NASBA

National Association of State Boards of Accountancy

♦ 150 Fourth Avenue, North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615.880-4201 ♦ Fax 615.880.4291 ♦ www.nasba.org ♦

November 4, 2014

Enhancing Audit Quality Group
American Institute of CPAs
1455 Pennsylvania Ave., NW
Washington, DC 20004-1081

Via Email: EAQ@aicpa.org

Re: Enhancing Audit Quality

We are pleased to respond to the request for comments from the American Institute of CPAs (the "AICPA" or the "Institute") on its *Enhancing Audit Quality – Plans and Perspectives for the U.S. CPA Profession* (the "EAQ discussion paper"). 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 Statement are made in consideration of our charge as state regulators to promote the public interest.

OVERALL COMMENTS

We support the AICPA's efforts to improve audit performance and address quality issues related to financial statement audits of private entities. Making sure audit quality keeps pace with emerging economic, business, financial and regulatory conditions is a crucial part of the effort to continuously enhance the overall strength and integrity of the financial reporting system and to protect the public interest.

Our recommendations below focus on the areas of near-term enhancements that have been put forth by the AICPA (Phase 1). We acknowledge that the AICPA will publish a concept paper detailing proposed changes to the peer review program that will be focused on longer-term improvements (Phase 2). We plan to comment on Phase 2 proposed changes once they are released for public discussion and comment.

In connection with Phase 1, our recommendations in this letter are intended to offer certain constructive suggestions geared toward ensuring that the final changes the AICPA adopts:

- Improve audit quality;
- Enhance clarity regarding the responsibilities of the auditor and peer reviewer; and
- Provide necessary tools to enhance learning and information sharing.

Consistent with the above objectives, we are generally supportive of the Phase 1 efforts that will begin to improve quality in the near term. We believe, however, that there are certain implementation and other issues that need to be considered to ensure the objectives of the initiative are achieved. We are also concerned regarding the conceptual framework where the paper makes references to obtaining validation from regulators around the globe. We are not aware of any contact that the authors of this paper have had with anyone affiliated with NASBA seeking their input, much less validation, as they developed these strategies and would encourage you to do so. Furthermore, in addition to AICPA's initiatives described in the EAQ discussion paper, we considered whether there were additional matters related to audit quality and the peer review program that should be considered at this time in connection with Phase I. We discuss our observations and additional items for consideration in the "Enhancing Audit Quality" section below.

ENHANCING AUDIT QUALITY

Competence and Due Care

We support the AICPA's efforts to reinforce the critical importance of due care, competence, and diligence discussed in the EAQ discussion paper. In particular, we are supportive of the following:

- Continue serving the public interest by aligning the CPA Exam with real-world practice for newly licensed CPAs.

- Ensure that all CPAs and not just those who are members of the AICPA who perform financial statement audits adhere to the requirements in the AICPA Code of Professional Conduct (the "Code") and their state laws, including but not limited to competence and due care.

In addition, we offer the following suggestions:

- As discussed in the "Practice Monitoring" section below, the AICPA should consider developing accreditation or certification programs in the specialized industries that require additional skill and/or knowledge (e.g., employee benefit plan, governmental, banking and insurance audits).

- The AICPA should work with educational institutions, professional foundations (e.g. the Center for Public Trust), and Uniform CPA Examination test creators to include the Code and its key elements into the curricula for students and CPA study courses, including long-form essay questions regarding ethics and the Code as part of the CPA examination.

- The AICPA should consider developing ways of keeping the Code "top of mind" for currently practicing CPAs by providing various forms of ongoing articles/courses/testimonials focused on real life situations faced by professionals and coordinate with State Boards of Accountancy.

Questions:

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?

- Most states require their licensees to obtain ethics training as part of their license renewal process. However this training requirement may only relate to a specific state's code of regulations and rules and not incorporate the AICPA code of conduct. As not all auditors of private entity financial statements audits are members of the AICPA, it would be helpful to state regulators if the AICPA could provide resource materials that State Boards could incorporate into their periodic communications to licensees that may help keep ethical matters top-of-mind.

- To further emphasize this topic for those CPAs that are members of the AICPA, this topic could also be reinforced through including ethical dilemma topics, or something similar, within the *Journal of Accountancy*, for example.

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

   - State Boards recognize there are challenges, but that does not excuse licensees in any size firm from exercising due care and being competent. Smaller firm licensees may not have appropriate resources to keep abreast of all the rapidly changing regulations and requirements. There also may be a lack of specific expertise at it relates to auditing management estimates and fair value matters. In addition, smaller firm licensees may not have appropriate channels to consult on technical matters or to have an engagement quality review performed of their work prior to issuance. Nevertheless, firms that obtain the necessary expertise should not be precluded from taking on these engagements.

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?

   - Professional competence is a very subjective matter and decisions should be made with input from state regulators who are responsible for ensuring competent licensees. With respect to audits of higher risk industries such as banking, insurance, state and local government and employee benefit plans, the AICPA may wish to provide certain competency based training that an individual may take that would help a person to become competent in these areas. For example, the AICPA Employee Benefits Quality center requires a member to have at least 8 hours of employee benefit specific education over a three-year look-back period. Likewise, the Governmental Accounting Office (GAO) yellow book requires specific training criteria for an individual performing an audit under Generally Accepted Government Auditing Standards.

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

   - As exampled above, guidance laying out what is necessary from a continuing professional education perspective to engage in audits of specific industries could be established. Pre- and post-reviews could also help. A change in engagement acceptance processes may have to be considered.

Auditing and Quality Control Standards

We support the AICPA's initiative related to enhancing the auditing and quality control standards as discussed in the EAQ discussion paper, including:

- Monitoring the need for revision in auditing standards, considering the need for additional supplemental guidance and providing additional education and tools, as deemed necessary and useful.

- Identifying and better understanding where and how audit deficiencies occur and their root causes so revisions can be made to the appropriate standards and/or guidance.

Questions:

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?

   We believe the following should be given consideration:

   - More specificity in the quality control standards particularly those changes regarding engagement acceptance, engagement team competency, engagement quality reviews, and firm's monitoring and inspection of its system of quality controls. At the same time, we acknowledge there needs to be sufficient flexibility in the standards to allow firms of all sizes to decide the best way to manage their practice.

   - Leveraging the COSO Internal Control-Integrated Framework to design the firm's policies and procedures around risk assessment and monitoring.

   - Requiring firms to appoint a person responsible within the firm (e.g., a quality control officer) with authority, responsibility, and resources to effectively monitor and oversee the firm's quality control system, including engagement acceptance and continuance, assignment of partners and Engagement Quality Control Reviewers to specific engagements based on their knowledge and experience. Though we recognize that in smaller firms such a process may be less formal.

   - Mandatory Engagement Quality Control Review (EQCR):

     - Consider requiring EQCRs for all attest engagements. The EQCR should be performed by a qualified person who is not part of the engagement team with sufficient and appropriate experience to evaluate judgments made by the engagement team and conclusions reached.

     - If no such person is employed by the audit firm, require the audit firm to hire an outside third party to perform EQCR review.

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?

    - Consider guidelines for certain industries that would require training/competence prior to performing the audit, similar to employee benefit plans and governmental audits. This includes:

        - Additional consideration should be given for training and special reviews of high risk areas such as auditing management estimates and valuation.

        - Considering specific industries; including, banking, insurance, construction and real estate.

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

    - Consider utilization of the Center for Plain English Accounting to serve as a resource to smaller firms that need assistance with specialized matters.

    - Also provide resources to State Boards so that they can disseminate information to licensees who may not be members of the AICPA.

Guidance, Tools, Learning and Resources

We support the AICPA's initiative related to guidance, tools, learning and resources discussed in the EAQ discussion paper, including:

- Enhancing curricula, content and methods of instruction to support the major topical areas the profession serves, including challenging areas such as employee benefit plan audits, governmental audits and financial reporting.

- Using a profession-wide competency framework which will allow professionals to understand their current levels of competency in a particular area and needed growth or improvement.

- Developing additional and updating the currently available resources that provide implementation guidance for audit, attest and compilation and review standards based upon the findings uncovered in peer reviews.

In addition, we offer the following comments:

- In the third paragraph on page 11 of the Discussion Paper, it indicates that "a rigorous, profession-wide competency framework will be issued in 2014 that has been validated by experts and regulators around the globe." As stated earlier, we are not aware of any State Boards that have been consulted on this matter. As regulators of the U.S. auditing profession, the State Boards should provide input on this framework prior to its being communicated widely within the profession.

- We do not support requiring all firms that perform audits of employee benefit plans or governmental audits to be members of the applicable AICPA Audit Quality Center. In most states, participating in the AICPA peer review program is required for license renewal; consequently, to make membership in the AICPA Audit Quality Center mandatory would indirectly require membership in a private professional organization that has not been mandated by state law.
  - We believe there is helpful guidance available through the Audit Quality Centers. As such, audit quality centers can be used as a vehicle to provide guidance and updates in order for its members to stay current on the knowledge relevant to the services they perform and should be made available to nonmembers as well to maintain the value of the CPA credential.
  - Ensure that there is minimal cost or other barriers for the firms to become members of the Audit Quality Centers, especially for the smaller firms.
- Consider moving toward competency-based model for learning in a way that is measurable by State Boards. Training by industry designation has been shown to be a very effective learning approach that improves competency in specialized industries.

Question:

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 competencies and drive quality engagement performance? For which industries or specialized topics is it difficult to obtain educational and professional resources?

- We support the AICPA exploring other formats for communicating key issues throughout the year in order to provide guidance in a timely manner. For example, the AICPA should consider having a system in place to develop online training to quickly respond to issues and/or changing requirements rather than wait for the annual updates to the guides discussed above.
- Specialized topics to consider in this area would include auditing of management estimates and fair values. Industries that may need continued focus include insurance, banking, construction and real estate.
- As someone becomes a more seasoned professional, it sometimes becomes difficult to find guidance that is at a higher level (i.e. advanced training courses).

Enhancing Quality of Peer Reviewers

We support the AICPA's initiative related to improvements to the practice monitoring discussed in the EAQ discussion paper, including:

- Enhancing the quality of peer reviewers by introducing a streamlined process for barring reviewers who do not meet required performance criteria. However, we also suggest that the "required performance criteria" be clearly defined.

- Requiring that all reviewers of "must-select" [1] engagements should come from firms that are members of the applicable AICPA Audit Quality Center or demonstrate that they have competence in that area.

- Requiring reviewers of must-select engagements to attend annual industry-specific training, which would incorporate a competency exam.

- Requiring all new team captains in the AICPA peer review program to participate in an AICPA peer reviewer curriculum that would include interactive web-based education divided into topical modules with a competency exam at the conclusion of each module.

Questions:

9. What advantages and challenges do these changes present? How could potential challenges or unintended consequences be minimized or avoided?

    - The advantage would be increased competency of reviewers and information available. We believe that some current reviewers may push back at testing/training, but those seriously interested in enhancing audit quality are likely already taking training.

    - A disadvantage would be increased cost of peer review. Nevertheless we support these changes and believe the advantages outweigh any disadvantages. A possible modification to the proposed changes to address possible concerns would be an exemption to training based on successfully passing a relevant competency exam or evidence of prior education/training. It shouldn't matter if the reviewer is a member of the Audit Quality Center, what is more important is that the reviewer is qualified.

10. Will removal of poor performing peer reviewers and the suggested training programs increase reviewer quality? Why or why not?

    - A reviewer can be familiar with ERISA, but may not have sufficient knowledge of all relevant matters (for example, have sufficient expertise in auditing a specific type of investment held by a plan). The profession needs to determine a way for reviewers to have seen, or have sufficient experience in, the engagements subject to peer review -- matching peer reviewers properly to clients.

---

[1] In a system review, the peer reviewer must select for review at least one of each type of engagement subject to Government Auditing Standards (GAS) or that involve, Employment Retirement Income Security Act (ERISA), the Federal Deposit Insurance Corporation Improvement Act (FDICIA), carrying broker-dealers, or Service Organization Control (SOC) 1 or 2 reports. Additionally, if the firm performs engagements of entities subject to OMB Circular A-133, at least one such engagement must also be selected for review.

- The average age of peer reviewers is over 60. It is likely that the pool of qualified reviewers will decrease. Therefore, the profession needs to consider what type of remediation can be done to improve poor reviewers before they must be removed from the peer review pool.

- Having a peer review team with a variety of experience would be helpful.

11. What effect do you expect these requirements will have on the peer review program's ability to maintain a sufficient number of qualified peer reviewers? If you expect them to have an adverse impact on the peer reviewer pool, what implementation steps could mitigate the impact?

- We believe that there will be a reduction in the peer review pool from these requirements. This reduction could be offset or minimized through additional education in order to improve the quality of the reviewers. Also, a peer review team could reach out to subject matter specialists in the must select areas to cover any team experience shortfall.

12. What effect do you expect these requirements will have on peer review stakeholders and on the peer review program as a whole? What should the PRB [Peer Review Board] require of new peer reviewers to give reasonable assurance that they will develop and maintain the experience and expertise to perform high-quality peer reviews?

- Improvement in the quality of the peer review process is expected as a result of these requirements. Education and well-developed courses for new peer reviewers is recommended. Report Acceptance Body members should be required to be current peer reviewers for any system review that they are overseeing.

- As the AICPA continues to discuss the peer review of the future, the following questions should be considered:

    - At what point does the reviewer potentially become a part of the reviewed firm's quality control system?

    - Is the reviewer released from responsibility in situations where they may be deemed to offering advice if there was deemed to be an audit failure?

    - Does the peer reviewer need to be reviewed (in addition to the system review already performed on that person's firm)?

    - At what cost does all of this occur without needing to cut back somewhere?

Address Risks Posed by Low-Volume Auditors of High Risk-Engagements

Questions:

13. What are the advantages and disadvantages of these changes? Are there potential unintended consequences? How could they be avoided or minimized?

    - We support requiring the firm, in all cases where material non-conformity with applicable professional standards is noted, to engage a third party to perform pre- or post-issuance reviews of those engagements on future audits in that industry. However, we do not believe this should be limited to these firms but rather should be applicable to all firms. In addition, as discussed above, we suggest the AICPA incorporate additional quality controls regarding the ability to accept and perform certain audits in high risk and/or specialized industries in the first instance.

    - As it relates to the change requiring in certain instances a pre/post review, it is unclear at what point would a firm no longer be subject to this requirement. A possible modification relates to firms that perform only one audit, perhaps the pre/post review could be further enhanced to require a pre-issuance review only.

    - It is also unclear to us on page 15, in the section entitled "Require Pre- or Post-Issuance Review in All Instances of Non-Conformity," if this additional review is required for all firms that perform five or fewer audits in a must-select area, or is it only required if the firm had quality issues.

    - Boards might consider requiring an accreditation or other evidence of competence for firms that perform audits in high risk and/or specialized industries.

    - Audit firms should demonstrate that their partners/staff have the required skills and knowledge to perform audits in high risk and/or specialized industries. The AICPA could develop an accreditation program similar to other professions, where individuals must demonstrate the appropriate level of training and experience and credentials before embarking on audits involving specialized skills. We believe that this must first be addressed in the Quality Control standards and then tested in Peer Review.

    - We support requiring a post-issuance review of the engagement shortly after the report is issued in a situation where a firm performs an engagement in a must-select industry and that industry was not covered by its most recent peer review. Based on such reviews, the firm would be required to take corrective action if it failed to comply with applicable professional standards. However, similarly with the above, we believe a consideration should be given to other options.

14. Should these requirements extend to firms that audit five or fewer engagements in *any* one industry (not just must-select industries)?

- The language "any one industry" would encompass a high percentage of regional, medium and smaller-size firms. The number of engagements the firm has performed should not be the determining factor, rather it should be based on the competency to do these types of engagements. It is unclear how industry is being defined. Was the intention to define industry based upon those areas where the AICPA has issued an audit guide? Was it to be based on SIC code? For example, a company may manufacture and install control panels. They are required to get a contractor's license, but they are a manufacturer.

Deepen Review of High-Risk Industries and Areas of Concern

Questions:

15. What are the advantages and disadvantages of this initiative? If there are potential disadvantages or unintended consequences, how can they be avoided or minimized?

    - An unintended consequence may be that firms might allocate resources to high risk areas and other areas might get overlooked. The peer review should be a combination of reviewing high risk and other areas performed in the audit.

    - We believe that the PRB analysis of environmental trends, standards changes, and issues identified in peer reviews as well as the feedback received from stakeholders and sources that pinpoint industries and risk areas that require particular attention from peer reviewers should be first used by auditors to improve audit quality rather than first used by peer reviewers.

16. Peer reviewers currently review complete sets of engagement working papers in order to cover a reasonable cross section of the engagements performed by each firm. The PRB is considering a new approach where reviewers would still obtain a reasonable cross section but would only review those sections of engagements that represent particularly high risk. Which approach do you support and why?

    - Both methodologies have good and bad attributes; a blended approach would be best. High risk sections should be reviewed along with a cross section of other areas.

17. Are the targeted risk areas that the AICPA has identified for initial focus appropriate? What other high risk areas should the PRB consider?

    - We believe the four targeted risk areas are appropriate. We also believe an A133 audit should be included, as well as specific audit areas; including, management estimates, construction accounting, and fair value.

    - We believe there should be additional clarity as to the definition of "high risk." Does this mean a) things firms don't get right; or b) things that will have significant consequences if not done right?

Improve Engagement and Firm Tracking

Questions:

18. Recent changes were made to peer review practice aids to bring more attention to the completeness of the peer review population. These changes include revisions to the firm representation letter and additional questions in the Team Captain Checklist (System Reviews) and Review Captain Summary (Engagement Reviews). What other measures could ensure that peer reviewers receive complete information on the engagement population and that firms understand their responsibility to accurately report data?

    - Systems should be established to facilitate the identification of the firm and engagement populations subject to peer review. Firms should share with the AICPA the type of work they do via EIN number, etc. as they go on; promote openness and transparency. This data could be shared with others, such as BOA, NASBA, DOL, etc.

    - AICPA Board of Directors should approve Uniform Accountancy Act Sections 9(h)(4) and (5).

    - Taking action when an investigation reveals a firm has failed to provide the AICPA Peer Review Program with a complete list of engagements that should be subject to review and timely report that information to the State Board. The State Boards should consider taking action against those firms that have intentionally misrepresented, not reported all engagements subject to review, or when a firm has stated they do not audit work and in fact they have performed audits.

    - Peer reviewers should be required to perform some sort of completeness tests. For instance, directly interview line staff to determine the type of work they have been doing or review time records to see the types of engagements performed.

19. How could the information provided be verified? What databases could be leveraged?

    - Create a public database either by the AICPA or NASBA and share with State Boards. The database could be used to cross reference and used by others (Department of Labor, etc.). The database should be updated via an annual report. Firm registration numbers or EIN numbers can be used for tracking, adding the state initials before the firm number and should be public information.

    - Consider assigning an electronic ID number to each AICPA firm member and require that all attestation reports issued be linked to the specific firm's electronic ID number.

    - Consider creating a filing database accessible to the companies, auditors and other parties such that audit reports issued could be verified as authentic.

Create a National Group of Technical Experts Reporting Directly to the PRB

Questions:

20. What are the advantages and challenges presented by these changes? How could related potential challenges or unintended consequences be minimized or avoided?

- These changes are a good idea. A few of the advantages are: better oversight of reviewed firms and reviewers on must-select audits; the potential for more timely resolution of issues; and a link for the standards setters to root causes of problems. Disadvantages include: the potential for adversarial relationships between reviewers and experts; poor performing firms or reviewers could fall through the cracks when not "surprise selected"; and the peer review process might slow down.

- Surprise evaluations should be done on a risk-based approach (e.g., inexperienced reviewer or poor reviewer history, etc.); appropriate criteria/guidelines should be created to assure that the higher risk reviewers and reviewed firms are covered in evaluations.

  - Reviewers and reviewed firms with a proven track record of high quality and expertise should be appropriately recognized in the evaluation program. There is some risk that the evaluation program will take the peer review out of the hands of the reviewers. The evaluation process should serve as oversight to the reviews, not the performance of reviewers.

  - Such re-inspections would consist of an independent team selecting from the pool of engagements recently inspected and performing an independent re-inspection. The independent team would compare their results and findings to the original peer review, which would then be factored into the peer review results of the firm inspected as well as used to evaluate the overall quality of the firm conducting the original peer review.

  - Experts should also be a resource to reviewers, who should be encouraged to consult the experts to increase quality in peer review.

  - Guidelines should be established to assure quick turnaround times on evaluations, include timing expectations for responses by reviewers and reviewed firms. One thing to consider for clarification is that some reviews are not done in the field. Also, some small firms don't have electronic software, but still use paper files. This will need to be considered as part of the enhancements being developed.

- We support tasking the group of experts with identifying the root causes of non-compliance with professional standards and communicating problems with standards to the appropriate standard setter and issues that stem from inadequate tools, guidance or resources to the appropriate division of the AICPA or training providers.

- The PRB could have oversight of the re-inspections process.

- The AICPA would need to consider who would perform the re-inspections, i.e., the PRB staff or an independent third party. If a third party, consider having a dedicated pool of experienced professionals. How would the expert panels be funded? AICPA volunteers?

21. What effect do you expect these requirements will have on the peer review program's ability to maintain the current pool of peer reviewers and attract new ones? If you expect them to have an adverse impact, what implementation steps could mitigate the impact?

- The requirements should not be a major problem or stumbling block. Some reviewers won't like the extra step, but if they find it too onerous, then they probably should not be performing peer reviews.

- The pool might increase if the fees are more lucrative. How much of the additional steps' costs would be covered by the AICPA's overall budget for the program and how much the peer reviewed firms would need to cover would have to be determined.

22. What effect do you expect these requirements will have on other peer review stakeholders and on the peer review program as a whole?

- We believe the requirements will be well received. There may be a risk of bogging down the peer review process, but there will be good advantages if this is done right.

- The time period will need to be well coordinated. How the "surprise" element of the monitoring is to be controlled may be problematic.

Making Peer Review Results More Informative

Questions:

23. Are the current report rating grades (pass, pass with deficiencies, fail) clear and meaningful? Do you find these categories useful? If not, how would you change the report rating grades?

- Who are the stakeholders – Boards of Accountancy, clients, government agencies? The terms are reasonably clear, much better than the past. "Pass with deficiencies" does pose problems as how many deficiencies cause a "pass with deficiencies"? Just one?

- Rather than assigning report rating grades (pass, pass with deficiencies, fail) consider issuing comments identifying the deficiencies noted. One of the possible ways to achieve this could be to report the peer review results in a way similar to reporting internal control assessment results, which is a method of reporting users are already familiar with. For example, the following approach could be used when reporting matters identified in peer review:

    - Findings – matters that are reported to the firm and required to be reported in a transparent fashion readily available to all of its clients.

- Significant Findings - matters reported to the firm and required to be reported in a transparent fashion readily available to all of its clients along with the firm's remediation plans.

  - Remediation would be tested via peer review processes over the following 1-3 years and presumed to become a Material Finding if not appropriately remediated or mitigated by other quality control processes.

- Material Findings – findings of a degree that result in modification of the peer review report. Significant Findings conditions of transparency rules would also apply to Material Findings.

24. What actions, if any, does your organization take when a firm receives a pass, pass with deficiencies or fail report? What actions do you think should be taken by others?

    - NASBA's Compliance Assurance Committee will issue guidelines to the Boards of Accountancy on how to handle firms that have "passed with deficiencies" on their first reviews. States handle the peer review results differently. In some states two deficient reports go to the enforcement committee and reviewers have to determine whether or not the problems identified have been fixed.

25. What information about a firm would be useful in better understanding, evaluating and using its peer review report? How should it be made available?

    - There is room for improvement here. Adding a data sheet with the firm information (size, etc.) would provide a structure/background to the report. Demographic information would also be helpful, as an addendum to the report. This approach would provide a potential client information that could impact their auditor choice. Discussion of what should be contained in additional information provided to the public needs to continue so as not to create a barrier to entry for new firms. Perhaps an explanatory letter should be issued on the report explaining what the reviewer and the firm's responsibilities are.

26. Which model do you find more helpful: the peer review reporting model (opinion on the overall system of quality control) or the reporting model used by many regulatory bodies (a list of engagements and topics of deficiencies)? Could a hybrid model better meet your needs? If so, what would that model look like?

    - Should peer review continue to report on systems of quality control or should it convert to reporting on engagements? How can you report on engagement deficiencies without considering the system of quality control? Peer Review covers only 95 percent of engagements; if you don't look at the system of quality control, how do you have any idea about those other engagements not looked at?

27. Please share any other suggestions for enhancing the transparency and usability of peer review reporting. Explain how your suggestions would be helpful to you and what you will be able to do with the improved reporting.

- Consider establishing a process to share information with other regulators (e.g. PCAOB, Department of Labor) in order to improve the quality of all engagements.

- The AICPA Board of Directors should approve Uniform Accountancy Act Sections 9(h)(4) and (5).

- To provide additional transparency, also consider requiring a firm to include language in its engagement letters regarding results of peer review and/or if the firm has been subject to peer review in the particular industry/specialized area.

- "Pass with deficiencies" continues to be a way to give more information to the public, as it sets out exactly what the deficiencies are (rather than just "pass" or "fail"). But the wording of the report could be made less harsh. The results of the peer review should be made clear.

28. How would your suggestions for improvement enhance audit quality? How will they be more beneficial for the users of the report?

    See answers to previous questions.

29. Beyond what is mentioned throughout the "Practice Monitoring" section of this paper, what other requirements should the AICPA Peer Review Program consider that would meaningfully impact audit quality?

    - Consider mandatory rotation of team captains on peer review teams after a period of time. Audit Partners and Engagement Quality Review Partners are required by the PCAOB to rotate on public audits. It would seem appropriate to require rotation of the peer review team captain after the completion of a certain number of peer reviews of an individual firm.

    - Consider forming a separate research and analysis group to analyze peer review trends, areas of repeat findings, cases that come before State Boards and provide insights to the profession regarding the deficiencies identified in peer reviews and related root causes (in order to share knowledge and improve quality overall). The AICPA should also consider coordinating with the State Boards of Accountancy, CAQ, the PCAOB and other regulators to bring together all parties interested in continuous improvements for the profession.

    - Make the program public for all participants. By allowing participants to keep the results of their peer review confidential, it enables them to hide their deficient work. If all reports were made public, it could have a positive result on audit quality.

* * *

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,

Carlos E. Johnson, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO