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August 11, 2021

Ms. Sherry Hazel
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Standards for Quality Management:

1) Proposed Statements on Quality Management Standards (SQMS)
    a. *A Firm's System of Quality Management (SQMS No. 1)*
    b. *Engagement Quality Reviews (SQMS No. 2)*
2) Proposed Statement on Auditing Standards – *Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards* (QM SAS)

Via email: CommentLetters@aicpa-cima.com

Dear Ms. Hazel,

The joint committees on Accounting Principles and Auditing Standards (APAS), and Peer Review (PR), (collectively the Committee) of the Florida Institute of Certified Public Accountants (FICPA), respectfully submits its comments on the referenced proposals. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced proposed Standards for Quality Management and proposed Statement on Auditing Standards. The FICPA has more than 19,600 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee has the following comments related to the questions below:

PART 1: SQMS No. 1

1. The Committee members believe that the proposed SQMS No.1 significantly enhances the importance of audit quality through the documentation of risk assessment throughout the engagement, and as an ongoing process within the audit firm. However, as written, the requirements are not sufficiently specific to guide in implementation. It would be beneficial to get more explicit definitions for the risk elements within each of the eight components. In addition, guidance in the form of practice aids would be useful, particularly for small firms, to make it easier for them to implement within the proposed timeline.

PART 2: Scalability of SQMS No. 1

2. On the issue of scalability of the proposed SQMS No.1, the Committee agrees that the risk assessment requirements are scalable from smaller to larger firms and believe that risk assessment is equally applicable for both small firms and large firms. The language in the

proposed revisions to the standards is sufficiently flexible and can be used by larger, complex entities, and by smaller and less complex entities. However, the potential for small firms having an undue burden in implementation continues to be a matter of ongoing concern.

PART 3: SQMS No. 2

3. The Committee somewhat supports the proposed SQMS No. 2. The Committee believes the Engagement Quality Reviews (EQR) requirements are clear and understandable in their content. There is significantly better clarity. For instance, an EQR can be a response to quality risks for any type of engagement, not only an audit engagement. Moreover, the guidance is more robust in the proposed standard. We appreciate the ASB's guidance related to the performance of the EQR requiring the reviewer to focus his/her attention on the engagement's significant judgments and significant matters, and also on getting the EQR completed throughout the engagement at different points in time. This will result in potential engagement issues being detected more timely and the review can be more effective. In addition, the requirement for the reviewer to take responsibility for the review and to file the documentation of the review along with the engagement documentation would also help to enhance engagement quality. However, some of the Committee members expressed concerns about a potential adverse effect from the EQR requirements about the appointment and eligibility of reviewers. The limitations in the eligibility of the reviewers seem to be very restrictive, and, especially in combination with the 2-year cooling-off period, smaller firms may look to circumvent the use of EQR to avoid the issue of engagement partner rotation or having to hire a reviewer outside of the firm. It would be preferable to utilize a risk-based approach and emphasize that firms meet the ethical requirements as contained in the proposed standard, rather than rely on a pre-determined cooling-off period.

PART 4: QM SAS

4. The Committee members agreed that the requirements in the proposed QM SAS are clear and understandable. This exposure draft has made explicit what was inherently assumed, and hence makes it easier to understand and implement. The application material is useful and has sufficient examples to illustrate the requirements.

PART 5: Effective dates and implementation period

5. The effective dates are clear as to the dates for implementation. However, some Committee members also expressed concerns over the transition period if the peer review year is in 2024. The hybrid year, with part of the period under the old standard and the rest of period under the new standard, may create unforeseen complications for some audit firms.

6. The Committee agrees that an 18-month implementation period is appropriate and sufficient. However, the exposure draft is not sufficiently explicit about early implementation and making that explicit to allow for early implementation will ease the transition for some audit firms.

PART 6: Other issues for consideration

7. The Committee members do not agree with the implicit assumption (by precluding those involved in engagements from performing inspection) that a third-party review invariably

enhances audit quality. To the contrary, some risk may increase by using a third-party reviewer who otherwise may be suitably qualified, but who may not have the equivalent expertise, or an in-depth knowledge of the industry or the client, to perform a high-quality inspection for certain complex engagements. For example, not all single audit or employee benefit plan audits have the same complexity. The Committee recommends using peer review results as an alternative safeguard, instead of independent third-party reviews, to achieve the same goal of enhanced audit quality. This alternative safeguard is better aligned with a risk-based approach to Quality Management. If a firm receives a "Pass" report on its peer review, from a risk-based perspective the inspection process is effective and adequate for the firm, thus not necessarily requiring an independent inspection. If a firm receives a "non-Pass" report and the inspection process was determined to not be effective or not performed at all, then the firm should consider its risk in the inspection process and determine if an independent inspection might be needed. At that time the firm should consider modifying its policies and procedures for one or two years, until such time the firm has corrected issues noted in its peer review and/or inspection reports. This alternative gives firms some leeway in its approach and is not a mandated inspection approach.

8. The Committee does not believe that a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement. In a similar argument to the response for #3, the Committee members reiterate that a prescriptive approach of specifying a defined cooling-off period may be counterproductive. A risk-based approach would accomplish the same objectives, by specifically identifying the requirements of the industry, complexity of the work, and audit expertise needed for the inspection.

9. The Committee members concur with the proposal to formalize the requirement that engagement quality reviews be completed before the report is dated. The members believe this usually happens in practice and appreciates the ASB effort to clarify that in the standard.

The Committee appreciates the opportunity to respond to the proposed exposure draft. Members of the Committee are available to discuss any questions you may have regarding the responses in this letter.

Respectfully submitted,

Michael Jerman CPA,
Chair, Accounting Principles and Auditing Standards Committee

Ron Weinbaum, CPA
Chair, Peer Review Acceptance Committee

Committee members coordinating this response:
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