



Coastal Peer Review

Administered by The North Carolina and
Maryland Associations of CPAs

August 23, 2021

To: AICPA Auditing Standards Board

Attn: Sherry Hazel at CommentLetters@aicpa-cima.com

Re: PROPOSED STATEMENTS ON QUALITY MANAGEMENT STANDARDS —
QUALITY MANAGEMENT

The views expressed herein are written on behalf of the Coastal Peer Review Task Force (CPRTF). The CPRTF has been authorized by the Board of Directors of both the Maryland Association of CPAs and the North Carolina Association to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by either the MACPA or NCACPA's Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MACPA or the NCACPA. Please find our comments below to the above referenced exposure draft.

Task force members:

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The Coastal Peer Review (CPR) Task Force strongly supports the efforts of the ASB to improve the quality of assurance and attest engagements. As peer reviewers and volunteers in the peer review administration process, we recognize the challenges to quality, especially with smaller firms and sole practitioners. A high level of quality should be expected of all practitioners, regardless of size, however it is critical to understand that smaller practitioners have very limited resources. Therefore, processes or procedures should only be required if they add to and are necessary for the quality of the practice and engagements.

The proposed SQMS 1 and 2 add many requirements, however we do not believe that all of them equally impact quality. Our specific comments that follow address the general cost of implementation of the new standards, and several areas where we believe the cost, which can be significant to smaller practitioners, exceeds any incremental benefit to quality.

There is a very real risk that the new QM standards (alone or in combination with other new standards) will cause some smaller practitioners to discontinue their audit and attest practices.

We believe that many of these practitioners play an important role in the attest market and that the public interest would not be served by their departure.

The CPRTF believes it is important to acknowledge that some QM requirements more significantly and directly impact quality than others.

If the engagement partner does not have the appropriate expertise, experience and level of involvement in the conduct of the engagement, it is highly unlikely that a quality engagement will be performed. Therefore, we strongly support the provisions of the ED related to the engagement partner's responsibility for managing quality, including the "stand-back" requirement.

EQR, or a lesser form of independent review, also is effective (when indicated by the nature of the engagement and/or risk) and therefore we support the EQR requirements, EXCEPT for a mandatory cooling off period. See "Cooling Off Requirement for EQR" below.

Inspection, however, has a more indirect impact on quality. We recognize that inspection plays a role in the overall system of QM, however its benefits are generally prospective. Also, as noted in paragraph A167, the objective of a peer review is similar to that of inspection procedures. Therefore, all firms are subject to a complete totally independent inspection (peer review) every three years. These comments are made to add perspective and a cost benefit consideration to the discussion about self-inspection below.

Self-Inspection

Many smaller firms do not have the resources to form an inspection team of qualified individuals with no involvement in the engagements to be inspected. A total prohibition on self-inspection will cause them to either use a person who is not qualified to inspect the engagement which likely will not add to quality; or hire outside the firm which is similar to having a peer review every year. To firms conducting quality engagements this is overkill. To firms with quality issues, the peer review process already has a corrective action process which can involve directives regarding inspection (see below).

We agree that self-inspection should be avoided when another qualified person in the firm is available. We think the standard should address the risks of self-inspection, but not prohibit self-inspection where it cannot be avoided. Instead, safeguards responsive to the risk of self-inspection can be required. The risk of "not knowing what they don't know" can be mitigated by the use of an appropriate practice aid (different from any practice aides used to perform the engagement) such as AICPA peer review checklists, which can be an effective safeguard.

We believe that for most firms this can be more than sufficient, and to require those firms that generally perform quality work to hire outside inspectors is not cost effective or necessary.

For firms with quality issues, the peer review process already has a process for remediation through required corrective actions. Ineffective monitoring is a possible systemic cause when evaluating findings and deficiencies in a peer review. Peer review committees could focus on self-inspection as a root cause when ineffective monitoring is identified and assign corrective action accordingly. These corrective actions usually involve hiring a qualified person acceptable to the peer review committee to perform pre- or post-issuance review of engagements or the entire inspection. These corrective actions are done at the firm's expense. Therefore, there already exists a system in the United States for firms where it is considered necessary to improve quality. However, this added cost should not be imposed when the results of peer review indicate the firm's QM system is operating effectively.

Cooling Off Requirement for EQR

As previously stated, we support the requirements around EQR except for a mandatory cooling off period. We do not believe that a familiarity risk or long-association risk automatically exists. The AICPA Code of Conduct sufficiently addresses these risks. A cooling off period is a safeguard responsive only to a familiarity risk. There are many reasons why an engagement partner would transition to another partner that do not involve familiarity or long-association. We believe that a mandatory cooling off period is inappropriate and addresses a risk that may not exist, at the expense of disqualifying someone who could perform an very effective EQR.

We also believe that anyone performing an EQR, regardless of previous involvement with the engagement, should be objective as well as qualified. A better alternative would be to add language to paragraphs 18, A11 and/or A12 of SQMS 2 to make it clearer that anyone who lacks appropriate objectivity would not be qualified to perform an EQR.

Risk Assessment / Effective Date

While we appreciate that the proposed risk assessment process provides scalability to the QM standards, we are very concerned with the ability of smaller firms to perform an appropriate risk assessment. Our concern is not that we think it will be too difficult, but because we understand the lack of resources of smaller firms.

Even in firms some would consider "larger", firm partners are involved in client engagements and cannot afford the significant (non-billable) time it will take to implement these standards

properly. In order to make the implementation possible for smaller firms, robust implementation guidance will be necessary. Such implementation guidance needs to include checklists and sample risk assessments/responses. The implementation guidance needs to be scaled to various size firms, from the smallest less complex practice up.

Such implementation guidance, from the AICPA and/or third-party providers should be available with sufficient lead time before the effective date. Whether that means moving the effective date out (with early implementation allowed) or having tiered implementation dates is not as important as having the necessary resources in hand with sufficient time to implement effectively.

Peer Reviewer Assistance to Firms

Peer reviewers often assist firms they peer review by reminding them about new standards, answering technical questions, sharing best practices etc. We believe that peer reviewers can play a significant role in helping firms implement the new QM standards and still remain independent to perform the next peer review. Safeguards similar to non-attest services (make recommendations, but firm takes responsibility and makes all decisions) can make this possible. We urge you to work with PEEC to make it clear how a peer reviewer can effectively assist firms. We believe that if peer reviewers cannot help firms with implementation, smaller firms collectively will be less likely to effectively implement these standards.

Ultimate Responsibility for QM

During the performance of peer reviews, we have encountered situations where non-A&A partners view their firms quality control policies and procedures as not important and not applicable to them. This creates significant challenges to the appropriate design of and compliance with strong QC policies and procedures.

Therefore, we strongly support placing the ultimate responsibility for QM with the managing partner/CEO or equivalent. We understand that some commenters believe it would be a challenge when the CEO is a tax partner, however in this case we think it is even more important that ultimate responsibility rest with them so that all firm policies and procedures are supportive and consistent with A&A QM policies and procedures.

Thank you for the opportunity to offer our comments on the proposed QM standards. If we can provide any clarification of our comments or additional information, please feel free to reach out to Mike Manspeaker, Coastal Peer Review CPA on Staff (mmanspeaker@sek.com)