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Rethinking Peer Review Administration

NASBA Annual Meeting
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Peer Review
Program

Evolving Peer Review Administration
to Enhance Audit Quality

August 31, 2017

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Background of the “Evolution”

- Part of the AICPA’s *Enhancing Audit Quality* initiative
- Stated objective- to improve audit performance by increasing consistency, efficiency and effectiveness of Peer Review administration
- Original papers released in February and July, 2016
- Revised paper released on January 4, 2017
- Latest (final) paper released August 31, 2017

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Benchmarks

- Benchmarks will include qualitative, objective and measurable criteria
- AEs will be evaluated based on whether they consistently meet benchmarks
- Performance of AEs will be transparent to various stakeholders
 - State Society CEOs and Boards of Accountancy

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Benchmarks

- Benchmarks will be developed by identifying how to:
 - Minimize inconsistencies
 - Increase probability that individuals with proper skills, knowledge and experience perform technical reviews and RAB process
 - Optimize the PR process so firms can meet licensing requirements efficiently
- Development and changes to Benchmarks will be related to changing technology and other factors

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Benchmarks

- Three categories of Benchmarks:
 - Administrator
 - Technical Reviewer
 - Committee/RAB Optimize the PR process so firms can meet licensing requirements efficiently
- AEs will be required to develop policies to address compliance with Benchmarks

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Familiarity Threat Mitigation

- Each AE will be required to develop procedures to mitigate familiarity threat
- These procedures may include:
 - Redacting identification of firm and peer reviewer
 - Arranging acceptance of committee members PRs and high volume reviewers' PRs by another AE
 - Arranging for RAB members or specialists from other states to participate in RABs
 - Engaging qualified persons from other states to perform technical reviews

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Benchmark Violations

- When benchmarks are not consistently met the society could lose its status as an AE
 - Fair procedures will be developed to provide AE an opportunity to remedy the situation
 - Failure to remediate could result in disqualification
- Two types of violations:
 - Non-Compliance
 - Significant Non-Compliance

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CPA Staff Requirement

- Each AE is required to have at least one CPA on staff to lead program administration
 - CPA to be actively engaged and knowledgeable about program standards and administrative requirements
 - CPA should have authority and necessary skills and experience to lead the program
- CPA on staff may be part-time for single state AEs and full-time for multi-state AEs
 - AE may request a waiver if part-time CPA is sufficient

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CPA Staff Requirement

- Three-year transition
 - Some AEs operate effectively without a CPA on staff and the requirement may be a significant change
 - AEs may request a waiver to have up to three years to meet the CPA requirement
 - Waiver must be filed by April 1, 2018

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Relations with State Boards of Accountancy

- State Board of Accountancy oversight will continue to be a critical component of the Program's administration
- AEs are expected to proactively communicate with applicable State Boards of Accountancy
- Program administration will not be effective without external oversight, i.e. oversight performed by the OTF and state board-appointed PROCs.

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Clarifications of Questions

AE Transitions

- Numerous state boards expressed concerns about the loss of their local AE
- The AICPA encourages a dialogue between AEs and boards regarding their intent to continue as an AE
- AEs are required to inform the boards of changes in administration prior to finalizing a transition plan
 - This includes a contact name and date of conversation in a form to be sent to the AICPA

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Clarifications of Questions

Costs

- Original thought was to mandate a minimum number of reviews per year to offset costs
- AICPA believes the CPA on staff will provide skills, knowledge and ability that will enhance performance
- The supplemental paper admits that the cost of peer review may increase moderately

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Clarifications of Questions

National Administering Entity (AICPA)

- AICPA does not plan to administer peer review
- They continue by stating that they will do so when the need arises
 - i.e., AE leaves program and no other AE steps up
 - AICPA may need to become the successor
 - In these situations a qualified PROC would review the program

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Clarifications of Questions

Peer Review Oversight Committees (PROCs)

- AICPA supports boards utilizing PROCs
 - They are an integral part of the oversight of the peer review program
 - The CAC and NASBA continue to work on a plan for providing more hands-on assistance to Boards with the facilitation of PROCs for Boards that may not have a PROC or would like assistance.

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