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**Perry M. Henderson**  
**CPA, MPA**

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To the Members of the Auditing Standards Board  
Of the American Institute of Certified Public Accountants  
Via email to: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

This letter provides comments on the exposure draft of the proposed statements on quality management standards.

I have been an AICPA member for over forty years. In that time I have served on the GAQC Executive Committee, and the California Society's Peer Review and Professional Conduct Committees, and have been an AICPA Key Legislative Contact. In the last thirty years I have performed peer reviews of over one-thousand small firms. I claim the right to be heard and taken seriously on the Exposure Draft for the proposed SQMS.

It is well that the AICPA is giving some attention to scalability. Those of us in the small firm arena hope that this is not just lip service. One of the problems with so-called scalability at present is that a lot of the scalability provisions are buried in the AOEM. Look at AU-C 230, for example, which states in the AOEM that memoranda of audit team discussions need not be prepared when the audit team is comprised of just one person. Clearly this commonsense proviso, like several others, is intended to cut the small firm or one-person firm some slack in not having to create unneeded documentation. Yet, I have seen in the peer review process where small firms get written up for stuff like this anyway, thus being held to irrelevant standards. More appalling are litigation situations where a plaintiff's attorney is able to convince a court that irrelevant standards apply.

The proposed standards offer a modicum of scalability in some key areas. This is commendable. Yet, what they grant with one hand they take away with the other, by mandating that no member of an engagement team can inspect an engagement that he or she participated in. It has been well-noted that this will impose a costly burden on small firms, and will have the effect of driving many out of A&A practice altogether. This is first of all, anti-competitive. Secondly, it is bad public policy because it will reduce the supply of accounting firms available to report on financial statements. Many small businesses need only to submit full disclosure compiled statements to their banks for credit purposes. It makes sense to have the same firm that does their taxes and bookkeeping do this, rather than searching out some other firm, after the existing firm has gotten out of A&A practice. This will have particular effect on small businesses in rural areas where accounting services are scarce. And it will likely raise prices to those businesses. The proposed standard should have an exemption for firms that perform only compilations and preparations. The accountant expresses no assurance in these engagements, and there is no public interest served by mandating this outside inspection requirement. It will only drive small firms out of the compilation business, and force their clients to seek more expensive services from larger firms. Having an exception for compilation/preparation-only firms would provide relief to the many firms that would be impacted by this proposed standard.

There is also the fact that there are many small firms that are doing excellent A&A work. This proposed approach tars them all with the same brush as the bad actors. There are many factors that can contribute to the competence to perform, and lower the quality risks of performing self-inspection of engagements such as compilations and even reviews or audits of lesser complexity. Among them are:

- A history of “pass” peer review reports.
- Extensive continuing education in A&A subjects.
- Participation in technical committees of professional accounting organizations.
- Authorship of professional A&A literature.
- Teaching at colleges.
- Specialization in one or a few industries.
- Strong acceptance and continuance policies.
- The presence or absence of significant new professional standards that have to be implemented for the first time.
- First year vs. continuing engagements.
- Presence or absence of significant transactions that are not typical for the client’s business.

Such attributes should be considered before labelling all small firms as potential bad actors and forcing them into outside inspections.

There is a wide perception among small firms that the AICPA is trying to drive us out of the A&A business altogether. My anecdotal observations in the field, as a peer reviewer and in interaction with colleagues, are that firms are increasingly stepping down a level in the services they offer, or getting out of A&A altogether, because of onerous requirements. AICPA officials swear on a stack of Bibles that this is not their intent. Frankly, we don’t care what they intend. We just see and feel the effects. It’s like *Brown v. Board of Education*, that landmark Supreme Court decision on school desegregation. The school district disingenuously argued to the effect that, “Oh, no no no. These are just geographically contiguous school district boundaries. In no way do we intend to exclude those lovely children from our schools.” The Supreme Court said, in effect, “We don’t care what you intended. The effect of those boundaries is that you have achieved school segregation. Stop it.” This is exactly what the AICPA is doing to its small-firm members. If you don’t believe me, go back and read the chat feed from the on-line peer review conference this year. And listen to the input from the QM Roundtable on-line discussion meetings. One of the speakers at this year’s peer review conference used a beautiful phrase, in discussing the shortage of firms willing to take on the coming wave of Single Audits. The phrase was “the art of the doable.” This was offered in the context of the profession trying to explain to the regulatory community the troubles that are coming, in terms of the profession’s being able to find qualified firms and staff to meet this demand. Consider, please, that driving firms out of the audit business is not moving “doable” any closer to “done.”

There are many other things I could say about the EDs, many are good, some are bad. But they all pale in comparison to these self-inspection issues.

My 40+ years of membership in the AICPA attests to my loyalty to the organization. But I warn you strongly that you are becoming irrelevant to a large segment of your membership, and alienating those many other CPAs out there who should be members but are not. Listen to us. Listen.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Perry M. Henderson", followed by a long horizontal line extending to the right.

Perry M. Henderson, CPA

Master: Public Administration; **Member:** American Institute of CPA's, California Society of CPA's, California Association of Nonprofits. **Present and Past service includes:** Member, County of San Bernardino, California Audit Committee, YMCA of the East Valley, Audit Committee; AICPA Governmental Audit Quality Center Executive Committee; CSCPA Peer Review Committee; CSCPA Professional Conduct Committee; AICPA Key Legislative Contact Program; Adjunct Faculty Member, University of Redlands;

**Author:** CPA's Guide to Quality Control and Peer Reviews, CCH's Top Auditing Issues 2006-2013  
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Mail to: PO Box 1192 • Redlands, CA 92373  
Packages to: 222 East Olive Avenue, Suite 4 • Redlands, CA 92373  
Phone: (909) 792-4268 • e-mail [perry@pmhendersoncpa.com](mailto:perry@pmhendersoncpa.com)

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