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August 31, 2021

**VIA EMAIL: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)**

Ms. Sherry Hazel  
American Institute of Certified Public Accountants  
Auditing Standards Board  
1345 Avenue of the Americas,  
27th Floor  
New York, NY 10105

**Re: EXPOSURE DRAFT — PROPOSED STATEMENTS ON QUALITY MANAGEMENT STANDARDS — QUALITY MANAGEMENT: A Firm’s System of Quality Management Engagement Quality Reviews PROPOSED STATEMENT ON AUDITING STANDARDS- Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**

Dear Ms. Sherry Hazel:

Watson Rice LLP (WatsonRice) is pleased to respond to the Auditing Standards Board’s (ASB) above referenced Exposure Draft.

WatsonRice is one of the nation’s largest minority CPA firms in the accounting profession, with almost 80 employees in six offices and a history of serving the public interest since 1971. Our practice includes many areas of practice, including private companies, nonprofit organizations, and federal, state and local governments (*nonissuers*). We are committed to ethical standards for the profession and U.S. auditing standards (generally accepted auditing standards or GAAS); attestation standards (Statements on Standards for Attestation Engagements or SSAEs); and standards for financial statement preparation, compilation, and review engagements (Statements on Standards for Accounting and Review Services or SSARSs) for private companies, nonprofit organizations, and federal, state and local governments (*nonissuers*). Many of our partners (present and past) have been actively involved in the profession as various levels, including state societies, boards of accountancies, committees of the AICPA as well as members of Council and the board of directors.

We fully support the ASB’s efforts, as set forth in the **EXPOSURE DRAFT — PROPOSED STATEMENTS ON QUALITY MANAGEMENT STANDARDS — QUALITY MANAGEMENT: A Firm’s System of Quality Management Engagement Quality Reviews PROPOSED STATEMENT ON AUDITING STANDARDS- Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards**, to gather perspectives from stakeholders about the enhancing a firm’s system of quality management in the current environment.

We are keenly aware of the ASB’s commitment to converge its standards with those of the International Auditing and Assurance Standards Board (“IAASB”), and the Public Company Accounting Oversight Board (“PCAOB”). We trust, however, the U.S. Auditing Standards Board (“ASB”) never lose sight of the fact of the over 46,000 firms who practice in the US and are affected by standards promulgated by the ASB, a vast majority of them are not also subject to standards promulgated by either the IAASB or the PCAOB.

We appreciate the opportunity to share with the ASB the impact of these proposed standards would have on our firm.

We provide additional detail on these incremental requirements in the appendix to this letter. We are glad to provide feedback beyond this letter, as needed.

We encourage the ASB to continue to develop principles-based standards, without being overly prescriptive considering that these standards may serve as the basis for firms of all sizes, and whether their services includes public or private entities.

The appendix to this letter provides our more detailed responses to the specific questions presented in the Exposure Draft. Our responses are provided from the perspective of services performed by our firm and others of similar size and practice niches who are within the purview of the ASB.

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Thank you for the opportunity to present our views on the Exposure Draft. If you have any questions regarding the comments in this letter, please contact me at Ronald Thompkins, CPA, CGMA at [rthompkins@watsonrice.com](mailto:rthompkins@watsonrice.com).

Respectfully submitted,

/s/ Ronald Thompkins, CPA, CGMA

Partner

## EXPOSURE DRAFT PROPOSED STATEMENTS ON QUALITY MANAGEMENT STANDARDS —

### QUALITY MANAGEMENT: A Firm's System of Quality Management Engagement Quality Reviews PROPOSED STATEMENT ON AUDITING STANDARDS Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards February 4, 2021 Comments are requested by August 31, 2021 (Extended From June 11, 2021)

#### Introduction

If issued as final, proposed SQMS No.1 will supersede Statement on Quality Control Standards (SQCS) No. 8, A Firm's System of Quality Control (QC section 10), and proposed QM SAS will supersede SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended, section 220, Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (AU-C section 220).

Through the AICPA's Enhancing Audit Quality Initiative the profession has achieved significant improvements in audit quality through peer reviews. As the ASB considers the introduction of new quality standards (*modeled after those by the IAASB and PCAOB NOT from any empirical evidence from a significant component of our membership*) it appears to also be abandoning the gains the profession has spent years educating its member firms of all sizes and practice areas in the promotion of engagement quality.

Of significance is through the existing quality control standards embedded in the peer review process, the profession is able to drive quality on a scable level-all firms are not subject to system reviews, and firms that are part of system reviews where compliance issues are identified and become subject to either corrective action or implementation plans are able to remedy any findings and/or deficiencies.

This appendix provides our response to the following three standards for quality management at the firm and engagement levels (collectively, the proposed QM standards):

- **Proposed Statement on Quality Management Standards (SQMS), A Firm's System of Quality Management (hereinafter referred to as proposed SQMS No. 1 for purposes of this memorandum).**
- **Proposed SQMS, Engagement Quality Reviews (hereinafter referred to as proposed SQMS No. 2 for purposes of this memorandum)**
- **Proposed Statement on Auditing Standards Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (QM SAS)**

*The public interest is served by the consistent performance of quality audit and attestation engagements, and a quality management system is foundational to that consistent quality performance. This quality management foundation is not fundamentally different for users of assurance reports in the United States than for users in other countries, nor is it different based on the nature of the entity subject to the engagement.*

In principle we concur with this premise.

**• A quality management standard promulgated by the ASB that is foundationally different from that promulgated by the IAASB or PCAOB could be perceived as being of lower quality, as could, by extension, engagements performed by firms applying such a different standard.**

Since the inception of the IAASB and the PCAOB, firms that practice under each these respective standards as well as the public and users of reports from firms who are regulated by the ASB, IAASB, and/or PCAOB are keenly aware of the respective differences and we are of the opinion each regulator is well respected in the marketplace.

**• For firms that perform engagements in accordance with the standards of the ASB, the IAASB or the PCAOB, complying with fundamentally different quality management standards is not feasible, and performing an audit in accordance with multiple sets of auditing and quality management standards (for example, those of the ASB and the IAASB or the ASB and the PCAOB) would be exponentially impracticable.**

We are of the opinion Firms that are currently impacted by any combination of these three standards have been able to adopt to them already. We see no empirical evidence offered in this exposure draft there is a problem.

**Request for comment: 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.**

We are of the opinion the new risk assessment standard in this proposed exposure draft is already being addressed in the next round of Audit Quality Initiatives by the AICPA and due to the typical composition of the engagement teams of our firm are already being addressed, accordingly, the proposed changes would not be appropriate for our firm. However, for those firms that would be affected by this proposed SQMS, the application materials are helpful.

**Request for comment: 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 SQMS No. 1 that may inhibit scalability and requirements for which additional application material regarding scalability would be helpful.**

We are also of the opinion the proposed changes would not be scalable for our firm.

**Proposed SQMS No. 2 Relationship Between Proposed SQMS No. 2 and Proposed SQMS No. 1**  
Proposed SQMS No. 1 addresses the firm's responsibility for establishing a system of quality management, including the new quality management approach.

**Request for comment: 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.**

For our firm the existing requirements for policies and procedures addressing the appointment and eligibility of engagement quality reviewers and performance of engagement quality reviewers is adequate under SQMS No. 8. Through the peer review process our firm has observed whenever it has been detected through our peer review, these policies need to be modified, we have appropriately done so through either our inspection/monitoring or through the peer review process. However, for those firms that would be affected by this proposed SQMS, the requirements in proposed SQMS No. 2 are clear and understandable, and the application materials would be helpful.

Additionally, we are of the opinion the proposed changes would not be scalable for our firm and due to the added cost burden of implementation and maintenance would result in placing our firm at a competitive disadvantage.

### **Proposed QM SAS**

**Request for comment: 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.**

For our firm, our typical engagement team consists of 2 to 5 team members (including the engagement partner). The partners are significantly involved in all phases of an engagement from planning (including the selection of and intimate knowledge of the engagement staff) to engagement wrap-up. We are of the opinion this gives us the advantage of having the engagement partner as team leader to fulfill their leadership responsibilities, including taking actions to create an environment for the engagement that emphasizes the firm's culture and the expected behavior of engagement team members, and assigning procedures, tasks, or actions to other members of the engagement team and supporting engagement performance, including taking responsibility for the nature, timing, and extent of the direction, supervision, and review of the work performed. However, for those firms that would be affected by this proposed SQMS, the requirements in proposed QM SAS are clear and understandable, and the application materials would be helpful.

Additionally, we are of the opinion the proposed changes would not be scalable for our firm and due to the added cost burden of implementation and maintenance would result in placing our firm at a competitive disadvantage.