

# Quality Management Exposure Draft Comment Letter Template

This template is provided to aid respondents in drafting their response to the Exposure Draft of the ASB's Proposed Quality Management Standards, which comprise:

- Proposed Statement on Quality Management Standards (SQMS), A Firm's System of Quality Management (hereinafter referred to as proposed SQMS No. 1 for purposes of this memorandum).
- Proposed SQMS, Engagement Quality Reviews (hereinafter referred to as proposed SQMS No. 2 for purposes of this memorandum)
- Proposed Statement on Auditing Standards Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards (QM SAS)

This form is just for the convenience of respondents and it is not necessary to use this form or format in submitting your response. Respondents are welcome to answer any or all questions. Comments are due by August 31, 2021.

Submit by email to: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com).

## PART 1: SQMS No. 1

*1a.* Which of the following best describes your view of the proposed SQMS No. 1? Please choose only one.

- I strongly support the proposed SQMS No. 1.
- I somewhat support the proposed SQMS No. 1.
- I somewhat oppose the proposed SQMS No. 1.**
- I strongly oppose the proposed SQMS No. 1

Please provide additional details regarding your response.

*1b.* The fundamental aspects of proposed SQMS No. 1 are summarized in pages 8-14 of the Explanatory Memorandum. Please provide your views on (any or all of) the fundamental aspects.

*1c.* Are the requirements in SQMS No. 1 clear and understandable? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

*1d.* Is the application material in SQMS No. 1 helpful in supporting the application of the requirements? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

*1e.* Do you have any other comments on proposed SQMS No. 1? **I believe this proposal is being driven to align with international standards when that is unnecessary. The AICPA is not representing the majority of its member firms who do not have international attest practices, and are being unnecessarily burdened by an increase in practice management standards that are not responsive to their CPA practices. Larger firms that may be need of adoption of international standards should be free to adopt those requirements without burdening those who are not involved in that type of attest practice. According to "Accounting Today", there are approximately 42,000 CPA firms in the US, and around 41,600 have less than 20 people and gross less than \$3M per year. Clearly the question should be asked, why 42,000 firms should be burdened with requirements that would apply to less than 1% of firms.**

## PART 2: Scalability of SQMS No. 1

*2a.* Is the new quality management approach in SQMS 1 scalable? Please answer yes or no.

**2b.** Would additional application material regarding scalability be helpful? Please answer yes or no.

**2c.** Please provide additional details regarding your responses to 2a and 2b. If applicable, identify any requirements in proposed SQMS No. 1 that may inhibit scalability or requirements for which additional application material regarding scalability would be helpful. **The proof of the pudding regarding scalability will come in SQMS 2, when inspection and cooling off periods are determined. If self inspection is prohibited, and/or if a cooling off period is mandatory, it will be proof that scalability was a myth. How is having SQMS 2 include prohibitions consistent with a risk based approach to practice management? The answer is, starting with prohibitions and restrictions is inconsistent with a risk based approach and shouldn't be included.**

### **PART 3: SQMS No. 2**

**3a.** Which of the following best describes your view of the proposed SQMS No. 2? Please choose only one.

- I strongly support the proposed SQMS No. 2.
- I somewhat support the proposed SQMS No. 2.
- I somewhat oppose the proposed SQMS No. 2.
- I strongly oppose the proposed SQMS No. 2.**

Please provide additional details regarding your response.

**3b.** Are the requirements in SQMS No. 2 clear and understandable? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

**3c.** Is the application material in SQMS No. 2 helpful in supporting the application of the requirements? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

**3d.** Do you have any other comments on proposed SQMS No. 2? **Prohibition of self-review on inspections. (1) the prohibition of self-inspection is totally inconsistent with a risk based approach to quality firm management as it bars the firm from making its own professional judgment. (2) the prohibition of self-inspection flies in the face of the overall results of peer reviews, which reflects that the vast majority of firms are receiving peer review report ratings of pass, both in system and in engagement reviews. Since from the stats previous noted about 99% of the firms in the US are small firms, and since the overall fail rate is no more than 10%, one has to conclude that small firms are not the problem SQMS 2 standards are**

designed to cure. (3) Peer Review pass rates seem to show that many firms that use self-review are passing peer review, which stands as prima facia evidence that self-review can work. (4) My conclusion is that the prohibition to self-review for inspection starts with the false straw man that it can't work, and that something needs to be fixed. The AICPA's Peer Review statistics show that this is a false premise. (5) Peer reviews of firms that do self-inspection and that are found to not be performing in accordance with professional standards are already subject to a process of corrective action that often includes having to have their inspections done by third parties acceptable to the peer reviewing administering entity. The system that is in place already provides the safeguard for the public if a firm doesn't perform in accordance with professional standards.

The cooling off period in order to be qualified to perform EOQR. (1) Implementation of a rule requiring a mandator cooling off period is totally inconsistent with a risk based approach to quality firm management as it bars the firm from applying its own professional judgment. (2) On its face this mandatory cooling off period is a requirement that might affect 1% of the firms in the US, and lacks the scalability premise of SQMS 1. (3) in the smaller firm environment, where an engagement partner may serve as engagement partner on dozens of engagements each year the familiarity threat is totally different than in large firms where an engagement partner may only serve in that role for one or two clients. In small firms the requirement for a cooling off period is both unreasonable and unnecessary. (4) Through my own experience as a Big 4 audit partner in an earlier phase of my career, I know partners who only had one client. In such instances, a cooling off period probably makes sense. Somehow the profession got comfortable that such a partner was independent when said partner never was. His or her livelihood was totally dependent on keeping that client, but if the firm had some safeguards the firm was deemed to be independent, and the AICPA was satisfied. Then along came Enron and that myth was busted. Still, we keep on with the view that firms with single clients bringing in millions in fees a year are independent because to think otherwise would undercut the premise that such firms can be audited and the auditors can be independent. The point is that as a profession we make rules that suit the economics of the situation as well as address principles we hold dear. (4) Cooling off can make sense in a risk assessment model of quality firm management, but as a presumptive requirement doesn't make sense economically and is based on another false premise.

#### **PART 4: QM SAS**

**4a.** Which of the following best describes your view of the proposed QM SAS? Please choose only one.

- I strongly support the proposed QM SAS
- I somewhat support the proposed QM SAS
- I somewhat oppose the proposed QM SAS

- I strongly oppose the proposed QM SAS

Please provide additional details regarding your response.

**4b.** Are the requirements in QM SAS clear and understandable? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, identify any requirements you find to not be clear or helpful.

**4c.** Is the application material in QM SAS helpful in supporting the application of the requirements? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, identify additional application material that would be helpful.

**4d.** Do you have any other comments on the proposed QM SAS?

## **PART 5. Effective dates and implementation period**

**5.** Are the effective dates clear? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, describe what is not clear.

**6.** Is an 18-month implementation period appropriate? Please answer yes or no.

Please provide additional details regarding your response, and, if applicable, explain what implementation period would be more appropriate.

## **PART 6. Other issues for consideration.**

**7.** Please indicate your level of agreement that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. Please choose only one.

Strongly agree

Agree

Neutral

Disagree

**Strongly disagree**

Please provide additional details regarding your response, and if applicable, provide examples of safeguards that could lower the self-review threat to an acceptable level. **See above**

**8a.** Should a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement? Please answer yes or no. **NO**

**8b.** If you answered YES to *8a*, what is the appropriate length of the required cooling-off period? Two years, one year, or a different length?

**8c.** If you answered NO to *8a*, please provide additional details regarding your response and provide examples of safeguards that could lower the objectivity threat to an acceptable level. **9a.** Should the engagement quality review should be required to be completed before the report is dated, rather than before the report is released? Please answer yes or no. **NO**

Please provide additional details regarding your response. [Note that the ASB is interested in hearing whether your firm currently requires that the engagement quality review be completed before the report is dated.] **As long as the EQCR is completed prior to issuance, that is sufficient.**

## **PART 7. Demographic data**

Name: John M. Waters

Organization Name: Waters, Vollmering & Associates

Firm size, if applicable: 12 people