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Technical Support Consulting Services to Other Professionals  
*Accounting, Auditing and Financial Reporting*

August 27, 2021

Auditing Standards Board  
American Institute of Certified Public Accountants  
c/o Ms. Sherry Hazel

Re: Proposed Statement on Quality Management Standards, *A Firm's System of Quality Management* (SQMS No. 1)

By email: [commentletters@aicpa-cima.com](mailto:commentletters@aicpa-cima.com)

To Members of the Board:

I have reviewed proposed SQMS No. 1 and as a result, I have formed the following overall impressions about, and objections to, such proposal that I have summarized briefly below. I have not commented on the two related standards concurrently proposed. I have also not attempted to address directly any of the specific requests for comment accompanying the proposed standards in the exposure draft, although the thrust of my overarching comments relate primarily to scalability (Question 2).

A former member of the Auditing Standards Board, I have spent the better part of my long career of 50+ years specializing in quality control. I hope the Board will seriously consider my concerns, views and suggestions.

### **Overarching comments**

In my opinion, the so-called “new approach” set forth in proposed SQMS No. 1 is too far-reaching, overly idealistic, impractical and virtually unachievable in most professional environments to warrant status as enforceable professional standard. It focuses too heavily on broad firm management matters, rather than directly on engagement quality like the extant standard does.

I have often commented in response to earlier proposals in favor of more principles-based as opposed to prescriptive rules based professional standards. However, I firmly believe that U.S. standards should be ever cognizant of the markedly higher tendency among American users of audit report than international users and sensitive to the risks that suggested practices will be equated in the minds and arguments of adversaries as requirements. With this in mind, I have also argued repeatedly against convergence for its own sake.

While the proposed standard purports to offer the flexible notion of scalability, I believe the Board has fallen far short of its stated scalability objective. If adopted as proposed as a robust and enforceable professional standard, to preserve their clients and their profitability, I believe firms will be under tremendous competitive pressure to minimize compliance and will spend considerable nonproductive time in documenting defensive judgments about scalability, which judgments will likely be highly at risk of serious challenge by regulators and other adversaries who will view such defensive memoranda as unduly self-serving and unconvincing rationalization. I believe such a standard will likely result in widespread disputes with peer reviewers, regulators and other adversaries (*i.e.*, litigants) over scalability judgments, damaged professional egos, frustration and career changes among auditors, unrecoverable overhead and other costs, lost clients, severely diminished firm profits and ultimately, failed audit firms. At the risk of being overdramatic, I see this proposal, if adopted in its present form, as highly likely to cause a highly disproportionate increase in the cost of audit and other attest services in relation to any benefits to be obtained and ultimately, the virtual discontinuance of attest services by the large majority of practice units who do not have the resources to comply.

For these reasons, I believe much of the material now in proposed SQMS No. 1 should be presented instead, if issued, in a separate document outside of the final standard that would be below the authority level of “application and other explanatory material,” whose level of authority is inherently vague and confusing. As described in para.

A8, it is “relevant to the proper application of the requirements.” It is described elsewhere in the auditing standards as “an integral part of the standard.” In contrast, such a separate document should be described and used solely as clearly nonauthoritative guidance in selecting specific quality management or control objectives (*i.e.*, more specific than the broad, general objective set forth on para. 15), practices and procedures deemed appropriate for the firm. Any language that might suggest that such material should serve as a *de facto* standard, a requirement, or even a “best practice,” should be carefully avoided. In the absence of clearly identifiable and related root causes of perceived audit failures, or other evidence of egregious quality management weaknesses, such judgments should not be subject to regulatory challenge.

The proposed responsibilities set forth in paras. 21-23 and the other proposed requirements of paras. 24-60 are, in my opinion, too prescriptive (*i.e.*, “presumptively mandatory”) since the operative word in ***every one of 40 successive paragraphs*** is “should.” More specifically, the proposed documentation requirements set forth in paras. 58-60 would require tedious documentation that touches every base in all the other cited paragraphs and, as written, such proposed documentation requirements are highly likely to be overly burdensome and costly for smaller practice units, viewed by adversaries as self-serving, and they do not appear to be subject to practical scalability at all.

According to para. A7, the word, “should,” is used throughout the proposed standard to denote its “requirements,” but by designating them, instead, as “presumptively mandatory” (with reference to AU-C 200.25), the standard would be more precise and would provide less ammunition to a challenging adversary that asserts a systemic quality deficiency. Accordingly, in my opinion, the proposed standard, as written, is hardly principles-based and if so issued, would still be still a one-size-fits-all, almost totally inflexible and rules-based document. I further believe, however, that the standard would yet be too prescriptive even if the more permissive term, “should consider” (as defined in AU-C 200.79), were substituted in most instances for the word, “should,” since that would cause a formidable, costly and unnecessary documentation burden.

#### Minor comments

1. The notion cited in the proposal that an ASB quality management standard that is foundationally different from that of either the IAASB or PCAOB could be perceived as being of lower quality depends on one’s definition of “foundational” and appears not to be grounded in research, likely to be faulty and unsupportable.
2. Although I agree that for firms that perform engagements in accordance with the standards of the ASB, the IAASB or the PCAOB, complying with fundamentally different quality management standards such as those of the ASB, the IAASB or the PCAOB may not be feasible, I believe the U.S. standard could easily be structured to represent a basic, most broadly applicable minimum, and that incremental differences necessary to elevate performance in compliance with other applicable standards could be readily identified. Firms that are not suitably equipped to comply with more robust standards simply should be cautioned in the final standard not to accept engagements that would require such compliance.
3. Para. 17 of proposed SQMS No. 1 defines a “system of quality management” in a way that appears virtually unable to accommodate the smallest of firms. This problem is pervasive throughout both the proposed standard and the extant standard as well. In fact, it is difficult to conceive of how the smallest of practice units can be even said to have a “system,” *per se*, at all, and I believe this should be expressly addressed in the final standard.
4. I believe there is no justifiable reason the proposed documentation retention provision of para. 61 should not be the same as that applicable to audit engagement documentation pursuant to AU-C section 230.
5. In my opinion, just because it has become trendy, there is no compelling reason to substitute the term, “quality management,” for the time-honored, infinitely more familiar and semantically indistinguishable term, “quality control,” which is grounded in the manufacturing environment since the industrial revolution. Although virtually inconsequential, I believe this is an example of unnecessary convergence for its own sake.

Very truly yours,



Howard B. Levy, CPA

Cc: Ahava Goldman