

## Standards of Excellence for Smaller CPA Firms

By Tom Quin, CPA

In August 2014 the AICPA released for comment a discussion paper on Enhancing Audit Quality, specifically aimed at the smaller firm. Evidently there is an issue regarding the quality of our auditing. After twenty plus years of performing peer reviews for hundreds of firms, my conclusion is that the AICPA is right. The paper was born from criticism of our profession by outside agencies and directed at the smaller firm. Underlying the paper is the premise that many of us have slipped in maintaining the skill set and knowledge expected of us. The AICPA paper elucidates the problem well and centers its remediation through the peer review process. I believe the solution lies in a more difficult task of changing attitudes and rekindling a sense of professionalism. People in the profession are growing complacent, less diligent, and satisfied with old protocols. As an example, I rarely encounter the use of CAAT'S software being used in my PEER clients. We continue to take on riskier clients without understanding the dangers.

Over time the Peer review system has contributed to an improvement in auditing skill sets and an awareness of the need for lifelong learning within the profession. It has also fostered the rise of the canned program that meets professional standards. Unfortunately, along with it came the feeling: if I complete the program I can pass my peer review. It doesn't work that way in my estimation. I have viewed my role as a peer reviewer to inform, encourage and instruct firms as to what key items are missing in their work and what tools and training they need to meet professional standards in the future. Some firms do need a prodding every once in a while. My experience peer reviewing has led me to believe the following traits should be the focus in our quest for excellence, which the AICPA says is at the heart of "due care".

**A Professional's Attitude.** When we go to the surgeon, we want the best in his/her field to perform the operation. We recognize the distinction in being superlative. However, as most clients view the work process as compliance –

audits for a bank or the annual tax return – a significant decision point becomes the price. As the product is price sensitive, we reward efficiency of our staff or ourselves over depth of analysis of complex transactions and attention to detail. Too often, especially in the smaller firm, we meet or achieve the expectation of our clients and perform at a lower level than our capability. This must change or the trusted position we hold will crumble. We settle, and we often adopt an audit approach tantamount to SALY (Same as Last Year) instead of inventive approaches that meet the profession's and the public's expectation. While we tell our staff that quality comes first, reality is that we reward efficiency. Being a professional means always doing your best, and while cognizant of pricing issues, they are not of first concern. We must check our attitude at all times.

**Industry Knowledge.** We value expertise and experience in all the services we engage be it a plumber, electrician or a dentist. So where do you stand vis-a-vis your peer group on industry knowledge? Our profession has been measured as coming up short in several areas of auditing; ERISA and A-133 stand out and their findings are well documented. Yet I see firms doing that type work for one engagement. You must not think, "It's just another audit." Rather, you must ask, what must I do to get up to speed on this entity and its set of rules and government regulations? I just spent about 20 hours studying the new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200), yet I will still have to attend two outside CPE courses to say I have a base understanding of the changes. If you have one or a few specialty clients, what are you doing to stay on top of the required industry knowledge? How much education and training did you have before starting? Do you understand the audit guide covering the industry? Is your audit guide current or several years old? Did you engage an outsider with industry expertise to look over your work papers and financials prior to release? To take on risk type audits you need to be honest and spend time learning why it is a risk industry and properly prepare yourself.

**Professional Standards and Other Required Reading.** Significant changes have been made in auditing requirements since I started my audits with Price Waterhouse over 40 years ago. One thing remains the same; the *Professional*

*Standards* still sit on my desk in the “Black Binder”. I consider myself familiar with, but still surprised by the varieties of questions posed by my staff or by peer clients. I often reference the Professional Standards binder to verify my thinking. You and your staff must read the professional literature regarding items you take for granted. What is expected in planning an audit (AU-C Section 300)? What is involved with Audit Evidence (AU-C Section 500)? How about the audit engagement letter (AU-C Section 210)? The audit process is there for you to reacquaint yourselves with. Merely following a guide/questionnaire/checklist is insufficient if you or your staff don’t understand the meaning of the underlying text.

Similarly, Audit Guides are a must to maintain professionalism. You shouldn’t be doing an audit of a client covered by an audit guide without having read it several times over. While CPE will provide a good start, it is mastery of the guide that marks the professional.

**The Review Process and Monitoring** – Most firms have copied samples of the quality control document and are in compliance with SQCS 8 (See QC Section 10 in the Professional Standards). In my peer reviews the first thing I look at is how the firm documents its Engagement Performance and in particular its EQCR (Engagement Quality Control Review ) policy. As I have seen many times, firms will draft using the language— *“It is firm XYZ policy to evaluate engagements against criteria established by firm XYZ to determine whether an engagement quality control review should be performed, ...”*— but the firm never identifies what that criteria is. Many small firms don’t want to invest time or money for the review process. The expression “Measure twice, cut once” unfortunately doesn’t seem to carry over to the audit process. I find balance sheets that don’t balance; footnotes missing often because there is no use of disclosure checklists; industry specific clients with a general audit checklist being used; and staff that answer questions N/A when it is obvious the procedure applies. A sole proprietor can’t afford to take shortcuts with the required checklists nor fail to perform a full cold review. When encountering a new client in a new industry, it is recommended that the firm consider seeking expertise from outside the firm.

**Training the Help and CPE** – CPE must be viewed as more than fulfilling the 80 hour license renewal requirement. The profession is constantly revising approaches to the audit, mandating new footnote disclosure and revising report language; the marketplace reinvents its products (derivatives anyone?); and we bid on new client opportunities. Our focus should be on Lifetime Learnings a practical necessity for you and your staff who need to stay on top of your chosen practice niches. Fortunately we have an active professional CPA Society with industry oriented committee structure and top quality, timely provided courses. The telling question regarding CPE is not – Do I have my hours? – but rather am I able to discover pathways to personal and practice growth and better understand and anticipate client needs. I will use a variety of sources in my quest to be the best possible, some count for my 80 hours and some don't. I attend industry conferences appropriate to my clients; read and educate my staff on sections of the *Professional Standards*; read, reread, and study audit guides for industries generic to my practice; attend annual overview and industry knowledge type courses such as the Society sponsored Nonprofit conference. I use target on-line courses to gain specific knowledge in areas foreign to me such as derivatives and hedging. Lifetime learning should include enrollment and active participation in appropriate AICPA Quality Centers such as Government and Employee Benefit Plans; and lastly participation in the Society's committee work, for me that's the ERISA and RAB committees. Ask yourself, how many of these items are on your scorecard? What about your staff?

The AICPA discussion paper, *Enhancing Audit Quality*, appears to focus on the peer review system fixing the shortfalls of firms servicing private entities. This is a predictable outcome of a system that must measure and report to outside authority (DOL, OMB). We must head off this outcome. Attention to the above basic tenants will get you going on the right road. It's up to us to cultivate the true meaning of being a professional.

