



August 30, 2021

Email to: CommentLetters@aicpa-cima.com

Attn: Sherry Hazel

We appreciate the opportunity to comment on 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)

The KSCPA Accounting and Assurance Task Force presents the following comments on behalf of the Kansas Society of CPAs, a 2,400 member strong association. Roughly 50% of Kansas firms performing audit and attest engagements are small, with only one or two CPAs on staff. The additional attempt to protect the public comes at an added cost to firms that will be passed onto the audit client. Many of these clients are smaller entities whose boards or, in some cases financing demand audit financial statements. In some cases, these added costs may create an added burden that these entities may find difficult to bear or an added cost to CPA firms, which may make these engagements not meet required profit margins restricting public access to audit services. The added costs could be an issue to rural Kansans. Thus, we are concerned that the significant implementation costs will be burdensome and adversely impact our smaller firms.

The KSCPA is supportive of AICPA's efforts to improve audit quality. Our comments for consideration are outlined below.

PART 1: SQMS No. 1

The fundamental aspects of proposed SQMS No. 1 are summarized on pages 9-14 of the Explanatory Memorandum. Are the requirements in SQMS No. 1 clear and understandable? Is the application material in SQMS No. 1 helpful in supporting the application of the requirements?

The fundamental aspects are clear and understandable. However, the committee believes that overall, the application guidance needs to be enhanced, especially considering the small firms making the transition who don't have teams of quality management professionals to support the implementation. Further, paragraph A48 presupposes higher risk in small firms, when in fact many small firms dedicate disproportional resources to audit quality.

Specifically, areas needing additional guidance are enumerated below.

1. Enhanced guidance is needed in terms of the expectation for the quality engagement review scope. (Ref: par 2a). Such guidance needs to take into consideration the cost benefit relationship.

Thus, we somewhat support the proposed SQMS No. 1.

PART 2: Scalability of SQMS No. 1

Is the new quality management approach in SQMS 1 scalable? Would additional application material regarding scalability be helpful?

- Conceptually, we appreciate the intent but believe the new approach may be a countermeasure to quality instead of supporting quality. We also have concerns about the practicability and how the new approach would be accomplished in practice. Many small firms perform the same engagements as larger firms. The difference is the number of engagements performed, which puts an increased burden on the small firms to seek external resources to satisfy the requirements.
- In terms of efficiency and functionality, the options provided aren't scalable and will ultimately require more work than the requirements specify, being a disincentive to small practices.
- The cooling-off period is likely not scalable for the smaller firms that lack qualified resources to satisfy the requirement.

Based on these concerns, we somewhat oppose the supposed scalability aspect of SQMS No. 1. Successful implementation of the standard will depend upon guidance that fully considers the nature and cost structures of small practices and is not overly complex. There is concern that an overly complex standard may itself be motivation to down-grade risk assessment profiles in order to avoid engagement quality review.

PART 3: SQMS No. 2

Are the requirements in SQMS No. 2 clear and understandable? Is the application material in SQMS No. 2 helpful in supporting the application of the requirements? Do you have any other comments on proposed SQMS No. 2?

The section was understandable; however, areas that need further clarity or guidance are enumerated below.

- At what point is the engagement quality reviewer involvement required? What is defined as the appropriate point in the audit process? Further, what is the guidance when the audit planning has already been started, and something comes about that triggers a quality control review? Must the audit now be halted to engage the quality control reviewer? There is concern that future peer review guidance will create de-facto performance standards not part of the standard.
- If the engagement quality reviewer's involvement caused changes in audit planning, then doesn't the engagement quality reviewer become part of the audit team? What

prevents the engagement quality reviewer from becoming part of the audit team? Guidance for the engagement quality reviewer may be needed. Additionally, paragraph 21 on page 112 states that firms should have policies or procedures that require the engagement quality reviewer to take overall responsibility for the performance of the engagement quality review and address nature, timing and extent, etc. A concern will be if the EQCR is a contracted individual from another firm due to the size or resources of the engaged firm. To what extent has this other firm exposed themselves and the firm to the QC process of the engaged firm if they are responsible for the QC review, process, etc. This can get complicated especially in a situation where there could be an audit failure, etc.

- Does the involvement of the engagement quality reviewer take into consideration a cost/benefit analysis? Is the level of involvement the same for a small audit as a large audit? The committee recommends the ASB perform a cost/benefit analysis to determine if the proposed changes will result in tangible improvements to audit quality.
- What precludes a firm from omitting an audit engagement to avoid having an external engagement quality reviewer?
- Since many smaller firms do not have electronic records, would the engagement quality reviewer be required to be onsite during the audit or attest engagement?
- What measures are in place to prevent an engagement from being paused due to waiting on the engagement quality reviewer? Many high-risk industries require compliance with specific due dates that may be a challenge, especially if the firm is required to engage an outside reviewer.

PART 4: QM SAS

Are the requirements in QM SAS clear and understandable? Is the application material in QM SAS helpful in supporting the application of the requirements? Do you have any other comments on the proposed QM SAS?

To the extent the requirements mirror the quality control standards mentioned above, the committee has the same concerns with the application of the SAS.

PART 5-6. Effective dates and implementation period

Are the effective dates clear? Is an 18-month implementation period appropriate?

The committee strongly opposes the 18-month implementation period. Substantial guidance is needed before firms can start defining policies resulting from these changes. Providers of practice aids will need time to amend and update existing guidance and practice aids in order to provide tools firms have relied on in the past to make such significant changes to quality management systems. Additionally, firms will need time to contract outside arrangements, consider and redraft their policies and procedures, and consult their insurance provider. Further, the scope of these changes will require significant revisions to peer review standards, interpretations, and guidance. The level of effort and understanding for redrafting the standards, firm policies/procedures, and peer review program manual/team captain checklists will require a more extended period than 18 months. The committee believes as long

as substantial supporting guidance is issued, a minimum of a 24-month implementation period is needed from the point of issuance.

PART 7. Other issues – Self-Inspection.

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.

The committee disagrees that inspection of completed engagements by those involved in the engagements should be precluded. In a smaller firm environment, there are limited qualified review resources. This will drive the firm to engage people to perform quality control functions that may not be as qualified as those who are part of the smaller pool of resources within the small firm, which has a potentially adverse effect on audit quality.

Examples of safeguards that could lower the self-review threat to an acceptable level include:

- Guidance as to how long is an appropriate cooling off period to a fresh perspective to inspection of the engagement.?
- Guidance could include consideration of other factors such as prior peer review results and results of review by other outside parties, including the results of review by regulatory agencies.?

Part 8 – Other Issues - Cooling-off Period.

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.

The committee understands the proposed cooling-off period is a good way to get fresh eyes on an engagement and minimize the self-review threat. However, the committee is concerned that it could be contrary to high-quality objectives because it takes away an established knowledge base from the engagement. This is especially concerning as it relates to specialized industries. Requiring another engagement quality control reviewer who doesn't understand the industry just for the sake of a cooling-off period would be contrary to high audit quality objectives. The fact that smaller firms will lack the additional qualified resources to satisfy the requirement makes this even more challenging. The committee believes that the fresh look by a new engagement partner addresses quality concerns and that quality review by the prior engagement partner brings with it the knowledge that actually enhances engagement quality. Finally, why is it necessary to have a cooling-off period if there is no partner rotation requirement? If there is a cooling-off period, we believe such cooling-off period should not exceed one-year.



Part 9 – Other Issues - Completion of Engagement Quality Review and Dating of the Auditor's Report

Should the engagement quality review be required to be completed before the report is dated rather than before the report is released? Please answer yes or no.

No. Delaying the report date creates an unnecessary time delay and complexity to engagement completion without benefit.

Thank you for the opportunity to comment, and we appreciate your consideration of our input.

Sincerely,

A handwritten signature in black ink, appearing to read "Albert R. Denny".

Albert R. Denny, CPA
Task Force Chair
Regier Carr & Monroe, L.L.P. | Audit Partner

A handwritten signature in black ink, appearing to read "Natasha Schamberger".

Natasha Schamberger, CPA
KSCPA | President & CEO