

November 7, 2014

VIA E-MAIL EAQ@aicpa.org

Re: AICPA Discussion Paper - Enhancing Audit Quality, *Plans and Perspectives for the U.S. CPA Profession*

To the Members of the AICPA Discussion Paper Initiative:

WeiserMazars LLP (“WeiserMazars”) welcomes the opportunity to comment on the American Institute of Certified Public Accountants’ (“AICPA”) Discussion Paper on *Enhancing Audit Quality* (“Discussion Paper”). WeiserMazars supports the AICPA in its efforts to enhance audit quality in the performance of financial statement audits of private entities in order to provide management, lenders, investors, regulators and other users of financial statements increased transparency in financial reporting so they can make appropriately informed business decisions.

WeiserMazars is a firm with over 100 partners and 650 professionals in eight offices across the United States of America (“U.S.”), an independent member firm of the Mazars Group, an organization with nearly 14,000 professionals in more than 70 countries around the world, and a member of Praxity AISBL, a global alliance of independent firms. In addition, we are also registered with the Public Company Accounting Oversight Board (PCAOB). As a firm based in the U.S., and a member of an international network, our perspectives may differ from our international counterparts due to variations in the client population and regulatory environment.

Our selective responses to the Discussion Paper are driven primarily by our position in the U.S. marketplace as a medium-sized public accounting firm servicing small to medium-sized private, public and regulated entities.

Overall Views

At WeiserMazars, we consistently promote the spirit of “continuous improvement” in our culture and challenge the current ways in which we conduct the performance of attest services. In today’s business and regulatory environment, our profession is challenged more than ever to keep pace with auditing complex financial accounting and reporting issues facing our clients.

We support the AICPA in its mission to further strengthen and develop high-quality auditing and quality control standards as well as to issue non-authoritative guidance and best practices that promote transparency, increase the public trust and improve overall audit performance as noted in Phase 1. We agree the elements of quality identified in the Discussion Paper need to be further examined to explore new ways to maintain and enhance excellence in the audit process. We believe further practical guidance should be developed to enhance practice professionals understanding of how the auditing standards are applied. Although we did not provide responses to the questions noted in the Practice Monitoring section of the Discussion Paper, we do have concerns with respect to the additional monitoring requirements that are being considered in enhancing the current peer review program as outlined in Phase 2. From our perspective, this approach may not necessarily provide an overall increase in audit quality. The amount of time, energy and resources incurred to

perform these proposed extensive peer review procedures may outweigh the intended benefits. The AICPA Discussion Paper Initiative should consider placing greater emphasis on developing the additional tools and guidance, perhaps measuring the improvement in results before implementation of too many additional monitoring procedures as part of the peer review program.

The tone at the top in public accounting firms must foster a commitment to quality by action, demonstrated through: (not an all-inclusive listing):

- ensuring that practice professionals have sufficient time and resources to solve engagement challenges;
- demonstrating a track record of consistency on significant standards based decisions; meaning how a firm handles significant matters in whether they defer to client pressures or uphold the requirements of the standards – whether they are consistent in their decisions;
- demonstrating the importance of creating and maintaining an excellent public reputation;
- providing periodic training on independence and ethics to all practice professionals;
- establishing and regularly communicating a formal code of conduct that reflects a firm’s core value of quality, and providing guidance to make appropriate decisions;
- challenging unethical behavior and addressing instances of noncompliance with a firm’s code of conduct and quality control system through swift disciplinary action;
- communicating clear, consistent and frequent actions that emphasize quality control policies and procedures by providing a copy of a quality control document to all professionals; and
- hiring, compensating, promoting and rewarding professionals who possess and exhibit high levels of integrity and demonstrate a commitment to quality through their performance evaluations, compensation and advancement protocols.

Competence and Due Care:

1. How can the profession reinforce the importance of the Code and ensure that all CPAs performing private entity financial statement audits adhere to the due care and competence requirements?

The AICPA’s *Code of Professional Conduct* (“Code”) should be instinctive in every accounting professional. Enhanced continuing professional education (CPE) and a consistent “tone at the top” message regarding a commitment to audit quality and the public trust is critical to reinforce the importance of ethics, independence, due care and competency.

Entry-level professionals should receive enhanced training on ethics, independence and due care during their college careers placing a greater emphasis on the Code in preparation for both the Uniform CPA Examination (“Exam”) and for the workplace environment. Although the Exam does address ethics and independence on a very high-level, it should place greater emphasis on testing other aspects of the Code. Many professionals in practice are not receiving the same quality and quantity of training. Therefore, we propose that the AICPA and public accounting firms to set a minimum amount of annual hours of CPE on the Code so that there is always a consistent message that complying with the Code is part of one’s daily responsibility.

In addition, the Code may be further reinforced through more enhanced focus and training of professionals by public accounting firms about the positive and the negative impact of violating his or her professional responsibility. We encourage the AICPA, state boards and state societies to be more aggressive in making the public aware of professional transgressions/violations of the Code, as permitted by law. Greater awareness of such transgressions/violations and related repercussions will further heighten awareness of compliance with the Code.

Specifically, the profession can reinforce the importance of the Code by doing the following:

- Amend the AICPA *Statements on Quality Control Standards* (“SQCS”) section on “Leadership Responsibilities for Quality Within the Firm” to require firms to develop policies and procedures to promote a culture not only of quality but of ethical compliance. Provide examples of policies a firm may develop to promote such a culture.
- Amend the AICPA SQCS section on “Relevant Ethical Requirements” to require firms to develop policies and procedures to provide reasonable assurance that its personnel comply with the Code. Provide examples of policies a firm may develop.
- Amend the AICPA SQCS section on “Monitoring” to require firms to develop policies and procedures to specifically evaluate the design and operating effectiveness of such policies and procedures regarding compliance with the Code.
- Provide additional guidance for peer reviews to evaluate the design and operating effectiveness of a firm’s policies regarding compliance with the Code. Required training for peer reviewers should include guidance on identifying systemic matters that may arise from noncompliance with the Code.

2. ***What are CPAs challenges and obstacles in exercising due care?***

As ET Section 0.300.060 requires that accounting professionals exercise due care in their work by observing the profession's technical and ethical standards, by striving continually to improve competence and the quality of services, and by discharging professional responsibility to the best of the professionals ability. From a theoretical perspective, these requirements are achievable, but not without potential conflicts on the part of the professional when facing practical implications.

Accounting professionals in larger public accounting firms, due to their size and volume of clients, can afford to lose a certain amount of professional fees during the normal course of business. However, small and medium-sized firms may be much more sensitive to fees generated from audits, which in certain instances can be a substantial part of revenue. Consequently, there is a great deal of pressure on the professional to balance professional standards and client needs.

Within all public accounting firms, accounting professionals are being asked to do more with less given the current economic climate and increased competition in the marketplace. Often, more work is being pushed down to lower level accounting staff due to less lower billing rates.

In addition, given the complexity in the industry due to constantly changing rules and regulations, more time is spent in staying current. Given the above, professionals are being asked to service more clients than their schedule can permit, thus reducing the quantity of quality time available for servicing engagements.

The economic realities of managing a public accounting firm demand a focus on client service, billable hours and realization. Professionals will be most attentive to those attributes upon which their compensation depends. Thus, compliance issues that don't translate into economic realities may not be given adequate consideration by professionals. Leaders in the public accounting profession should emphasize the message that quality client service comes first.

To overcome these obstacles, the message has to be clear from the AICPA and firm leadership that there will be personal consequences as a result of noncompliance with quality control and ethical requirements in order to change the behavior and attitudes of professionals.

3. ***Should the AICPA provide additional (specific) guidance on what it means to be competent? If so, in what areas? What suggestions do you have to define competence?***

The guidance relating to competency provided by the AICPA in ET Section 0.300.060—Due Care focuses more on “how” to achieve competence and less on providing an actual definition. A level of competence results from multiple skill sets and talents and should not be defined in a single definition. This is so because levels of competency are dynamic, being achieved at various stages during one's professional career.

Currently, paragraph 4 AICPA ET Section 0.300.060 states “*(e)ach member is responsible for assessing his or her own competence of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.*” As the assessment of competence and its achievement are not the same, it would be helpful for the AICPA to more clearly define the term “competence” in relation to the AICPA Due Care guidance noted above. We recommend that “competence” be defined as:

“The ability to perform one's professional responsibilities effectively and efficiently while remaining in compliance with professional standards.”

4. ***What methods, other than existing ones, should the profession consider to facilitate the right match of competency with an audit engagement?***

SQCS No. 8 requires firms “*to establish policies to assign appropriate personnel with the necessary competence...*” The additional guidance in SQCS No. 8 gives the characteristics of the engagement and the engagement team to be considered when assigning such engagement teams. Those characteristics generally relate to experience, knowledge, and expertise.

Perhaps consideration should be given to whether public accounting firms should perform periodic reviews of staffing needs, more frequent reviews of staff competency levels and timely delivery of performance appraisals.

Auditing and Quality Control Standards:

5. *Do you believe revisions should be made to the ASB's auditing or firm quality control standards to improve audit quality in the near term? If so, what specific revisions would you propose and why do you believe they would improve audit quality?*

Some enhancements, specifically to Firm quality control standards, would improve quality in the near term. The AICPA should consider mandating a public accounting firm to implement a policy related to the rotation of both the engagement partner and engagement quality control reviewer to maintain a fresh or different perspective on the performance of audit engagements. The time between rotations should be based on the size of the firm, entity size and regulatory environment.. We note that this requirement could present a challenge for smaller public accounting firms that do not have the available resources to accommodate such rotations and under those circumstances; we would suggest the ASB recommend some other type of alternative approach to obtain a fresh perspective.

6. *Are revisions needed to the auditing or quality control standards to address specific industries or regulated areas? If so, what revisions are needed and what industries or areas should be addressed?*

We believe that additional practical audit guidance would be particularly useful for firms that have clients in the financial services industries as well as clients that have material and/or complex equity-based compensation issues and group audit challenges.

Current audit professional literature relating to the financial services industry, as well as engagements that have equity-based compensation can be very difficult to interpret and apply. In many cases, financial services clients will have transactions or valuations which may increase engagement risk as they involve highly subjective estimates. Additional practical guidance and supporting examples in the audit standards would be of tremendous assistance to engagement teams.

We also would like to see more practical guidance about group audit issues that focus on the types of clients that are serviced by smaller and regional firms such as: calculation of component materiality, identification of components, when a public accounting firm is in a dual role of group auditor and component auditor, etc. In many instances, clients of smaller firms have component audit issues on a much smaller scale and that related guidance should be clarified for these types of situations.

7. *What other guidance is needed to help practitioners apply the auditing and quality control standards to improve audit performance and quality?*

More practical guidance relating to risk assessment at both the audit and assertion level would be helpful to professionals. While current guidance does not need material changes, improvement in audit quality may be achieved if more illustrative examples are provided.

Guidance, Tools, Learning and Resources:

8. *Based on your use of audit engagement training tools and resources, what additional authoritative publications or non-authoritative guidance, tools or training could be developed for audits of financial statements that would enhance competences and drive quality engagement performance? For which industries or specialized topics is it difficult to obtain educational and professional resources?*

The public accounting profession as well as industry groups have a long history of publishing interpretations of, and formally training accounting professionals on, authoritative accounting guidance, but to a lesser extent, providing tangible/practical audit guidance to professionals. A prime example of this is clearly articulated in the AICPA Audit and Accounting Guides series. For example, in the preface to the 2014 Employee Benefits Plans Audit and Accounting Guide (the “Guide”) the following is stated: “This guide is directed primarily to those aspects of the preparation and audit of financial statements that are unique to employee benefit plans or are considered particularly significant to them. The guide contains example auditing procedures. Detailed internal control questionnaires and audit programs are not included. The nature, timing, and extent of auditing procedures are a matter of professional judgment and will vary depending on the size, materiality, organizational structure, risk assessment, internal control and other factors in a specific engagement.”

Audit methodologies employed by auditors vary significantly in terms of the auditors’ level of diligence and understanding of current guidance. Therefore, the AICPA should consider providing practical guidance on how a professional should exercise good professional judgment because there is a lack of tangible, real world examples of the application of appropriate professional judgment, audit and attest procedures. Some examples of guidance that would be of assistance include the following:

- Consideration of risk assessment procedures and their translation into tailored audit responses;
- Reliance that can be placed on management assertions absent documentary support;
- Reliance that can be placed on the use of specialists;
- Effective utilization of service auditor reports to appropriately reduce control or substantive testing;
- Effective tests of specific applications of internal controls to reduce targeted substantive testing;
- Reliance on client generated system reports;
- Adequate auditing paperless transactions;
- Effective application of the requirements for setting expectations when performing analytical procedures and the need to corroborate management responses; and
- Auditing significant management judgments.

Implementation guidance in the form of descriptions of real engagement instances or hypothetical instances with details of audit approach and procedures would allow practitioners the opportunity to see alternative ways of addressing issues and potentially see limitations in their current practices.

In addition, we recommend that the AICPA create an auditing/attest hotline that focuses solely on implementation issues to assist professionals in determining appropriate audit procedures and methods for use for their engagements.

In Summary

We applaud the AICPA for launching this initiative and commencing a dialogue with practitioners, regulators and academicians. Enhancing audit quality for the audits of private entities is not optional. We stand to benefit as a profession by obtaining different viewpoints and perspectives of our collective experiences and finding ways to continue to improve our performance of audit services.

We remain committed to participating in future discussions with the members of the AICPA Discussion Paper Initiative. We fully support the mission of educating management, lenders, investors, regulators and other users of financial statements about the process of auditing private entities and the meaning behind the issuance of the independent auditor's report.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Wendy B. Stevens, Partner-in-Charge, Quality Assurance, at (212) 375-6699 (wendy.stevens@weisermazars.com), Salvatore A. Collemi, Director, Quality Assurance, at (212) 375-6552 (Salvatore.collemi@weisermazars.com) or David Bender, Director, Quality Assurance, at (516) 620-8497 (David.Bender@weisermazars.com)

Very truly yours,



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