

May 31, 2024

Brad Coffey, CPA
Technical Manager-Peer Review
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
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Re: *Proposed Peer Review Standards Update No.2, Reviewing A Firm's System of Quality Management and Omnibus Technical Enhancements*

Dear Mr. Coffey:

We appreciate the opportunity to provide feedback on the proposed *Peer Review Standards Update No.2* to aid in its standard-setting efforts.

The views expressed herein are written on behalf of the Peer Review Committee (PRC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council 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' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below for the request for comment.

Request for Comment:

Question 1: Do you recommend any additional changes to strengthen the understandability and applicability of existing requirements or application and other explanatory material?

Response: The PRC believes that more examples and implementation material are required to assist small to medium-sized firms to properly implement the Quality Management (QM) standards. Although we support the goal of improved audit quality, we believe the increased burden of the proposed requirements on smaller accounting and audit (A&A) firms will be detrimental without quality implementation material that includes several practical examples.

The PRC also believes that more peer review guidance and explanatory material is necessary for peer reviewers to evaluate the firm's system of quality management and administering entities, technical reviewers and review acceptance body (RAB) members to evaluate the firm's system of quality management to appropriately consider the disposition of matters related to a firm's system of QM. Currently, there is not adequate guidance on the peer review consequences of not properly designing and complying with a firm's system of QM and the effect this will have on the peer review report rating.

One of the "benefits" of the new QM standards is stated as scalability. Scalability requires judgement calls related to a multitude of issues, including size, risk and complexity. This also



means that evaluation of these factors by different parties will, by the fact they are judgement decisions, result in different answers and conclusions. If an objective of peer review is to evaluate and report on the design and compliance of a firm's QM system and it is intended that the peer review process be performed consistently by reviewers, committees, report acceptance bodies and oversight processes, then guidance needs to be robust and provide for consistency between QM design and compliance findings at the firm level and related peer review outcomes.

The guidance sought above needs to be integrated into sample documents of QM design that anticipates various firm sizes and risk profiles, such as sample QM policies and procedures for:

- a) Sole practitioners with no staff with limited attest work (such as no audit engagements).
- b) Sole practitioners with no staff with significant attest practices, with additional guidance where there are or are not high-risk engagements.
- c) Small single office practices with specializations where there are only a limited number of partners or other personnel with relevant specialized experience to assist with quality reviews or monitoring.
- d) Larger offices where there are multiple qualified individuals with relevant experience to support the quality review and monitoring process.
- e) Small multi-office firms.
- f) Large multi-office firms.

Some examples and considerations to strengthen application and other explanatory material for various firm sizes and risk profiles include:

- For each QM element, what are the varying degrees of non-compliance that would result in nonconformity with QM standards? An example might be lack of a firm risk assessment process where the firm has not established objectives, evaluated or identified risks to achieve the quality objectives, or designed an implementation plan to assess quality risks, and if this results in a pass with deficiency (PWD) or fail report for the first year of implementation. Or, as with the risk assessment guidance, will we make it a finding for further consideration (FFC) for a period of time?
- Provide various risk matrix templates, similar to what is shown in the current AICPA QM practice aids, with drop-down boxes to select the applicable "answers" to ensure that firms end up with an acceptable end-product. The PRC believes that it may be better to leverage the risk matrix templates with multiple potential responses for each area than to have every firm in the nation invest excessive time and resources on a product that may not be acceptable when peer reviewed.
- Additional guidance/examples of the expectation and documentation of ongoing QM system testing for small/medium sized firms. These firms are already expected to perform inspections and other quality control monitoring and have outside peer reviews every three years. Where necessary, they are also required to have an engagement quality control review (EQCR). What more can be expected of firms with limited staffing and resources?
- Examples of appropriate criteria for EQR selections for smaller firms. If a firm only has one or very few low-risk audits, additional guidance would be required on how often these audits should undergo EQR.

- Guidance on how small firms should respond to the risk that engagement assignments are made based on who is available rather than experience levels and training.
- Consider the need for multiple educational outlets that provide guidance on the new standards with practical implementation guidance. This should include national and regional conferences along with individual state society educational offerings. When providing education with the implementation of Statement on Quality Control Standards (SQCS) No. 7, the AICPA developed courses that integrated both QC and peer review standards that were presented at multiple locations with all using the same slide deck providing consistency in messaging.

There is a risk that the burden of these QM standards and the negative consequences on the firm's peer review rating, for firms that have not appropriately designed and complied with their system of QM, will lead to many sole proprietors and smaller firms ceasing to perform audit engagements. Many of these small firms audit smaller entities such as not-for-profit organizations and local governments. With an already decreasing number of firms available, coupled with more sole proprietors and small firm professionals retiring, and small firms merging or ceasing operations, these smaller entities will be priced out of audit services and medium to large firms will likely not have the ability to absorb these smaller audit engagements.

Question 3: Due to the iterative nature of the requirements in the QM standards, do you suggest any additional considerations to assist peer reviewers with evaluating various components of a firm's system at different points in the peer review year?

Response: The PRC believes that the AICPA needs to provide more context to this question and provide adequate examples that would be applicable to different size firms, as the components and requirements for a sole proprietor/small firms will be drastically different to that of a large firm.

The PRC suggests guidance similar to that found in the current Clarified Standards for Performing and Reporting on Peer Reviews as Amended by PRSU No.1, PR-C Section 220 Appendix A- Examples of Noncompliance with Applicable Professional Standards. Examples might include noncompliance with each QM element starting with "The Firm's Risk Assessment Process" down to "Monitoring and Remediation" or at minimum with the elements that differ from the current quality control standards. Also, if the firm maintains a quality control document and has not applied the new standard at all, what is the repercussion for the firm, PWD, Fail or FFC?

Practice aids and guidance for peer reviewers need to be developed by the Peer Review Board (PRB) such that peer reviewers have the tools that aid in the peer review process and provide consistency in outcomes for all AEs.

Question 4: As proposed, the standards will continue to categorize matters identified by peer reviewers (for example, on matter for further consideration [MFC] forms or in a peer review report) as either design matters or compliance matters. Do you believe the board should consider additional revisions for more consistency with the SQMS?

Response: The PRC believes that current peer review terminology should be retained, such as the use of "design and compliance" and not "operating effectiveness." An opinion on the operating effectiveness seems too broad and could put the peer reviewer at risk if the firm faces changes or

challenges in the years not subject to peer review, such as leadership changes, audit failures, legal issues with clients or investigations from any regulatory, monitoring or enforcement bodies.

Question 5: Do you agree with the proposed change to require team captains to submit the quality management checklists as part of a reviewer's required document submission?

Response: The PRC believes that QM checklists should be finalized prior to the PRC having a strong opinion on this question. The PRC also believes that additional documentation submission does not necessarily assist in increasing peer review quality and submission of the "no answers" page, similar to the current guidance related to the QC checklists, would be sufficient. The PRC also notes that there are many redundancies and repeat questions in the current checklists required; as such, questions in the QM checklists should not be repeated in other peer review checklists.

Question 6: Do you believe any specific training or resources would be beneficial to firms, reviewers, or administering entities as it relates to evaluating a firm's system of quality management?

Response: The PRC believes that substantially more guidance and training should be provided to firms, reviewers, administering entities, technical reviewers and RAB members as it relates to evaluating a firm's system of quality management. Additional guidance is needed especially when instances indicate that the firm issues conforming A&A engagements in all material respects but does not have its QM system appropriately designed during the initial year of implementation. The AICPA should also provide adequate cost/benefit analysis and examples of QM standards implementation for sole proprietors or smaller A&A practice firms.

Question 8: Do you believe the peer review standards should include a definition of "root cause" or application and other explanatory material to provide users with additional considerations for concluding whether the severity and pervasiveness of a root cause may be systemic in nature?

Response: The PRC believes that current peer review terminology should be retained when referencing systemic cause in the QM standards.

Question 9: Do you believe it is appropriate to permit reviewers who retire from the practice of public accounting to continue serving as a team member on peer reviews for an 18-month period after an individual's effective date of retirement?

Response: The PRC believes it is appropriate to permit reviewers who retire from the practice of public accounting to continue serving as a team member on peer reviews to increase the current peer reviewer pool. If approved, the PRC believes that additional clarity would be required, as there will need to be discussion of the experience code of these team members. Consideration should be given on noting a retired team member as a "B" experience code and allowing these team members to review certain engagements if coupled with a continuing education requirement. The AICPA will also have to work with the different State Boards of Accountancy to ensure that continuing education and current status of licensees are appropriate for these "retired" CPAs who continue to be involved in peer review. The PRC believes that this guidance should be developed and implemented expeditiously, as it would be beneficial to the reviewer pool issues faced by the peer review program.

Question 10: Do you believe it is appropriate to extend the reviewer training requirement for relevant courses to be taken within 18 months prior to the commencement of a review? Should the 18-month period also apply to applicable training courses for technical reviewers or CPAs on Staff?

Response: The PRC believes it is appropriate to extend the reviewer training requirement for relevant courses to be taken within 18 months prior to the commencement of a review and that the 18-month period should also apply to applicable training courses for technical reviewers or CPAs on Staff.

Question 11: In addition to peer review documents already required to be submitted to AEs as described in paragraph .70 of section 210, do you agree with the proposed change to include the alternative practice structure (APS) checklists?

Response: The PRC believes, as per current guidance related to the QC checklists, only the "no answer" pages should be required to be submitted; however, the PRC notes that there is currently very limited guidance on alternative practice structure and the consequences of such on a peer review.

Question 13: Do you agree with the proposed effective date for QM related changes to be effective for peer reviews with peer review years ending on or after December 31, 2025? For any suggested alternatives or anticipated challenges that stakeholders may face with this effective date, please provide your reasoning.

Response: The PRC believes that the current effective due date is premature, given the lack of examples and adequate guidance available to different size firms, peer reviewers, administering entities, technical reviewers, and RAB members making the final evaluation of the peer review report results. Consideration should be given to proposing an effective date one to two years after adequate, practical guidance is available.

Question 14: Do you agree with the proposed effective date for omnibus technical enhancements to be effective for peer reviews commencing on or after October 31, 2024? For any suggested alternatives or anticipated challenges that stakeholders may face with this effective date, please provide your reasoning.

Response: The PRC agrees with the effective date of the omnibus technical enhancements related to permission of retired peer reviewers to serve as a team member on peer reviews and extension of the reviewer training requirement to be taken within 18 months prior to the commencement of a review. Expediting the effective date of these enhancements would be beneficial to the reviewer pool issues faced by the peer review program.

Overall, the PRC is supportive of the Board's proposal to update the existing peer review standards to integrate quality management and supports the goal of improved audit quality; however, the implementation of this standard may result in more firms relinquishing their audit practices, which is a detriment to an already struggling profession. The lack of practical training and resources to smaller firms could phase out these firms from performing audit engagements and introduce further risks and pressures to the CPA profession.

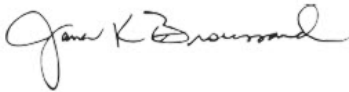
While the proposed standard is intended to be scalable, it will still be a significant undertaking for many smaller firms, especially those with no audits, as the process is not always intuitive. It will also be a significant burden to these firms to conduct annual testing of the QM system and may result in increased monitoring and peer review costs.

The PRC is also concerned about the ever-increasing granular depth of peer review and the resulting time requirements and cost to firms. This has led to shrinking pools of both peer reviewers and audit firms, which is not the desired result. Careful consideration should be given to whether the benefits of these additional requirements justify the monetary and non-monetary costs to firms and the sustainability of the profession.

Lastly, the PRC is concerned with how the peer review program will treat initial compliance with the final standards after they become effective, as we believe that a number of smaller firms will not have a new QM system in place by the effective date and that some firms that do design a new QM system may still not, at first, be fully compliant with the new standards. We believe firms that perform quality A&A work should not be excessively punished over technicalities as they implement their new QM systems.

We appreciate the opportunity to submit comments on the standards-setting process.

Sincerely,

A handwritten signature in black ink, appearing to read "Jana K. Broussard". The signature is fluid and cursive, with a large initial "J" and "B".

Jana Broussard, CPA
Chair, Peer Review Committee
Texas Society of Certified Public Accountants