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Re: Exposure draft on Quality Management

Dear Ms. Hazel

My comments are primarily in response to proposed SQMS No. 1 and the following request for comment on page 17:

> *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.*

The three proposed standards in the Exposure Draft were prepared by the AICPA Auditing Standards Board (ASB). Two of the proposed standards (SQMS No. 1 - *A Firm's System of Quality Management* and SQMS No. 2 - *Engagement Quality Reviews*) are relevant to compilations, reviews, audits, and other attest services. The third proposed standard (QM SAS - *Statement on Auditing Standards Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*) only applies to audits. There appears to be an auditing bias inherent in the first two standards as they apply to compilations, reviews, and other attest services thus making them more burdensome (time and cost) for small and medium firms, especially firms that consist of one or two professionals that compile or review financial statements and do not perform audits. Furthermore, the ASB strategy to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB) potentially creates additional burdens for small to medium firms that do not perform engagements in accordance with international standards. An example of this audit bias is in the last paragraph on page 28 (emphasis is commenter's):

> *Other than the peer review process, the ASB was unable to identify anything unique in the United States with regard to self-inspection, nor did the ASB believe that safeguards exist that could lower the self-review threat to an acceptable level. The ASB recognizes that the extant standard permits those involved in the engagement to inspect their own work, and some practitioners may be capable of doing so effectively. However, while concerned about the impact on smaller firms, the ASB believes that this requirement is necessary <u>to enhance audit quality</u>. Accordingly, proposed SQMS No. 1 convergences [sic] with the IAASB standards with respect to self-inspection.*

In essence, procedures and safeguards relevant to audits are being rammed down the throats of firms that do not perform audits or engagements in accordance with international standards.

With respect to the monitoring and remediation process, paragraph 40 b on page 50 states the firm should establish policies or procedures that:

> *address the objectivity of the individuals performing the monitoring activities. Such policies or procedures should prohibit the engagement team members or the engagement quality reviewer of an engagement from performing any inspection of that engagement.*

This presents a problem in a sole practitioner firm, or even in a small or medium firm that only has one or two professionals to perform these engagements. It impedes scalability. In almost all such cases, at least one of the professionals is the engagement partner, technical reviewer, and/or engagement quality reviewer. This same individual may also be the managing partner. It appears that the only way for such firms to satisfy the proposed standard for inspections is to hire an outside individual at additional cost to perform the periodic (at least annual) inspection. However, such firms already pay fees to their state society and to their outside peer reviewer as part of the peer review process. The prohibition against self-inspection is especially overreaching for firms that only perform compilations without notes in accordance with a special purpose framework such as tax basis.

All firms that are only subject to an engagement review under peer review should be exempt from the prohibition against self-inspection provided that the following criteria are met (which will provide safeguards against the risks of self-inspection):

1. The firm received a rating of pass on its peer review report immediately before the effective date of the new QM standards,
2. The firm receives a rating of pass on its triennial peer review reports immediately after the effective date of the new QM standards,
3. Once a firm receives a rating other than pass on its peer review report, it will be prohibited from self-inspection every year thereafter until it receives a peer review report rating of pass,
4. If necessary, an additional safeguard could be added requiring CPE specific to inspections for the individual performing the inspection (four hours every three years).

Respectfully,

Mark M. Wynnick CPA

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Managing Member