



August 26, 2021

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American Institute of Certified Public Accountants  
AICPA Auditing Standards Board  
1211 Avenue of the Americas  
New York, NY 10036-8775  
CommentLetters@aicpa-cima.com

RE: Exposure Draft – Proposed Quality Management Standards

Ms. Hazel:

The Tennessee Society of Certified Public Accountants (TSCPA) appreciates the opportunity to offer our comments on the proposed changes in quality control for CPA firms. TSCPA is a professional association of more than 9,000 CPA members. These members include practitioners from public accounting firms of all sizes, education, government, and industry.

TSCPA fully supports the AICPA's efforts to improve the quality of work performed by CPAs and believes that portions of the proposed standards will do just that. However, parts of the proposed standards could impose undue burdens on small CPA firms and the clients they serve. At a time when firms of all sizes have been impacted by the COVID-19 pandemic, it will be difficult for firms to adopt the proposed standards. The pandemic has presented firms with staffing challenges related to recruitment of new staff and retention of existing staff; fee pressures as clients face financial struggles related to the pandemic, and ongoing challenges as firms shift operational models to incorporate increased remote work. While all firms are impacted by these challenges, sole practitioners and firms with only a few professionals may lack the resources to quickly overcome the challenges while also implementing new standards.

TSCPA offers our comments on two specific issues referenced in the proposed standards. We believe reconsideration of the issues discussed below will reduce some of the potential burden on small firms.

**Issue 1 – Self-Inspection**

Respondents were asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality.

TSCPA has identified two concerns with the proposed SQMS No. 1 convergences with IAASB standards with respect to self-inspection.

- 1) This prohibition will be cost prohibitive to many firms, especially small firms and sole practitioners. The cost to engage an outside party will be far higher than the cost to perform

an internal inspection. Firms may face challenges in passing the increased cost on to their clients who often see the audit as a compliance requirement and not a value-added service.

- 2) The prohibition will require firms to identify high-quality practitioners to perform the external inspection. The number of qualified parties who are willing and have the time to perform inspections is limited. At a time when there appears to be a shortage of qualified peer reviewers, especially for higher risk engagements, this proposed standard will result in challenges for firms who now are tasked with identifying multiple qualified quality review experts.

If the ban on self-inspection is retained in the final standard, AICPA should provide a network of qualified reviewers to assist firms in finding an external party to perform the inspection.

### **Issue 2 - Cooling-Off Period for Engagement Quality Control Review (EQCR)**

Respondents were 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.

The former engagement partner has a level of knowledge about the engagement that make them the most qualified party to perform the EQCR. Their role as reviewer is much different than engagement partner and we must trust the integrity of both the new engagement partner and former engagement partner to strive to perform a quality engagement. By instituting the cooling-off period, the potential to diminish audit quality exists due to the loss of knowledge and expertise that the former engagement partner possesses. Due to their size, many firms will need to hire someone for the EQCR and as mentioned above, qualified reviewers (with availability) are increasingly hard to find. Even if they can find an outside party, some firms have multi-year agreements on fees and will not be able to recover these costs from the client.

One potential unintended consequence of this change is that some firms will merely change the criteria for an EQCR, eliminating the need for many of these. They will not do so to circumvent the system but will do so to allow the most-knowledgeable person (the former engagement partner) to be the second reviewer. If firms make this change, there will be no benefit in the imposition of the cooling-off period.

### **Implementation**

If self-inspection is prohibited and the cooling off period is implemented, will compliance be monitored through the peer review program? If so, AICPA should consider that firms not required to have a system review, who only have an engagement review, do not undergo a review of their system of quality control. A review of the entire system of quality control is not within the scope of an engagement review. A firm with one audit will be monitored, but a firm with hundreds of compilation and review engagements will not be. This creates a significant variation in how this standard will be implemented and monitored. Some firms will fail to implement the outside party performing their inspection (either purposefully or by not fully understanding the requirements)



while others struggle to implement it. And often those two firms will compete in the marketplace, but now on unequal terms.

### **Conclusion**

In lieu of the two changes discussed above, we urge the AICPA to stay the course with the Enhancing Audit Quality (EAQ) initiative and the peer review program. The peer review program has made great strides in the last few years training peer reviewers and in helping them better assist the firms they review. Statistics shared at the recent AICPA peer review conference show that in recent years, peer reviewers are more effectively identifying nonconforming engagements and firms are performing higher-quality work as a result of peer review (or the firms are no longer performing the services in question). Peer review committees throughout the country, acting through their report acceptance bodies, can require a firm to engage an outside party to perform the firm's next inspection, but this is used only when there are issues identified during the firm's peer review that could be remediated through obtaining an outside perspective. A "one size fits all" approach as proposed in the exposure draft is not the most effective solution. The current system used by the peer review program is a more focused approach.

There is a perception among many small firms that the AICPA and other standard setters are trying to decrease or eliminate the number of small firms performing audit engagements. We know this is not true, but the proposed standards may result in unintended consequences beyond addressing audit quality.

TSCPA recommends not including these provisions in the final standard and allowing the peer review program time to continue its mission of operating as an educational and remedial program charged with helping firms perform higher-quality work. The program has helped many firms in Tennessee either perform work at a higher level or make the decision to no longer perform certain types of engagements. That solution has worked in the past, is working in the present and we believe will work in the future.

TSCPA appreciates the opportunity to provide feedback on the proposed quality management standards. We are available to discuss any of these comments at your convenience.

Sincerely,

Christian Bennett  
TSCPA Chair