



National Association of State Boards of Accountancy

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June 10, 2015

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Re: AICPA Practice Monitoring of the Future

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on *Evolving the CPA Profession's Peer Review Program for the Future* paper (the "Concept Paper"). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following in response to the questions posed in the Concept Paper.

OVERALL COMMENTS

As stated in the Concept Paper's executive summary, we agree that the AICPA peer review 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, as demonstrated by 53 jurisdictions having adopted legislation which requires peer reviews of accounting firms registered with them. Although this general acceptance of mandatory peer review by state regulatory bodies signifies widespread belief in the concept, any proposed changes to the existing peer review program will likely require new legislative action by states, which will require an extended transition period for any changes to be implemented. Therefore, changes to the peer review program might necessitate a parallel process to be in place for a significant period of time.

Additionally, it is imperative that the oversight requirements of the State Boards of Accountancy are factored into any changes to the current system as it is developed. In order to do this, NASBA and the State Boards must be part of the development process. In the current system, many states utilize Peer Review Oversight Committees to monitor the peer review process. We are concerned that a national technology-driven system could require national oversight without providing for the states' input. Such a national system must include meaningful coordination and involvement of the State Boards of Accountancy.

In order to best serve the public interest, we share the AICPA's goal to embrace improvements that technological innovation, optimal risk management, and timely transparent results could bring to the delivery of CPA services.

We do support the use of engagement quality indicators (EQIs) in enhancing quality, but we believe these factors should be considered as part of a firm's internal system of monitoring quality control. Any proposed requirements for using EQI should first be incorporated into existing quality control standards. Any tools or dashboards that are developed should allow not only large firms, but also small to medium size firms to utilize them within their practice. The cost of the tools, as well as the software systems needed to operate them, should be considered in their development.

We do have some concerns as to how some of the proposals in the concept paper would impact non-AICPA member firms and how firms who do not utilize electronic systems for monitoring engagement quality would be able to adopt the proposed changes.

Enhancing the quality of the peer reviewer is also a critical element to any changes made to practice monitoring. Peer reviews can only be effective and succeed if their work is supported by appropriate consequences and an effective enforcement mechanism.

RESPONSES TO SPECIFIC QUESTIONS

- What engagement quality indicators would you find useful from an internal firm perspective?

We understand that some firms, professional bodies and regulators have invested in and are researching the use of EQI (or audit quality indicators - AQI). The AICPA may want to leverage some of the work that is being done by the Center for Audit Quality (CAQ) and the Public Company Accounting Oversight Board (PCAOB).

Examples of EQI that could be considered include:

- The ability to determine whether individuals assigned to high risk engagements have the relevant experience to serve in that industry (e.g. employee benefit plans, A133, insurance or financial institutions).
- Metrics such as:
 - Client service hours by level
 - Percentage of planning hours to overall hours
 - Percentage of fieldwork completed before the client's year end
 - Use of specialists
 - Evidence of timely partner involvement in critical areas
 - Percentage of hours incurred after report issuance
 - Risk assessment.
- What would you like to know about your firm's practice in order to self-monitor and manage quality?

It is important for a firm to be able to internally manage and monitor its quality. Although the types of information that a firm may consider relevant can vary depending upon the size of the firm, concentration of industry practice, whether or not the firm provides audit services to a public registrant, etc., information that may be of interest could include:

- Number of restatements
 - Correspondence with regulators (SEC, IG, state auditor, etc.)
 - Number of audit engagements by industry type
 - Stratification of client risk assessment
 - Use of specialists
 - Firm independence monitoring summary reports
 - Summary reports indicating engagements subject to internal pre-issuance review.
- What risks do you see in developing a more real-time system?

One of the biggest concerns we have in the development of a more real-time system is the ability of a smaller firm to provide information electronically. Secondly, the ability to develop one system that is compatible with a multitude of firms' systems, regardless of the firms' sizes, may not be feasible.

Also, cyber-security is a major concern in today's environment. If client and firm information is to be uploaded into a central repository, significant security controls will need to be implemented to ensure confidentiality and security of data.

Other matters that should be considered in a more real-time system include:

- How would this impact a firm's permit to practice where there is a requirement to have a peer review completed subsequent to the last renewal?
 - At what point does a regulator become notified of a failed review or a remediation plan that has been put in place?
 - How would acceptance of a new client in a high risk industry impact a firm that may be subject to less frequent reviews as outlined on page 9 of the concept paper?
 - How often would an individual partner be monitored? In some firms, a partner must be internally reviewed at least once every three years.
 - Would the report provided to a state regulator be as of a "point in time" or on a rolling basis?
 - What steps/procedures would be put in place to determine that the information in the real-time system is complete and accurate?
 - Would this real time system only measure EQIs or would a deeper review of selected audit engagements be performed similar to the current peer review process, including a review of working papers for focus areas?
- Who should "monitor" or perform the review?

We believe that the firm should be responsible for engaging a competent reviewer just as company management is responsible for engaging a competent auditor. However, safeguards should be put into place to ensure that the peer reviewer is independent and is not a member of the firm's practice network. Such safeguards could include, but not be limited to, mandatory rotation of a peer review firm after a set period of time.

We also believe that some of the comments made in our November 3, 2014 letter regarding the AICPA "Enhancing Audit Quality-Plans and Perspectives for the U.S. CPA Profession" paper should be considered, including:

- Requiring reviewers of must-select engagements come from firms that are members of the applicable AICPA Quality Center or demonstrate they have competence in that area.
 - Requiring reviewers of must-select engagements to attend industry-specific training, which would incorporate a competency exam.
 - Enhancing the quality of the peer review process by introducing a streamlined process for barring reviewers who do not meet required performance criteria.
- How should the firm rating display via an external/public Seal?

We believe the Pass, Pass with Deficiencies or Fail model works as long as it is appropriately applied. Providing a numeric or other rating scale could be open to varying interpretations.

- 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?

For regulators, there is significant concern over how information would be provided/extracted, as stated in our answer to the earlier question about risks. Even if a firm monitored some of this information electronically, it is likely the format of the information would be significantly different among firms. There is concern over forcing firms to use one standard system. In addition, how would the security of the information be monitored?

We do believe there is potential for information accumulated in an electronic database to be utilized in a variety of ways to improve audit quality. For instance, peer review trends could be analyzed to determine if additional training/resources could be provided to CPAs. A firm could internally use data around the number of restatements for root cause analysis to enhance the firm's quality.

- What existing or known technologies would be helpful in considering or developing the Concept?

We understand that the AICPA is currently utilizing information available from the Federal Clearing House to analytically review whether or not firms performing single audits have appropriately considered major programs in their audit procedures for specific clients. A similar process could be utilized with the DOL and HUD REAC databases. There may be other databases publicly available that could be utilized to use artificial intelligence to monitor audit quality.

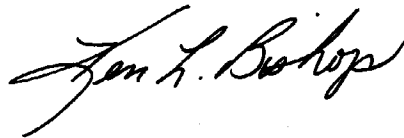
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We appreciate the strong relationship between AICPA, NASBA and the State Boards of Accountancy, and we look forward to our continued joint dedication to the development of quality peer review standards in the United States. Thank you for the opportunity to share our comments on the AICPA's *Evolving the CPA Profession's Peer Review Program for the Future* concept paper. Please contact us if you have questions or need clarification regarding our comments.

Sincerely,

Handwritten signature of Walter C. Davenport in black ink, featuring a stylized 'W' and 'D'.

Walter C. Davenport, CPA
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink, written in a cursive style.

Ken L. Bishop
NASBA President and CEO