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Sherry Hazel
American Institute of Certified Public Accountants
Delivered via Email - commentletters@aicpa-cima.com

Re: Comments on Proposed Statements on Quality Management Standards-Quality Management

Dear Sherry/AICPA,

I am responding as a partner of a firm with three CPAs, two of which provide attest services.

I have been a CPA for 44 years and have never, until this exposure draft felt the need to reply to a request for comments. This exposure draft makes it very clear that the AICPA, an organization that I pay dues to, wants to put me and my small firm colleagues out of the CPA business. The one thing that CPAs do, that other professionals cannot do, is audit. There is no reason to practice as a CPA and pay dues to the AICPA if the cost of auditing and managing the process becomes prohibitively cumbersome and expensive. That is what would happen if this exposure draft was to be adopted.

The exposure draft states that the five items listed on page 7 under the background heading are the reason for this proposal but provide no quantitative or qualitative data supporting any of the issues listed. Here are some facts.

According to the Connecticut Society of CPAs, "of approximately 22,500 CPA firms performing attest function engagements in the US, 88% of those firms have 10 or fewer CPAs and 95% have fewer than 20." I believe that the firm size numbers include all CPA's in a firm not just those involved in the attest function.

Has the AICPA studied the composition of attest service clients and the fees paid for audits? I think you will find that most of the audits have fees less than $25,000. Larger firms do not and will not perform attest services for local charities, community associations, small pension plans, small businesses, and other organizations because they do not fit their target client profile and fee realization requirements. If the proposals in the exposure draft are enacted, it will be a grave disservice to these entities who will be left without auditors because they cannot afford the additional fees necessary to cover the cost of complying with the proposed standards.

Lastly, as a small firm, I believe that congruence with IAASB Quality Management Standards is inappropriate unless adapted for small firms and the clients they serve. The standards are not based on the realities of day-to-day practice and cost structure for smaller firms. I think a study of domestic and international clients served by firm and client size is necessary. We need a

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clearer picture of what the issues are before deciding to make every firm subject to IASASB Quality Management Standards,

Responses to Requests for Comment by Request Number:

1. The proposed SQMS No. 1 seems to confuse quality control with existing auditing standards. Quality control should be the review process that ensures compliance with auditing and FASB standards. The components one through seven of the proposed System of Quality Management are redundant and duplicative of areas currently covered by auditing standards.

   SQMS No. 1 ignores the roll of Peer Reviewer as I understand it. The Peer Review process provides a mechanism for all firms to ensure that their quality is up to standard. In practice, it is more than just oversight. Peer Reviewers are firm mentors and are a critical part of each firms' quality control system. If a firm's product is not up to standard, then there is an established process to deal with that issue. Finding areas for improvement is part of the Peer Review process. If there is a concern that the peer review process is flawed because it only looks at the most recent year of a triannual period, then that should be delt with.

   Networks should be responsible for ensuring that their member firms all share and comply with the same quality control standards.

2. When you are dealing with smaller firms, scalability becomes an issue. Adding additional staff or subcontracting out to comply with the proposed review/monitoring process has a cost that often cannot be afforded by a smaller firm and the clients it serves. The proposed standard will cause the timeline for each audit to stretch out. It will use more not fewer resources with little impact on quality improvement. The existing Peer Review process is more than adequate in fulfilling the third-party oversight roll.

3. Adding a third set of eyes will not significantly improve audit quality. The proposal assumes that if a firm has a third individual, unrelated to an attest engagement, that person will have the superior knowledge and experience to properly fulfill the quality review position. Getting someone from outside the firm with the knowledge and experience necessary can be difficult for a smaller firm. If I understand this proposed standard, the ideal is to have a reviewer with the same knowledge and credentials as a peer reviewer look at every engagement. The number of reviewers required under this scenario is exponentially greater than the number of Peer Reviewers and I have no idea where they would come from.

4. See response to Request for comment 1.

5. The proposed dates are clear but raise an issue regarding the concerns expressed in the background information on page 7. Smaller firms rely on third party intellectual resources to provide material for their quality control systems. I suspect that larger firms also use this third-party information. Apparently, someone at the AICPA thinks that's an

issue. It is very confusing. The proposed standard wants smaller firms to outsource quality review to a third party but has a problem with smaller firms using third party quality control materials. What is a smaller firm supposed to do to comply with the timeline requirement? Unlike the larger firms, smaller firms do not have a staff of policy and procedure writers.

6. No further comment.

7. I have several comments:
   a. The number/percentage of failed attest engagements has not been disclosed and is key to understanding the need for independent review beyond Peer Review. If upon Peer Review, a firm receives a Fail rating then it is understandable that there should be a requirement for use of an independent third-party reviewer until such time that an independent reviewer indicates that there is no longer a problem. If a firm gets a "pass" rating, then why should it have to bear the cost and other issues that comes with third party inspection.

   b. If the primary issue that has been raised by Peer review is that new standards are not timely implemented, then maybe it requires having implementation periods being four years for new standards. This would allow at least one Peer Review during the standard implementation period and allow for prospective remediation without jeopardizing a "pass" rating.

   c. What happens if after using a third-party reviewer there is still a problem identified by a Peer Review. Do we then start adding more and more levels of review. Not passing a Peer Review should result in remediation and if that does not work then AICPA membership and license revocation should be imposed.

8. A quality reviewer needs to be knowledgeable not independent. This makes a cooling off period unnecessary. The independence issue is between the client and the firm. If any quality reviewer's review is sub-par upon Peer Review, then there is an existing process to follow.

9. Quality reviews should be completed prior to the report date. It is common sense to do so.

Please do not mistake my comments as expressing a lack of commitment to quality standards for attest services. My concern is that standards need to be cost effective and built around the realities of audit practice.

Respectfully submitted,

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