October 21, 2016

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

Attn: Beth Thoresen – Director, Peer Review Operations

Re: Proposed Evolution of Peer Review Administration – A supplemental discussion paper seeking input from State Boards of Accountancy

We are pleased to respond to the request for comments from the American Institute of CPAs (AICPA or “the Institute”) on its Proposed Evolution of Peer Review Administration – A supplemental discussion paper seeking input from State Boards of Accountancy. 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 Evolution changes are made in consideration of the State Boards’ charge as state regulators to promote the public interest.

Our comments below are based on input from 36 State Boards of Accountancy to a survey conducted by NASBA’s Compliance Assurance Committee and also from our review of 12 individual State Boards’ letters to the AICPA as of October 15, 2016.

OVERALL COMMENTS

We appreciate the AICPA and Peer Review Board’s efforts toward continuous improvement of the peer review process and commitment to enhancing audit quality, and support the goal in the proposed evolution document of enhancing quality in the peer review administration process. We agree that changes to the existing peer review administrative process to improve quality, efficiency, effectiveness and consistency will help to improve overall audit quality. We also agree that improving consistency across the program is important for quality and supports the profession’s overall effort to increase mobility in the profession. In support of these efforts, we submit the following concerns and ask the AICPA to consider the six items below as the proposed model continues to evolve.
Oversight: We appreciate the AICPA’s statement of recognition and support of the value of oversight by State Boards of Accountancy (Boards) and the collaboration with NASBA in promoting Peer Review Oversight Committees (PROCs). We feel it is imperative that oversight be considered as the evolution proposal moves forward. Peer review is mandated by Boards and, as such, peer review administration must allow for proper oversight by the Boards. It is essential that any such models of administration accommodate reasonable oversight deemed necessary by Boards of Accountancy. For instance, have the legislative changes that may be required by a particular state in order to accommodate a geographically separate administering entity been considered?

Costs: Boards are concerned with the potential for significant increases in the costs and fees associated with the administration of and participation in peer review, as well as the impact cost increases could have on the decision of small firms to continue to offer attest services to clients in their states, thereby limiting the public’s access to these services.

Consolidation: We appreciate the consideration the AICPA has given to feedback from Administering Entities (AE’s) regarding the original proposed number of AEs being consolidated down to 8-10. We are pleased to learn that a specific number may not be stated at all. We are not aware of evidence to support the assumption that larger AEs will automatically result in more qualified AEs. All AEs that want to continue should be allowed to continue administering the program as long as they perform in accordance with established standards and criteria.

National AE: More information is needed to fully understand the implications of the AICPA operating as a National AE separate and apart from the National Peer Review Committee (NPRC). We appreciate the AICPA encouraging AEs to first look to other AEs to absorb administration as AEs determine is necessary. The implications of the AICPA continuing the oversight of other administering entities while concurrently operating as an AE are unknown and could present challenges. In this regard, the AICPA should focus its efforts on committing resources and training to AEs in the event that they suffer a loss of critical staff and/or require additional support in order to assure that program administration is not materially disrupted or diminished.

Review/Volunteer Pool: Although you indicate on page 5 of the discussion paper that the pool is larger than ever before, several Boards are concerned about the number of peer reviewers and Report Acceptance Body (RAB) volunteers on an on-going basis. Changes to the current administration of the program could increase the risk of decreases in the number of peer reviewers and volunteers willing to participate in the program.

Transparency: State Boards of Accountancy mandate peer review; however, they have limited access to peer review data of the AICPA Peer Review Program. Increased transparency is encouraged as the proposed model evolves. The future of effective oversight depends on it.

Any changes to the administration of peer review and the oversight process by Boards of Accountancy will likely require legislation, rulemaking and/or policy changes by Boards, which will require a
transition period for such changes to be implemented. We ask that the AICPA be sensitive to this and that consideration be made to allow Boards adequate time to prepare and adjust for implementation.

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We appreciate the strong relationship between the AICPA, NASBA and State Boards of Accountancy and look forward to our continued working relationship and commitment to improving audit quality. Thank you for the opportunity to provide our perspectives on the Proposed Evolution of Peer Review Administration. 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