an acceptable level should be a matter of professional judgement based on the specific circumstances surrounding any such threat and not just the self inspection threat. As stated earlier, I only perform governmental audit engagements. Though I would not consider myself an expert in the field in relation to GASB standard setters I would consider myself highly qualified to perform the audits and very knowledgeable within the field. The level of expertise within a specific field should certainly be able to be a safeguard which is applied to this threat. My firm quality policies relating to the continuing education I am required to take and the field related periodicals and guidance I am required to have available seems like an adequate safeguard. If I were required to hire an external individual to perform inspections then I would be looking for an individual who has the exact qualifications within the field that I do. So if they have the exact same qualifications and they had nothing to do with performing the engagement then how can it be said that they would do a better job of performing the review and thus the quality of the audit being higher? I liken this question to clients who feel that having a new auditing firm every so many years will somehow increase the quality of their audit. My thoughts are that it should be looked upon in the opposite way as the longer an individual or firm performs an audit the more things they know to look for and the more objective an opinion can be derived. This is similar to a self inspection. The current standards seem to indicate that at the end of an audit an experienced auditor should be able to look at the audit documentation and follow everything that was done. I don't believe that any auditor would honestly be able to simply open someone else's audit documentation and follow it as if they had performed the audit. That philosophy seems to downplay the amount of work and documentation that goes into an auditing engagement. This relates back to the self inspection conversation in that the person who performed the engagement can in my opinion more effectively and efficiently review the engagement documentation as they intimately know what was done.

Another aspect about having someone outside of my firm performing a review of my audit documentation that confuses me is that they would be following the same exact standards to review the engagement documentation that I would? If they end up using the same review checklists that I would then why can't I simply perform the inspection?

There are some simple safeguards that I feel could be implemented to reduce the self inspection threat to an acceptable level. The first safeguard would be your quality control system requiring a certain level of competencies in relation to the type of engagement being performed. If you can't document that you have attained these competencies then you wouldn't be able to perform a self inspection of the engagement. Another safeguard would relate to including within your quality control system a specific set of circumstances that would result in the requirement for an external review similar to the current external quality control review parameters established within a quality control system. For example if the engagement is in a field for which you have not previously practiced then you wouldn't be able to perform a self inspection. If there were an accounting situation that occurred during the engagement period that was not normal to the client such as an advance refunding or asset impairments or a new business type activity for which you have no previous experience then you wouldn't be able to perform a self inspection. At some point professional judgement and common sense need to be considered. If I have a governmental auditing engagement whereby the client has had no significant changes in their operations or types of operations for years then shouldn't I be able to perform a self inspection of that engagement?

I guess in conclusion I don't feel as though the new standard should try to change or fix an aspect of the current system which isn't broken. I would urge the ASB to step back and look at the situation and realize that you can't specifically associate audit quality with this one aspect. As I have stated earlier it is about the individual or firm who is performing the task or the planning of the engagement that dictates the quality of the ending product. If adequate rules and regulations are in place that simply aren't being followed then

creating new rules and regulation won't make those people follow them any more then they were before.

## Issue 2 — Cooling-Off Period for Engagement Quality Reviewers

I don't have any specific comments on this particular issue as I am a sole practitioner and my comments would be similar to those posed for the self inspection issue. It seems odd that with the IAASB exposure draft that only 17% of the respondents commented that there should be a requirement for a specific cooling-off period and that was a high enough percentage to include the requirement in the final standard. Unfortunately that shows me that respondent comments will be made but that the ultimate direction of the standard will be what the specific policy board wants it to be in the end. It is surprising that within the no cooling off period option the document states that the ASB members noted that no research exists to support the supposition that a cooling-off period improves audit quality. However the final proposed standard includes the same 2 year cooling off period that the IAASB standards include in order to result in full convergence with the IAASB standards which the document states is consistent with the ASB's strategy. It seems a bit odd that the ASB strategy is to create a document that is for all extensive purposes the same as another standard setting board. I would ask the question again as to why the standards are the correct way to go simply because another board has? In addition, I am sure there is a large majority of individuals and firms that never perform audits that as subject to international auditing standards so why then are the standards so geared toward them?

## Issue 3 — Completion of Engagement Quality Review and Dating of the Auditor's Report

I don't have any specific comments on this particular issue as I am a sole practitioner and my comments would be similar to those posed for the self inspection issue and the cooling off period issue.

### Conclusion:

In conclusion I just feel that the proposed changes to the quality control standard simply aren't necessary. I feel as though the system in place is adequate if actually followed which should result in higher audit quality. Changing the rules won't make those people who don't follow them follow them and as a result won't result in higher audit quality.

I feel as though trying to tailor the proposed standard to the IAASB is an odd strategy and one that makes the assumption that their standards are adequate. I don't recall the IAASB inviting me to comment on their proposed standards so why am I after the fact having to accept their standards through the ASB incorporating them?

I feel that the proposed standards will add significant costs to sole practitioners through the prohibition of the self inspection element. This cost will simply be passed along to the client which it seems is a common result of the both AICPA and GASB standards which don't seem to take into any consideration the truly smallest auditing professionals and auditing clients. I feel as though sole practitioners are a valuable element of the profession as they relate to smaller clients being able to afford a high quality audit from a firm that doesn't have to saddle the audit costs with the recovery of exorbitant overhead costs. I believe these standards are moving towards pushing the sole practitioner out of the profession which I think is a bad direction for the profession.

Lastly, your exposure draft communication letter specifically states that the proposed standards would include more robust performance and "documentation" requirements. There are already far to robust documentation requirements which result in me spending almost as much time documenting the engagement as actually performing the engagement. The paperwork aspect of auditing is in my opinion out of control. I feel like I

have to document the fact that I am documenting a certain aspect of the engagement. Then I have to go back in somewhere else in the documentation and re-document that I documented the documentation. I actually used to enjoy most of the aspects of the auditing engagement but the documentation requirements are pretty quickly eliminating that.

I have no expectation that any of my comments will be seriously considered and I fully expect the final standard to absolutely include the elimination of the self inspection element because of that is the direction the IAASB has gone. I truly feel that the ASB could come up with some type of exception or adequate safeguards to the self inspection element for sole practitioners or even the smallest firms in realizing that standards don't have to be a one size fits all proposition. In the end I am at least glad that I provided my comments in an attempt to stand up for the little guy as someone has to. Thank you.

Sincerely,

Stephen T. Hopkins, CPA