



National Association of State Boards of Accountancy

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May 29, 2024

AICPA Peer Review Board
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Attention: Brad Coffey, Manager – AICPA Peer Review Program

Via e-mail: PR_expdraft@aicpa.org

Re: Exposure Draft: Proposed Peer Review Standards Update No. 2, *Reviewing A Firm's System of Quality Management and Omnibus Technical Enhancements*

Dear Members and Staff of the AICPA Peer Review Board (PRB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the Proposed Peer Review Standards Update No. 2, *Reviewing A Firm's System of Quality Management and Omnibus Technical Enhancements* (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments on the Exposure Draft.

Comments on Specific Questions

Related to the proposed changes in consideration of the QM standards, please provide your views on the following:

1. Do you recommend any additional changes to strengthen the understandability and applicability of existing requirements or application and other explanatory material?

NASBA has reviewed the Exposure Draft and does not have any additional changes to strengthen the understandability and applicability of existing requirements or application and other explanatory material.

2. Do you recommend any specific changes to the peer review standards to account for one or more specific requirements in the QM standards?

While NASBA does not have any specific recommendations for changes to the Peer Review Standards to account for specific requirements in the QM Standards, NASBA believes that providing appropriate guidance to peer review teams with respect to the principles of peer review is an important component of the Peer Review Standards. It is important for the peer review team to exercise judgement when evaluating a firm's system of quality management, especially during the implementation of the new standards. We also encourage the PRB to be careful not to constrain peer review teams and inhibit their exercise of appropriate judgement. It will be important for the peer review team to speak to judgement calls by documenting their considerations and final decisions.

3. Due to the iterative nature of the requirements in the QM standards, do you suggest any additional considerations to assist peer reviewers with evaluating various components of a firm's system at different points in the peer review year?

NASBA believes that in the initial period of implementation of the QM Standards it would be helpful if implementation guidance as discussed on page 2 of the Explanatory Memo is provided.

4. As proposed, the standards will continue to categorize matters identified by peer reviewers (for example, on matter for further consideration [MFC] forms or in a peer review report) as either design matters or compliance matters. Do you believe the board should consider additional revisions for more consistency with the SQMS, such as the following?

a. Relabeling "compliance matters" to "operating effectiveness matters."

b. Revising the Firm's Responsibility section in the peer review report to state, "The firm is responsible for designing, implementing, and operating a system of quality management to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects."

c. Revising the Peer Reviewer's Responsibility section in the peer review report to state, "Our responsibility is to express an opinion on the design, implementation, and operating effectiveness of the firm's system of quality management based on our review."

NASBA believes that these additional revisions would be constructive additions. In addition, there are inconsistencies in the definitions of certain terms between the Peer Review and QM Standards. For example, the terms "finding" and "deficiency" are used in both the Peer Review and QM Standards but carry different meanings in each standard. NASBA believes that it is in the public interest that the terminology used in the two standards be aligned.

5. Do you agree with the proposed change to require team captains to submit the quality management checklists as part of a reviewer's required document submission?

NASBA believes that the use of the checklists is dependent on their final structure. If the checklists consist of a series of “yes” or “no” questions, they will have limited value. NASBA believes that providing properly structured checklists will provide an opportunity to gather valuable insight to assist in the modification of future guidance by standards setters.

6. Do you believe any specific training or resources would be beneficial to firms, reviewers, or administering entities as it relates to evaluating a firm’s system of quality management?

NASBA believes that the implementation of the new standards will result in questions from peer reviewers and firms. It will be important for the PRB to provide ongoing training and resources to peer reviewers and firms as the QM Standards are implemented, particularly in the periods where the QM Standards are being implemented. A tool such as a “Frequently Asked Questions” resource that accumulates questions from peer reviewers with a process to vet the questions and publish responses in an accessible manner for practitioners could provide a long-term benefit.

7. For respondents providing their views on behalf of state boards of accountancy, please identify and describe your state’s specific laws or regulations, if any, that will require changes because of the transition from quality control standards to quality management standards.

Based upon a review of publicly available information by NASBA as of May 21, 2024, it appears that the impact of the change from quality control standards to Quality Management Standards on the 55 jurisdictions represented by NASBA is as follows:

Legislative Changes:

Most likely required	6 jurisdictions
Possibly required	4 jurisdictions
Most likely not required	45 jurisdictions

Regulatory Changes:

Most likely required	18 jurisdictions
Possibly required:	14 jurisdictions
Most likely not required:	23 jurisdictions

Both Legislative and Regulatory Changes:

Most likely required	6 jurisdictions
Possibly required	2 jurisdictions

It should be noted that the legislative and regulatory landscapes are constantly evolving and as a result the above data points are subject to change. NASBA did not verify this compilation with the specific boards of accountancy and assumes no responsibility for inaccuracies in publicly available information published by the jurisdictions.

8. Do you believe the peer review standards should include a definition of “root cause” or application and other explanatory material to provide users with additional considerations for concluding whether the severity and pervasiveness of a root cause may be systemic in nature?

NASBA does not believe that it is necessary to provide a definition of “root cause” or application and other explanatory material to provide users with additional considerations for concluding whether the severity and pervasiveness of a root cause may be systemic.

Related to the proposed omnibus technical enhancements, please provide your views on the following:

9. Do you believe it is appropriate to permit reviewers that retire from the practice of public accounting to continue serving as a team member on peer reviews for an 18-month period after an individual’s effective date of retirement? Additionally, please describe

a. whether you agree with the proposed period of 18 months.

NASBA agrees that it is appropriate to permit reviewers that retire from the practice of public accounting to continue serving as a team member on peer reviews after an individual’s effective date of retirement from a firm for an extended period of time, particularly given the shortage of reviewers in certain jurisdictions. NASBA encourages the PRB to challenge the need for a specific period of time (i.e., 18 months) and consider other qualifications as indicated in the response to b. below.

b. any other qualifications that you believe are appropriate for retired reviewers to meet in order to continue serving as team members for the 18-month period.

NASBA believes that a peer review team member who has retired must maintain a current CPA license with the board of accountancy in his/her principal place of business and must also meet all other board of accountancy and peer review team member requirements, including the completion of applicable continuing professional education.

c. whether you are interested in utilizing the proposed 18-month period for succession planning or mentoring new peer reviewers.

NASBA supports the involvement of retired reviewers for an extended period of time because it provides an opportunity for succession planning or mentoring new peer reviewers.

10. Do you believe it is appropriate to extend the reviewer training requirement for relevant courses to be taken within 18 months prior to the commencement of a review? Should the 18-month period also apply to applicable training courses for technical reviewers or CPAs on Staff?

NASBA believes it is appropriate to extend the reviewer training requirement for relevant courses to be taken within 18 months prior to the commencement of a review and that the requirement also apply to applicable training courses for technical reviewers or CPAs on Staff.

11. In addition to peer review documents already required to be submitted to AEs as described in paragraph .70 of section 210, do you agree with the proposed change to include the alternative practice structure (APS) checklists?

The concept of alternative practice structures has been around for more than two decades; however, private equity investment in public accounting firms is a new paradigm for the profession. It will be important that checklists include alternative practice structures as the profession navigates through how such structures are being considered and implemented and how such structures may impact firms' systems of quality management and independence monitoring.

12. For respondents providing their views on behalf of state boards of accountancy, do you recommend any additional changes to strengthen the identification of firms' responsibilities regarding facilitated state board access, as described in section 300?

Following a sixty-day public comment period, the NASBA Board of Directors approved amendments to the Uniform Accountancy Act Model Rules for peer review at its January 2024 meeting. These amendments addressed the needs and concerns of boards of accountancy with respect to changes needed to strengthen the identification of firms' responsibilities regarding facilitated state board access as described in section 300.

Related to the proposed effective date of PRSU No. 2, please provide your views on the following:

13. Do you agree with the proposed effective date for QM related changes to be effective for peer reviews with peer review years ending on or after December 31, 2025? For any suggested alternatives or anticipated challenges that stakeholders may face with this effective date, please provide your reasoning.

NASBA agrees with the proposed effective date for the QM related changes. NASBA believes that there will be many iterations faced by peer reviewers with respect to how firms have implemented the new standards, including a variety of effective dates. NASBA believes that guidance for peer reviewers would be helpful during the transition.

14. Do you agree with the proposed effective date for omnibus technical enhancements to be effective for peer reviews commencing on or after October 31, 2024? For any suggested alternatives

or anticipated challenges that stakeholders may face with this effective date, please provide your reasoning.

NASBA agrees with the proposed implementation date for the omnibus technical enhancements. We are concerned, however, that the omnibus technical enhancements may be overshadowed by the QM Standards and possibly be overlooked. We believe that it would be prudent for the PRB to provide implementation guidance solely highlighting the omnibus technical enhancements and related timing.


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We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,



Stephanie M. Saunders, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO