



Evolving the CPA Profession's Peer Review Program for the Future

*A provocative vision of what practice
monitoring could become*

A hand is shown holding a glowing, yellow-orange orb. The orb is the central focus, with various terms related to the CPA profession's future practice monitoring program overlaid on it. The background is dark and blurred, showing a person in a blue shirt.

REIMAGINE INSPECTION FUTURE
PRACTICE MONITORING
PEER REVIEW REAL TIME CONCEPTUAL
INSIGHTS
OVERSIGHT FEEDBACK HUMAN REVIEW **ETHICS** DASHBOARD
EXTERNAL MONITORS CONTINUOUS

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Imagine

It's November 15, 2025. As Leslie begins her day, marking her third anniversary as partner and the first as the firm's quality control partner, she reflects on her clients and the services she has provided them since she began working for her CPA firm just over 10 years ago. She recalls some of her proudest accomplishments. What stands out as most important to her success, and to the success of the firm, is the quality of their client engagements.

Leslie reads from her tablet and sees a client update. Her firm's practice monitoring system has analyzed the work papers for the firm's newest audit client. She is pleased to see that a flag previously raised has been cleared by the manager on the job, and that the resolution was a simple documentation issue rather than a failure to perform a key audit procedure. The update indicates no additional problems were found following the engagement partner's review of the work papers. She approves the update via voice command and the firm's standard audit opinion letter is tailored for the client and routed to the engagement partner.

Leslie has heard stories from her retired partners of the time when information relating to the quality of the firm and its performance was more challenging to assess, difficult to obtain and, far too often, out of date. Her firm's practice monitoring system has enabled her to more easily evaluate quality in the audits performed by the firm and to better serve the public interest. Leslie can't imagine how CPA firms could operate without monitoring tools. Especially as clients consistently remark that the system's transparency provides their senior management with additional assurance that the firm's commitment to quality is pervasive.

Leslie's scenario is visionary, but it offers CPAs a way to imagine now how firms could operate, and benefit from, a practice monitoring system with a futuristic view. The concept is an ongoing, near-real time process that reflects the renewed emphasis that technology, risk management, and timely transparent results are having on firms, our profession and the worldwide business community.

Introduction

CPAs take pride in their long-standing commitment to excellence. That commitment includes continued vigilance in delivering accounting and auditing services and protecting the public interest.

In the current business environment, the rapid pace of change is driving complexity and that trend is not likely to abate. Increased complexity presents challenges to practitioners in public accounting as they strive to continually perform high-quality financial statement audits of private entities¹.

¹ For the purposes of this paper, "private entities" refers to all non-SEC registrants, including but not limited to not-for-profit organizations, employee benefit plans and governmental entities.

To preserve their prominent and respected role in the business community, CPAs must, and will, meet and overcome these challenges.

With that in mind, in May 2014 the American Institute of CPAs (AICPA) launched its [Enhancing Audit Quality](#) (EAQ) initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

EAQ is intended to be implemented through a multi-phased approach. The initial phase involves planned and proposed efforts that will begin to improve quality in the near term. Some of these efforts have already been approved by appropriate AICPA boards or committees and are under way, while others are ideas for exploration and comment. The vision for the long term focuses on the transformation of the current peer review program into a practice monitoring process that marries technology with human oversight.

This paper provides a closer look at a potential concept for a future phase of EAQ. The concept would transform the current Peer Review Program into Practice Monitoring of the Future.

Executive Summary

The AICPA Peer Review Program (current Program) has represented the profession's ongoing commitment to enhancing the quality of accounting and auditing services for more than 35 years. It has served the public interest, while simultaneously delivering numerous benefits to thousands of CPA firms.

In pursuing continuous improvement in the peer review process, a new approach to practice monitoring, the Practice Monitoring Program (the Concept), is now being considered and this paper seeks feedback on the Concept. As currently envisioned, the Concept would be built on a practice monitoring technology platform (to be developed) and expand on the benefits of the current Program while more fully embracing the ever-greater roles that technological innovation, optimal risk management, and timely transparent results are playing in the delivery of CPA services.

The Concept as currently conceived will change and develop based on the feedback the AICPA receives from this paper. In addition, as technology advances and as the Concept matures based on feedback from pilot firms, the Concept will be continually adjusted and refined.

The vision for this Concept is to increase public protection through enhanced audit effectiveness by:

- Highlighting potential quality risk indicators and detecting engagement issues earlier,
- Reviewing all firms that perform accounting, auditing and attestation engagements, and
- Monitoring all engagements subject to review.

As currently envisioned, the Concept would be powered by five activities:

1. Continuous analytical evaluation of engagement performance
2. Human review when system-identified concerns are raised
3. Involvement of external monitors when necessary
4. Periodic inspection of system integrity
5. Oversight of the system's operating effectiveness

The Concept would cover both internal and external monitoring of firm activities to encompass all accounting, auditing and attestation engagements the firm performs for private entities. The Concept's components and supporting technologies would be scalable, based on the sophistication of a firm's existing monitoring process.

As currently considered, the Concept would be developed and implemented in multiple phases. During the initial phase, a self-monitoring tool for firms would be developed and pilot tested by a select voluntary group of small, medium and large firms. Throughout the pilot, the AICPA would work with the pilot firms and their peer reviewers to consider how to transition the Concept's new tool into a more robust real-time peer review process that would be incorporated into the current Program.

In future phases, once the AICPA integrates the Concept's new tool into the current Program, the AICPA would seek to transition the Concept from voluntary to mandatory participation for all firms, eventually replacing the current Program. The Concept would also provide a means for external stakeholders, such as potential clients, users of financial statements and regulators to understand the quality level of the firm's accounting, auditing and attestation services. Potentially different information from the tool could be made accessible based on the specific stakeholder's authorization privileges, needs, knowledge base and association with the firm.

During all phases, a dashboard would provide internal users with a snapshot of the status of the firm's engagement activities and compliance with performance metrics, defined as engagement quality indicators (EQIs), over the various areas subject to monitoring. Each area would be continuously updated and individually rated, giving each firm an instant compliance snapshot. As currently conceived, when fully phased in, the cumulative results of the EQIs reflected on the dashboard would generate ratings that would be reported by internal and external electronic displays called Seals.

The Seals would communicate to firm management and external stakeholders the firm's participation in the program, extent of services and certain performance metrics. Depending on various stakeholders' access privileges and security rights, they would be allowed to drill-down beyond the summary information to various levels of additional firm-related information. The firm would be provided time to remedy any system-identified failures to meet performance metrics before the information is viewable by any other users.

Through its advanced technology and enhanced internal monitoring capability, the Concept is expected to drive increased audit quality and effectiveness. These enhancements would provide heightened value to the firm and its stakeholders through increased transparency, with additional external monitoring to enhance the reliability of shared results.

This paper discusses and seeks feedback on the Concept and is intended to generate input for the AICPA as the Concept is further developed and refined. Stakeholders may comment by emailing prsupport@aicpa.org or through the [AICPA Community website](http://aicpa.org/futurepracticemonitoring) (aicpa.org/futurepracticemonitoring). The comment period will end on June 15, 2015. As the Concept evolves, stakeholders will have additional opportunities to provide input, with formal exposure drafts issued before any significant changes are made to the existing Peer Review Program.

AICPA Practice Monitoring of the Future

The AICPA Peer Review Program has represented the profession's ongoing commitment to enhancing the quality of accounting, auditing and attestation services for more than 35 years. It has been serving the public interest by upholding this commitment, while also delivering full-scale benefits to thousands of CPA firms. To continue quality improvement, a concept for Practice Monitoring of the Future is now under consideration.

The business and regulatory environment is constantly evolving with significant challenges and unexpected opportunities for CPAs and the individuals and businesses they are committed to serving. The results have impacted the strategies CPA firms use to develop and maintain the highest quality client services. Equally important, these changes have underscored the crucial roles technological innovation, risk detection and avoidance, and transparent timely results are playing in the continued delivery of those services.

Background

After receiving feedback from the AICPA's governing Council in the fall of 2012, the AICPA's Board of Directors formed an exploratory task force to research and develop a new concept for what practice monitoring might look like in the future. The task force represented a cross-section of AICPA membership and included individuals from the smallest to the largest firms with five to 30-plus years of experience in the profession.

Exploratory task force members identified and developed the Concept's fundamental attributes and core functions based on their evaluation of stakeholder needs, identification of challenges to the existing program and understanding of technological advances.

Subsequent task forces have further examined the Concept's merits and are working to address identified challenges, while outlining potential phases, considering potential engagement quality indicators (EQIs) and developing suggestions for potential monitoring tools. The task forces will continue to modify the Concept based on stakeholder feedback.

Current Program's Reevaluation and Heightened Effectiveness

While the Concept fully recognizes and respects the current Program's significant value and contributions, the current Program is being reevaluated in the pursuit of both continuous improvement and re-engineering. The current Program embraces a wide range of positive attributes that extends to the public, participating firms, clients, regulators and the accounting profession. For example, the current Program:

- Identifies and helps correct deficiencies and inefficiencies, and helps firms prevent recurrence
- Terminates or drops firms from the Program when recurring deficiencies are not corrected
- Educates practitioners in the reviewed firm of recent and expected professional standards, and provides opportunities to share best practices

The Concept is designed to improve the current Program (peer reviews scheduled every three years) through (but not limited to):

- Firms' *continuous review* of accounting, auditing and attestation engagements and systems, with quality issues being detected and corrected in near real-time, instead of after the fact
- *Near real-time* firm inspections based on performance, for example
 - If a firm has positive performance with governmental agencies, practice monitoring inspections could decrease over time
 - If a firm has low performance or high-risk engagements, practice monitoring inspections could increase over time
- *Greater consistency* among peer review performance and conclusions, and in Program administration
- *Transparency* of review results to stakeholders
- *Timeliness* in expelling firms that fail to meet Program standards and communication of such occurrences

Our intent is for the Concept to evolve as we learn, with clear objectives to:

- Leverage and incorporate new technologies as they become available
- Enhance overall quality of the profession by constantly moving the audit quality needle in the right direction
- Provide a platform for more timely and effective audit quality oversight
- Protect the public interest by delivering more timely and transparent information to stakeholders (clients and oversight bodies) regarding the quality of a firm's audit performance
- Consider the value of the process and audit quality tool(s) to firms

Program Features and Functions

The Concept, which would be built on a dynamic technology platform, includes the following five activities:

1. **Continuous analytical evaluation** of engagement performance
2. **Human review** when system-identified concerns are raised
3. **Involvement of external monitors**, when necessary
4. **Periodic inspection** of system integrity
5. **Oversight** of the system's operating effectiveness

The Concept would extend to all firms required to be monitored, and encompass all accounting, auditing and attestation engagements performed for private entities by those

firms. The Concept's components and supporting technologies would be scalable, based on the sophistication of a firm's existing monitoring process.

The practice monitoring system underlying the Concept would feed a dashboard that, with continuously updated data, would provide a snapshot of the firm's compliance with EQIs over a full range of measurement areas being monitored. A task force, made up of recognized practitioners and leaders in audit quality and technology, has considered available research on key accounting, auditing and attestation quality indicators, and is considering potential EQIs to understand how the Concept might be executed. Additionally, the intent is to constantly update these EQIs as this Concept is rolled out and as experience is gained through firm, peer review and other stakeholder feedback.

Continuous Analytical Evaluation, Human Review and Involvement

As currently contemplated, the Concept's *continuous analytical evaluation* element would track the firm's system of quality control as well as the performance of engagements throughout their lifecycles – from engagement acceptance, through completion – with internal flags issued whenever the firm may need to address quality issues.

The firm and engagement data would be input both manually and electronically into the practice monitoring tool, with more of that data flowing electronically over time as technology and software advances allow. It is anticipated that electronic data would be supplied by other firm systems, such as commercial audit engagement applications, human resource systems and learning management systems. The integration of these systems over time should also offer greater assurance that the monitored firm is supplying external monitors with a complete list of engagements and other necessary data.

The *continuous analytical evaluation* element would feature an ongoing technology-driven risk identification process that would analyze the firm and engagement data against EQIs and produce flags that notify the firm when performance is falling outside expected metrics.

Those flags would allow the firm to evaluate and remedy situations that could potentially result in lower quality engagements, before the engagement is even completed, thus enhancing engagement and firm quality.

The *human review and involvement* elements of the Concept would involve monitors engaged by the AICPA (AICPA-engaged practice monitors). As currently imagined, the first level of monitoring would occur within the firm, and tools would notify the firm prior to or during engagement of potential quality risks or engagement issues as identified by the AICPA through its best practice research.

A notification would lead to two potential external interactions. At the first level, AICPA-engaged practice monitors would be automatically notified if the firm fails to appropriately address the risks or issues flagged by the system in a timely manner. Once notified, the AICPA-engaged monitors would have visibility of the areas flagged, and would contact the firm to provide feedback and assistance.

A subsequent level of monitoring would be performed by the firm's external monitoring team and would occur only if the firm, after being contacted by the AICPA-engaged practice monitor, fails to appropriately address the risks or issues. This team's members would consist of a team captain and additional CPA specialists (similar to the current Program's peer review team). In addition, the firm's external monitoring team would conduct periodic inspections of the firm's system of quality control, including the use of practice monitoring technology and other resources within the firm.

Periodic Inspections and Oversight

As currently contemplated, *periodic inspections* would continue under the Concept, with the length of time between inspections varying based on a number of different factors, including but not limited to, engagement risk profiles, robustness and frequency of internal monitoring and presence of external inspections by governmental agencies. For example, firms that effectively monitor engagement performance during the *continuous analytical evaluation* element of the Concept and, if applicable, have performed well under other government agency inspection programs, may be inspected less frequently than they are under the current Program. Conversely, the time period between engagement reviews would be considerably shorter for firms with frequent unresolved or delayed quality-related issues or those that maintain a high-risk profile of engagements.

Periodic inspections would focus strongly on system controls and data integrity, while continuing to evaluate compliance with applicable professional standards. Compliance tests would also be performed to determine whether any firm employees have circumvented the monitoring system.

To attain the highest level of performance by both AICPA-engaged and external monitors, an *oversight* program would be incorporated into the Concept as the Concept moves into future phases. The aspects for oversight would be developed in future phases.

Phased Approach

The Concept's vision would be implemented through a multi-phased approach. A task force is developing a potential framework for the initial phase:

Initial Phase

The vision for the initial phase would include developing and launching a voluntary monitoring tool that would be used internally by a firm to highlight potential risk areas within its system of quality control which, if corrected promptly, could lead to enhanced quality. This would not replace the current Program (i.e., the existing Peer Review Program would continue to be in place for all firms during this time).

EQIs would form the basis for the quality control assessment, and would be developed leveraging, to the extent appropriate for private company practices, the work already done by the Public Company Accounting Oversight Board (PCAOB), Center for Audit Quality (CAQ) and the International Auditing and Assurance Standards Board (IAASB).

The monitoring tool would be piloted by a select group of small, medium and large firms for usability, usefulness and accuracy.

Throughout the pilot, the AICPA would work closely with the pilot firms and their peer reviewers to consider how to transition the Concept's new tool into a more robust real-time peer review process that would be incorporated into the current Program. Based on the pilot's findings, EQIs may be expanded, modified or deleted. Changes would be made based on feedback from the firms and the peer reviewers as to which indicators are more valuable for highlighting problem areas and improving quality.

Future Phases

Future phases of the Concept would be based on an in-depth analysis and review of the feedback from the pilot as well as feedback from members and other stakeholders on this Concept paper and other findings. Future phases would also incorporate the latest technological advances.

The vision for future phases is to gradually transition from fully voluntary to mandatory participation, to constantly increase the use of electronic data as it becomes available, and to expand the visibility of the results from internal only to external, including all stakeholders. The evolution of technology, its reliability and its accuracy will be the major determinants as to the degree of automation versus human involvement in this process, with human involvement critical to, and remaining a constant factor in, the process. The framework should leverage technological advancements to more efficiently and effectively monitor quality in the future.

Input from stakeholders will be critical for the evolution of the Concept, with formal exposure drafts issued prior to any significant changes being made to the existing Peer Review Program.

Internal and External Reporting

As currently envisioned, the Concept's system would provide three levels of reporting visibility: dashboard, internal Seal and external Seal. User access privileges and security rights would be defined and would determine the amount of detail that could be viewed in each level. Development of this reporting will include input from firms and stakeholders to ensure the appropriate balance.

Dashboard

As currently conceptualized, the dashboard is intended to provide a snapshot of the firm's compliance with performance metrics over the various areas subject to monitoring. Each dashboard measurement area would have a number of subcategories that can be reviewed further and in greater detail.

Authorized firm practitioners, AICPA-engaged and external monitors would be set up with specific privileges to view and access relevant information as defined by the program, and potentially granted access to greater detailed levels of data, such as by office, partner or specific engagement when those access rights are granted by the firm. Possible measurement areas would include:

- *Firm:* A summary of firm inspections, investigations and information about the use of professional standards resources by the firm.

- *Firm Staff:* Quality-related details on staff, such as CPE records, chargeable hours supporting specific industries or types of work under inspection, specialties, and degree of practice-management responsibility. This area would assist the firm quality control personnel in identifying individuals who may present additional risks to engagement quality.
- *Engagement:* Flagged engagements that may pertain to the firm's impacted system of quality control (below). Users could also investigate the specific problems and add comments that address the flag's significance.
 - Relevant ethical requirements
 - Acceptance and continuance
 - Human resources
 - Engagement performance
- *Firm Profile:* Summary of the firm's monitored information, such as numbers of engagements with unresolved flags and firm-wide flags.

For each measurement area, the system would analyze both electronic and manual data inputs and flag potential risks to engagement quality.

Ratings would be updated as performance measures change. Also, with the appropriate links to other systems, the firm would be able to identify situations driving any flags. Firm staff could then remedy the issue causing the flag, or alternatively, firm leadership could comment on mitigating factors that explain why remediation is not necessary, thus allowing flags to be turned off by appropriate firm personnel.

The dashboard's metrics and flags for each measurement area would be keys to providing the greatest near real-time awareness of potential problem areas that need to be addressed. It is expected that information from the dashboard would be carefully analyzed for its reliability and relevance, fine-tuned and refined through this phased approach, to ultimately provide the data required to generate internal and external Seals.

Internal Seal

An internal Seal would simply and visually display a high-level status of the firm's overall performance measures to the firm's quality control and executive management. The firm's senior partners would monitor this internally, and at any time easily access the dashboard for greater details about the individual factors impacting the current display of the Seal. Ultimately, the goal of the Seal would be to increase the effectiveness of the firm's system of quality control in performing accounting, auditing and attestation engagements.

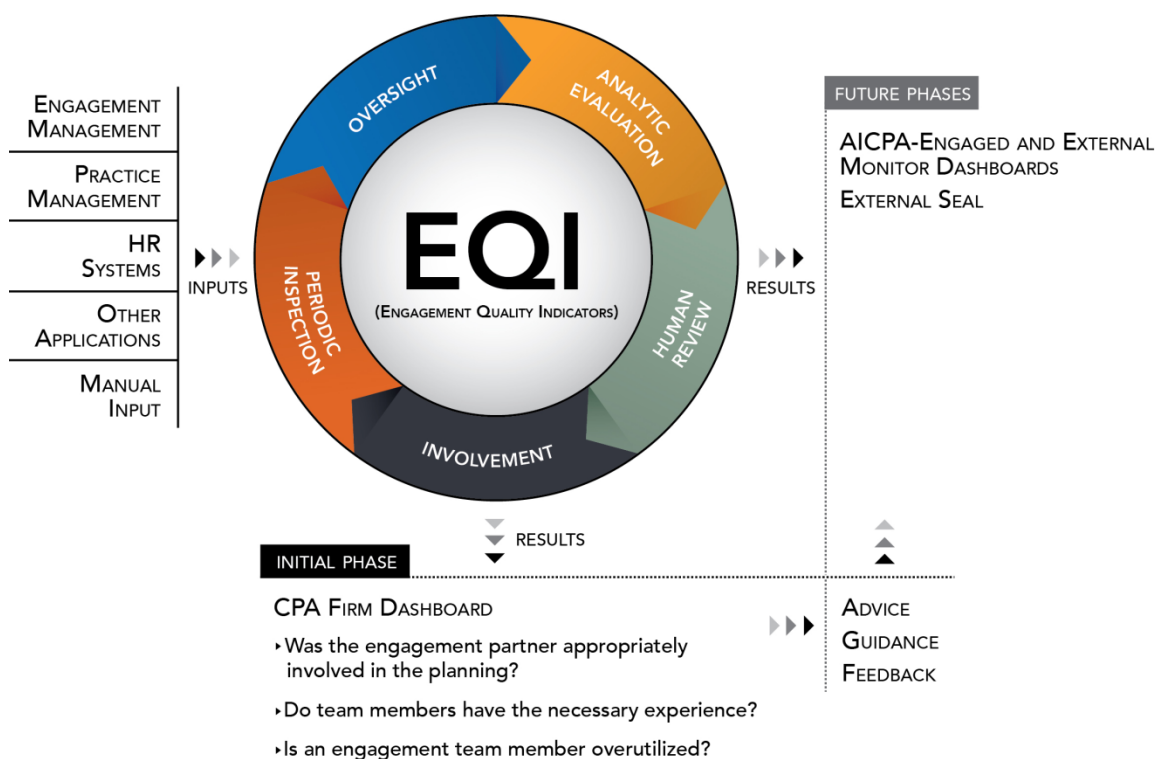
External Seal

An external Seal, also supported by the dashboard, would serve as a means of communicating the following quality-related information to the public through the AICPA and, if desired, the firm's website:

- Firm participation in the program
- Extent of the firm's service level, e.g., compilations, reviews or audits
- Firm compliance level with quality control standards in all material respects
- Additional firm information and firm practices subject to monitoring

The external Seal would appear in the firm's profile on the AICPA website. The firm would be provided time to remedy any system-identified failures to meet performance metrics before the information is viewable by any other users. User access to underlying information would depend on the individual/audience viewing the Seal and their security rights. For example, regulators may have a wider view of firm demographics and a more detailed explanation of Seal criteria than the general public.

THE PRACTICE MONITORING OF THE FUTURE CONCEPT



Increased Engagement Effectiveness and Firm Efficiencies

As currently considered, the Concept's advanced technology and enhanced monitoring capabilities would serve the public interest through increased accounting, auditing and attestation effectiveness, while creating value for CPA firms through greater efficiencies:

- Increased transparency for stakeholders through the external Seal, expected to provide more timely and enhanced information on the quality of monitored services.
- Improved detection and remediation of risks to quality which will allow firms to quickly launch reparative measures as needed, expected to result in higher quality and more efficient engagements, and lower remediation costs.
- Useful data captured by the system to quickly develop up-to-date accounting, auditing and attestation training and improvement tools.
- Enhanced engagement monitoring of, and faster delivery of information for, firms that may not have already developed a robust quality control system due to resource constraints.
- A more efficient, effective and near-real time monitoring and inspection process built on factors other than the passage of time.
- Stronger focus on factors that impact engagement quality, to support improved identification of the systemic cause of a deficiency.
- Ability, through the technology platform, to more easily and strategically identify and plan the number and needed expertise of staff.

Through the increased efficiencies and effectiveness described above, the Concept will promote accounting, auditing and attestation quality and further protect the public interest.

Looking Ahead

Driven by stakeholder feedback throughout each phase, including input on this Concept paper, the focus on the Concept's evolution, particularly with regard to regulatory compliance, technology development and legal review, continues.

Regulatory Compliance

With the current Program included as a practice requirement in federal and state laws and regulations, various statutes, regulations and standards may require revision to allow future periodic inspections envisioned in the Concept to replace the current Program. The Concept's acceptance by applicable regulators will be essential to its adoption and implementation.

Technology

Based on preliminary discussions with major software developers, the Concept's vision is considered technologically feasible. The phased approach would provide for technological advances to be incorporated through all stages of the monitoring tool's evolution.

Legal Review

AICPA Legal counsel has been engaged and will continue to be involved in the development of the Concept as it evolves, to identify and assist in mitigating any legal concerns.

Stakeholder Feedback

To date, select groups of stakeholders have been consulted and asked to provide feedback on the Concept, which has been considered throughout the process and will continue to be sought as the Concept evolves.

Feedback is integral to the progress of the Concept, and is both welcome and encouraged. The Concept will inevitably change and constructive input will positively influence its evolution.

As with the recent discussion paper on Enhancing Audit Quality, we encourage you to participate in the dialogue. Though we are not necessarily seeking specific answers, please consider the following questions when formulating your views and ideas. Although it will change, assume the Concept has been implemented as described when providing feedback.

- What engagement quality indicators would you find useful from an internal firm perspective?
- What would you like to know about your firm's practice in order to self-monitor and manage quality?
- What risks do you see in developing a more real-time system?
- Who should "monitor" or perform the review?
 - A reviewer engaged by the firm (similar to the current Program)
 - A peer selected and assigned or recommended by the Concept's system (best match based on certain criteria)
 - An inspector selected or assigned by an independent body
 - A combination of peer(s) and inspectors, based on firm profile or risk factor
 - Some other means (please elaborate)
- How should the firm rating display via an external/public Seal?
 - The same as the current Program's reporting model (Pass, Pass With Deficiencies or Fail)
 - A numerical scale (100, 92, 88, 75, etc.)
 - A lettering system (A, B, C, D, F)
 - Some other means (please elaborate)

- Considering the technological and manual processes you have in place today, how would you envision your firm's data being extracted and how would the system assist you in enhancing the quality and effectiveness of your audits?
- What existing or known technologies would be helpful in considering or developing the Concept?

Through this Concept paper's release, all stakeholders are invited to provide comment and respond to questions on the [AICPA Community website](http://aicpa.org/futurepracticemonitoring) (aicpa.org/futurepracticemonitoring). You may also email comments to prsupport@aicpa.org. Comments will be accepted until June 15, 2015.

“Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution....”

Will A. Foster, Business Executive