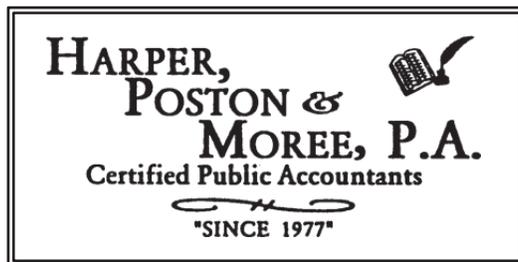


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August 26, 2021

Ms. Sherry Hazel  
AICPA Auditing Standards Board

Submitted via email to: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

Dear Ms. Hazel:

We appreciate the opportunity to provide our response to the AICPA Auditing Standards Board (ASB) regarding the proposed statements as follows:

- Proposed Statement on Quality Management Standards – Quality Management: A Firm’s System of Quality Management (SQMS No. 1)
- Proposed Statement on Quality Management Standards – Engagement Quality Reviews (SQMS No. 2)
- Proposed Statement on Auditing Standards, Quality Management for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards (QM SAS)

We support and appreciate the work the ASB has undertaken to strengthen quality management. However, we have concerns specifically regarding the scalability of the proposed standards to sole proprietors and small firms. We offer our comments and concerns below.

**Request for Comment 1:**

**Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents’ views on whether the requirements in Proposed SQMS No. 1 are clear and understandable and whether the application material is helpful in supporting the application of those requirements.**

**Response:** We somewhat support the proposed SQMS No. 1 and believe the requirements are generally clear and understandable and that the application material is helpful in supporting the implementation of the requirements.

## **Request for Comment 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.**

**Response:** We believe the proposed overall quality management approach of SQMS No. 1 is generally scalable. However, we strongly believe paragraphs 40*b*, A168, and A169 prevent the scalability of the standards to sole proprietors and small firms and would require them to outsource monitoring activities to external service providers.

### **Concerns:**

- External or outsourced monitoring activities place an additional financial burden and cost on sole proprietors and small firms that are unable to perform their own annual monitoring.
- The additional cost of external or outsourced monitoring for sole proprietors and small firms would have to be recovered through increased engagement cost passed on to accounting and auditing clients.
- Increased engagement costs of sole proprietors and small firms limit their ability to be competitive with larger firms that will be able to perform their own monitoring and will not be subject to additional costs. This is particularly true for engagements subject to competitive bidding.
- Difficulty finding qualified and experienced external service providers to perform monitoring activities because of the following reasons:
  - Availability of service providers in specialized industries or areas.
  - Unwillingness of service providers to participate in a firm's monitoring for fear of subjecting themselves to potential risk of liability in the event of firm litigation.
- There is no assurance that a third party performing outsourced monitoring is any more knowledgeable of professional standards.
- External monitoring essentially subjects firms to an annual peer review process.

### **Considerations:**

- While we understand the ASB's concerns regarding audit quality and the self-review threat created by having individuals inspect their own compliance with a system of quality management, we believe practitioners may be capable of effectively monitoring and inspecting their own work.

- Practitioners are required to adhere to strict ethical standards and the ASB should remain confident that practitioners will exercise and maintain objectivity in performing monitoring and inspection activities and determining if outsourced monitoring or inspection is necessary.
- To make the standard scalable, provide an exemption from this requirement for sole proprietors and small firms with satisfactory peer review results. Utilize and rely upon the current peer review program as a safeguard to identify the existence of deficiencies of self-monitoring and self-inspection activities and to determine if outsourced monitoring and inspection activities are necessary for corrective action. Based on data provided by the AICPA, the peer review program has a high success rate and could be relied upon regarding the ASB's concerns for audit quality.

### **Request for Comment 3:**

**Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirement in proposed SQMS No. 2 are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.**

**Response:** We somewhat support the proposed SQMS No. 2 and believe the requirements are generally clear and understandable and that the application material is helpful in supporting the implementation of the requirements. However, we do not support paragraph A13 regarding the familiarity or self-interest threat to objectivity that may arise when the engagement quality reviewer is a close or immediate family member of the engagement partner or another member of the engagement team or has a close personal relationship with members of the engagement team. This requirement disadvantages small firms, such as ours, as many small firms may consist of close or immediate family members working together or partners that have worked closely together for many years. The ASB should remain confident that practitioners will exercise and maintain objectivity under relevant ethical standards.

### **Request for Comment 4:**

**Respondents are asked to provide their views on the preceding changes. In addition, the ASB is seeking respondents' views on whether the requirements in the proposed QM SAS are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.**

**Response:** We support the proposed QM SAS and believe the requirements regarding engagement partner responsibilities are generally clear and understandable and that the application material is helpful in supporting the implementation of the requirements.

**Request for Comment 5:**

**Respondents are asked to provide their views on whether the effective dates are clear.**

**Response:** We agree the effective dates of the proposed standards are clear.

**Request for Comment 6:**

**Respondents are asked to provide their views on whether an 18-month implementation period is appropriate. If that period is not appropriate, please explain why and what implementation period would be appropriate.**

**Response:** If the proposed standards are made more scalable to sole proprietors and smaller firms, we believe the proposed 18-month implementation period is appropriate. Otherwise, if the proposed standards as they relate to monitoring, self-inspection, and eligibility of engagement quality reviewers are not made more scalable to sole proprietors and small firms, these firms will need additional time to evaluate their current accounting and auditing practice and determine 1) if these outsourced functions are available, particularly in the case of specialized industries and 2) if the additional financial burden of these outsourced services justify maintaining their accounting and auditing practice.

**Request for Comment 7:**

**Respondents are asked whether they agree that inspection of completed engagements by those involved in the engagements should be precluded in order to enhance audit quality. If not, please explain why and provide examples of safeguards that could lower the self-review threat to an acceptable level.**

**Response:** We somewhat agree that inspections of completed engagements should not be performed by those involved with the engagement. Larger firms will be able to successfully implement this standard; however, it will negatively impact sole proprietors and smaller firms due to additional costs of outsourced inspections, limits on their ability to be competitive with larger firms, and difficulty obtaining qualified third parties to perform inspections, particularly in the case of specialized industries. Depending upon a practitioner's individual circumstances, this requirement could create the need for *multiple* external service providers to perform inspections, engagement quality reviews, and peer reviews creating a significant financial burden.

The ASB should consider making this requirement more scalable and provide an exemption for sole proprietors and small firms. The following safeguards could lower the self-review threat:

**Examples of Safeguards:**

- Utilize the peer review process and provide an exemption for sole proprietors and small firms that have a satisfactory peer review. Rely upon the peer review program to identify the existence of deficiencies of self-inspection activities and to determine if outsourced inspections are necessary for corrective action.
- Implement or utilize regulatory oversight programs with state boards of accountancy or other regulatory organizations, in the case of specialized industries, to perform inspections or desk reviews of selected annual engagements. This process could be completed through random oversight of all firms by regulatory or oversight agencies or either offered at minimal or no cost to sole proprietors or small firms that could not adhere to the self-inspection standards as proposed.
- Enhance continuing education programs to provide adequate training in technical expertise concerning implementation of new accounting and auditing standards and quality management. With proper training, self-inspection would be possible and lower the self-review threat. There is no assurance that a third party performing an outsourced inspection is any more knowledgeable of professional standards.

**Request for Comment 8:**

**Respondents are asked for their views on whether a cooling-off period should be required before a former engagement partner can serve as an engagement quality reviewer on that engagement, and (a) if so, the appropriate length of the required cooling-off period, or (b) if not, please explain why and provide examples of safeguards that could lower the objectivity threat to an acceptable level.**

**Response:** We generally believe that the engagement quality reviewer should not be an individual on the engagement team or the engagement partner. We believe a required one year cooling-off period would be appropriate for a former engagement partner. Larger firms would be able to comply with this standard; however, this requirement is not scalable and could disadvantage the accounting and auditing practice of smaller firms creating a financial burden to outsource this service. This standard could be made scalable by providing an exemption from this requirement for small firms with a limited number of partners.

**Request for Comment 9:**

**Respondents are asked for their views on whether the engagement quality review should be required to be completed before the report is dated, rather than before the report is released.**

**Response:** We believe the engagement quality review should be completed before the report release date. In our practice specifically, the report date and the report release date coincide and all required engagement quality reviews are completed prior to the release date to ensure audit quality.

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Thank you for the opportunity to submit our comments regarding the proposed statements and we appreciate your consideration of our concerns. If you have any questions, we would be glad to discuss them with you.

Very truly yours,

*Harper, Poston & Moree, P.A.*

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Certified Public Accountants