January 11, 2016

AICPA Peer Review Program
American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

Attn: Rachelle Drummond, Senior Technical Manager PR_expdraft@aicpa.org

Re: Exposure Draft

Dear Members of the AICPA Peer Review Board:

We are pleased to respond to the request for comments from the American Institute of CPAs (the “AICPA” or the “Institute”) on its Exposure Draft – Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews for Improving Transparency and Effectiveness of Peer Review. The National Association of State Boards of Accountancy’s (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. Our comments on the Proposed Changes are made in consideration of our charge as state regulators to promote the public interest.

OVERALL COMMENTS

We support the development of initiatives to improve audit quality by modifying standards to strengthen the guidance as to each party’s responsibilities for non-conforming engagements, to heighten the reviews of firms’ systems of quality control so that causes and appropriate remediation for nonconforming engagements can be more readily identified, and to add clarification throughout that will help enhance the effectiveness and allow for greater transparency. These efforts are in line with the State Boards’ charge of protecting the public interest.

Background

Enhancing Audit Quality Initiative

We support the AICPA’s efforts to enhance audit quality via short-term and long-term initiatives.
Peer Review Standards

Improving Transparency and Effectiveness of Peer Review

We support efforts to improve audit quality and have no areas of major disagreement with the AICPA’s Exposure Draft. In particular, we agree with:

- Par. 38- Requiring both a closing meeting and an exit conference.
- Par. 39- Removing the Team Captain’s responsibility in “closing the loop” in his/her report.
- Par. .96 and .122- Updating of the peer review reports – improved language and layout for better consistency with the clarity standards.
- Par. .99 and .125- Requiring the reviewed firm to comment on Matters for Further Consideration and Findings for Further Consideration, as applicable, in Letter of Response.
- 146-3- Giving the Administrating Entity the right to communicate with certain governmental agencies that the peer review is in process and in review. Transparency in this area is paramount to State Boards to enable them to oversee licensees and firms.

While we basically agree with the following changes, we suggest some clarifications:

- Par. 38- Including the firm’s plan of remediation for nonconforming engagements in the Representation Letter.

  **Suggestion:** We also recommend that the Representation Letter be maintained and given to the subsequent reviewer. Further, Par. 38 should be changed to (1) eliminate the conditional language regarding a closing meeting, and (2) the language in Par. 91 that requires a closing meeting should be used.

- Par. .99 and .125- No longer requiring the Team Captain or the reviewer to provide recommendations for remedying deficiencies to the reviewed firm. The reviewed firm should be responsible for developing plans of remediation.

  **Suggestion:** The Team Captain should be permitted to assist in the development of suggested remediations when appropriate.

- Par. 208- For Engagement Reviews, require the firm to specifically indicate that they do not perform engagements under the Statements on Auditing Standards (SASs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to PCAOB inspection. Several cases have come before State Boards where firms have not subjected these types of engagements to peer review and, by elevating this matter to the Representation Letter, this loophole may be closed.
Suggestion: Explore the development with the OMB, DOL, etc., of databases that Team Captains could access to see if the firm performed Yellow Book and/or DOL audits.

We also suggest the following issues be given some consideration:

1. Par. 38b(xiii) – It is unclear from this change whether the Team Captain is expected (or permitted) to provide the results of their evaluation of the firm’s actions, taken or planned, to the firm being reviewed. We believe this would be beneficial to the process and should be mandated.

2. Par. 75 – The definition of “systemic cause” seems to imply that every “matter” results from a systemic cause. Paragraph 70 indicates a matter is “typically one or more ‘No’ answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm’s system of quality control.” It would seem that a matter, as defined, might be determined to be isolated rather than systemic; to imply otherwise may cause reviewers to stretch the concept of “systemic” to the point that the importance of determining systemic causes is lost.

3. Related point in Par. 84 – “…if the reviewer believes that the probable systemic cause…of a matter…also exists in other engagements…..” Considering whether the probability that the matter exists in other engagements should be included as part of the definition of whether the cause is systemic.

4. The guidance in proposed interpretation 83-1 is troubling in this regard: “…the failure to follow the firm’s practice aid for a particular area may have been an isolated occurrence; however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter.” This seems to indicate that every cause is a systemic cause; if so, there is no need for the adjective “systemic.”

5. Appendix A .207 (1) states: “Firms (and individuals) enrolled in the AICPA Peer Review Program are required to have a peer review, once every three years, of their accounting and auditing practice. An accounting and auditing practice for purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); ….” With the issuance of SSARS 21, and in particular AR-C Section 70, Preparation of Financial Statements, would this mean that this type of service would be subject to peer review? In AR-C Section 70 it is stated that such a service is not an attest service. We believe this should be clarified as State Board rules/regulations may treat this type of service differently.

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NASBA appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the AICPA in analyzing the relevant issues and potential impacts. We encourage the AICPA to engage in active and transparent dialogue with commenters as proposed changes are considered.

Very truly yours,

Donald H. Burkett, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO