

August 27, 2021

Attn: Sherry Hazel CommentLetters@aicpa-cima.com

Re: Proposed Statements on Quality Management Standards – Quality Management: A Firm’s System of Quality Management Engagement Quality Reviews

The views expressed herein are a joint response written on behalf of the Professional Standards Committee (PSC) and the Peer Review Committee (PRC) of the Texas Society of CPAs. Both committees have been authorized by the Texas Society of CPAs' Board of Directors to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the amendments proposed in the above-referenced exposure draft.

Request for Comments:

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: The committees believe that the proposed SQMS No. 1 is clear and understandable. However, the difficulty exists in the actual application of the proposed standard. The areas of Risk Assessment and Information and Communication, while necessary, may be problematic for smaller firms without dedicated resources needed for continuous quality improvement. We support the goal of improved audit quality and think that the increased burden of the proposed requirements is better focused on the firms that have repeated errors and noncompliance issues as reported in MFCs, FFCs and “pass with deficiency” or failed by peer review reports instead of application to every firm that performs an audit. We understand that the goal is to prevent the occurrence of failed audits, but increased regulation for all audit firms is detrimental for smaller firms and unnecessary for those firms that maintain consistent compliance with the standards.

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: Both committees think that the proposed quality management approach should not be a one size fits all methodology. While scalability in the proposal is encouraged, practice aids for various size firms would be helpful. The requirements for a firm’s system of quality management are already extensive and the committees think that this proposal increases the documentation burden.

3. 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. 2 are clear and understandable, and whether the application material is helpful in supporting the application of those requirements.

Response: The committees think that the requirements in proposed SQMS No. 2 are clear and understandable. The application material is somewhat helpful. However, the committees think reliance on an outside reviewer to complete an EQR prior to issuance of the audit report may place undue pressure on smaller firms regarding the timing of the issuance of multiple reports with the same issuance deadline. The committees understand that the ASB is attempting to require the engagement quality review be performed

as an audit activity rather than a post audit activity, due to the frequency of risk assessment deficiencies that occur as a result of peer review. However, increasing the regulation burden instead of focusing on firms that have repeated risk assessment offenses is not beneficial to the profession.

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.

The committees think that the preceding changes, with exception of those noted in previous comments, are beneficial to the goal of continued audit quality. The requirements are clear and understandable, and the application materials are somewhat helpful.

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

Both committees think that the effective dates for the implementation of the proposed requirements are clear.

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.

Depending on the final effective date of the proposed requirements, the committees think that the 18-month implementation date may be too short. It will take time for practice aids to be developed and the firm's documentation to be updated for the new requirements. The committees think that a minimum of 24 months may be necessary to obtain practice aids and to update the firm's quality management system and documentation.

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.

Both committees agree that it would be a best practice to preclude inspection of completed engagements by those involved in the engagement in order to enhance audit quality. However, the committees are not convinced of the benefit of such a requirement. Persons involved in the engagement are more likely to notice irregularities executed by the client, since they have experience with the client's operations. Therefore, the committees believe that this should be a "best practice" recommendation rather than a requirement. While inspections outside the firm may be more objective, there is no certainty that they would improve audit quality since firms may arrange reciprocal agreements with other audit firms to exchange review services.

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.

Both committees would support a cooling-off period before a former engagement partner can serve as an engagement quality reviewer. However, we realize that the IAASB requires a two-year cooling-off period, so we would support a similar requirement. The committees believe that a one-year period, at most, would be sufficient. A longer period would increase the risk that a reviewer unfamiliar with the client might miss important details during the EQR and that some familiarity with client operations provides the necessary experience to notice discrepancies.

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.

Both committees support a requirement that an engagement that meets firm criteria for an EQR should be completed before the audit report is issued, but not necessarily by the date on the audit report. This would prevent the logistical issues that would occur by the EQR not being completed until deadlines imposed by outside regulatory entities, such as obtaining new management representation letters, lawyer inquiries and subsequent event evaluation.

We appreciate the opportunity to provide input into the standards-setting process.

Sincerely,

A handwritten signature in black ink that reads "Lyle C. Joiner". The signature is written in a cursive style with a large initial "L".

Lyle C. Joiner, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants

A handwritten signature in blue ink that reads "Timothy S. Pike". The signature is written in a cursive style with a large initial "T".

Timothy S. Pike, CPA
Chair, Peer Review Committee
Texas Society of Certified Public Accountants