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 ♦

June 30, 2017

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, Revised January 2017 – A discussion paper seeking input from state CPA societies and state boards of accountancy

We are pleased to respond to the request for comments from the American Institute of CPAs (the "AICPA" or the "Institute") on its *Proposed Evolution of Peer Review Administration, Revised January 2017 – A discussion paper seeking input from state CPA societies and state boards of accountancy.* The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests 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 our Boards' charge as state regulators to promote the public interest.

OVERALL COMMENTS

We appreciate the AICPA and Peer Review Board's efforts toward continuous improvement of the peer review program (PRP) and commitment to enhancing audit quality and we support the goal in the proposed evolution document of enhancing quality in the peer review administration process. We agree that changes to the existing administrative process to improve quality, efficiency, effectiveness and consistency of the PRP will help to improve overall audit quality. In support of these efforts, we submit the following concerns and ask the AICPA to consider the items below as the final plan is developed.

- *Oversight by Boards of Accountancy*: We appreciate the AICPA's statement of recognition and support of the value of oversight of the review process by Boards of Accountancy (Boards) and the working relationship with NASBA in promoting Peer Review Oversight Committees (PROCs). We feel it is imperative that the final plan for Administering Entities (AEs) allow for proper oversight by Boards. The structure proposed in this revised paper more closely aligns with the existing structure of AEs and as such, would provide Boards the opportunity to continue to operate with the same or similar PROC model now in use. To augment the current model, NASBA is considering the feasibility of creating a shared NASBA PROC for use by Boards with no PROC, or an inactive PROC, as deemed necessary. Costs associated with performing oversight on behalf of a Board must be considered as part of the evolution of the AE program.

We also support the proposal for a panel of Board Executive Directors to be used as an additional channel of input for the AICPA on AE administration and other peer review matters. That panel should either be the NASBA Executive Directors (ED) Committee or its to-be-created subcommittee.

Finally, it is important to note that while the Boards must oversee the peer review program, full and complete transparency of the program by the AICPA is necessary to ensure proper and effective oversight is possible.

- *Benchmarking:* We support the AICPA permitting AEs to remain in the program provided they adhere to standards, or "benchmarks," for administering the program. We recommend that all final benchmarks be specific and measurable. Ultimately, the benchmarks must focus on both quantitative and qualitative policies that will permit the Boards to rely on the ability of the PRP to remediate submitted audits of poor quality. All general references such as "timely" should either be replaced with a specific timeline or offer references to detailed policies in the program's standards that state the expected timeline and/or deadlines. If no such guidance exists, timelines and deadlines should be defined and added to the program's standards as needed.

  We understand that adherence to administrative deadlines is an important aspect of assuring the quality of the PRP and we encourage the AICPA to use technology wherever possible to streamline the ability of AEs to meet and track such benchmarks. In doing so, the AEs will be able to direct resources to increase the probability that the qualitative benchmarks are met.

- *CPA Requirement:* While overall we agree with the requirement that every AE employ at least one CPA on staff, we believe that the mandate of a full-time CPA for an AE that administers more than one jurisdiction could be overly burdensome in certain circumstances. We urge the AICPA to create a process that bases the full-time CPA requirement on volume of reviews administered, rather than number of states the AE administers. Foremost, we believe the most important consideration is that an AE utilize appropriately qualified individuals, whether full-time or part-time, that can meet their needs. Given the complexities of today's audits, the specific industry competency to evaluate the work that was performed is more important than the number of individuals on permanent staff. The cost/benefit of mandating a full-time CPA also needs to be addressed. Having a pool of resources available to utilize on an as-needed basis may be just as effective as hiring a broader-based CPA on a full-time basis.

Lastly, we believe that there should be some language included in the final document that indicates the need for the CPA to be experienced in providing those assurance services that are included in the scope of the peer reviews.

- *Fair Procedures/Communication:* We support the fair procedures process outlined in the revised paper, but have specific requests about communication to Boards. We request that the respective Boards be notified via written communication to the Executive Director either by mail, email or both at each step of the process when: remediation is required due to egregious and/or non-egregious violations; or additional oversight is ordered due to a pattern of non-egregious violations; or egregious violations cause immediate "probation" of an AE; or an AE is referred to a hearing panel.

  We also request that Boards be consulted about the hearing panel's recommendations for an AE before implementing them, to allow impacted Boards the opportunity to consult on the recommendations and properly prepare for any transitions of peer reviews. Boards should be included in the determination of which AEs may assume the administration of peer reviews for AEs that are disqualified from the program. It is important to note that any changes to the administration of peer reviews and the oversight process by Boards may require legislation, rulemaking and/or policy changes by the impacted Boards, which will require a transition period for such changes to be implemented. We ask that the AICPA be sensitive to this impact and that consideration be made to allow Boards adequate time to prepare and adjust for these types of changes. A formal process for including Boards in the fair procedures process based on the recommendations and requests described herein should be developed and included in the final plan.

  Finally, we recognize that some AEs may voluntarily decide to no longer participate in administering the program because of these changes, due to concerns about adhering to the benchmarks or for other business reasons. We request that the AICPA make it a requirement of all AEs that reasonable notice considering the circumstances be given to the AICPA and any Board(s) for which they administer peer reviews prior to removing themselves as an AE. We also request that the AICPA require such AEs to include the respective Board(s) in the decision as to where to transition the peer reviews in these situations. In an event where an AE loses a technical reviewer or other key personnel or experiences other obstacles that make it impossible for the AE to comply with the notice, we request that the AICPA provide procedures and resources to substitute for the AE for the remainder of the transition period. This will help the Boards ensure their regulatory needs are met similar to when an AE is removed not by their own accord.

- *AICPA National AE:* It is clear the Institute plans to operate a National AE and as such, we strongly support this AE being subject to Board oversight. NASBA and the CAC should develop a proposed plan for Board oversight of the AICPA National AE.

We recognize that improvements to the administration of the PRP process will likely require some level of additional cost which will vary based on the facts and circumstances of each AE. We encourage the AICPA to keep costs in mind in developing the final plan.

We appreciate the working relationship the AICPA, NASBA and Boards of Accountancy enjoy and look forward to continuing our efforts to improve audit quality. Thank you for the opportunity to provide our perspectives on the *Proposed Evolution of Peer Review Administration, Revised January 2017*. Our comments are intended to assist the AICPA in analyzing the relevant issues and support and assist Boards with the impact of the proposed changes. We encourage the AICPA to engage in active and transparent dialogue with commenters as proposed changes are considered.

Very truly yours,

Telford A. Lodden, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO