

January 29, 2016

Ms. Rachele Drummond
Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Ms. Drummond:

We welcome the opportunity to provide feedback to the American Institute of Certified Public Accountants ("AICPA") Peer Review Board in connection with the Exposure Draft of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews dated November 10, 2015 (the Exposure Draft). Baker Tilly Virchow Krause ("Baker Tilly") strongly supports the AICPA's Enhancing Audit Quality (EAQ) initiative, and we are pleased to provide our comments on changes that the AICPA Peer Review Board has proposed to improve the transparency and effectiveness of peer review as an integral part of the overall EAQ initiative.

By way of background, Baker Tilly is a large, nationally recognized accounting firm, providing audit, accounting, tax and consulting services from offices located in 11 states, primarily in the mid-Atlantic and mid-West. We have approximately 300 partners and over 2,500 team members and our size places us among the top 15 of all CPA firms in the United States. Our clients range from public companies to smaller family owned businesses and our industry concentrations include commercial, construction and real estate, financial services, governments, health care, energy and utilities, employee benefit plans and not for profit. Baker Tilly has been actively involved in peer review since the inception of the program, including the involvement of several partners who have served on the AICPA's National Peer Review Committee. Additionally, Baker Tilly has performed more than 200 firm-on-firm peer reviews including peer reviews of several of the largest firms in the country.

Executive Summary

The proposed changes to improve the transparency and effectiveness of peer review are necessary. In light of continued negative publicity surrounding ongoing inspections of audit firms and audit engagements by regulators such as the PCAOB, and more recently, the Department of Labor (DOL) May 2015 Report on Assessing the Quality of Employee Benefit Plan Audits, our profession appears to once again be facing a crisis in confidence with respect to audit quality and by extension, mounting questions over the efficacy and rigor of peer review. The DOL's observation in its recent report that "The audit study showed that the accounting profession's peer review and practice monitoring efforts have not resulted in improved audit quality or in identifying deficient audit engagements" (emphasis added) should serve as a wake-up call to the profession and peer review program that we can and must do more. The stakeholders who both rely upon our reports and who expect us to consistently perform our work to meet or exceed the high standards that govern our profession should also reasonably expect that we will hold ourselves accountable to enhance audit quality through the process of peer review. A lack of resolve, sufficient rigor, transparency, or candor in the ongoing administration of the program or the performance of peer reviews puts our profession at risk for increased regulation and oversight and further adds to public's perception that an audit is merely a commodity.

In addition to stating our overall support for the changes set forth in the Exposure Draft, we offer the following specific comments for your consideration as either near-term changes to the exposure draft or long-term changes to the Program and its standards.

Specific Comments

FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews)

As noted in the Explanatory Memorandum of the Exposure Draft, one of the steps in achieving the EAQ goal is to make peer review results more informative. Our interpretation of feedback obtained by the AICPA on the EAQ initiative suggests to us that the respondents are not overwhelmingly on board with the notion that the current peer review report is sufficiently clear and meaningful. The feedback also seems to suggest to us that if changes were to be made to the peer review report, additional information in the form of demographic information about the firm and some version of a hybrid reporting model (consisting of an opinion on the overall system of quality control and report on deficiencies) may be useful information for users to better understand, evaluate and use a peer review report. In addition, and apart from our interpretation of feedback received by the AICPA on the EAQ initiative, we believe that the regulatory reporting model which generally contains listings and descriptions of engagements with deficiencies and which garners more publicity than a peer review report adds to the public's confusion about audit quality.

As proposed, the revisions to the peer review report principally consist of clarifications, examples of which are stated in the Exposure Draft and include restructuring the placement of information under appropriate headings similar to a clarified audit report, clarifying the purpose of the report with a descriptive report title and clarifying the paragraph describing the "must select" engagements by indicating when only one engagement of a particular engagement type was made. While we believe that these changes are ultimately helpful to further a user's understanding of peer review reports, they appear to be incremental steps in what appears to be a need for a more transformative change. We therefore urge the Peer Review Board to give additional consideration to feedback received from the EAQ initiative and to seek additional stakeholder feedback as a basis to further study the extent to which more transformative changes may be needed to achieve the objectives of greater transparency and usefulness of peer review reports.

Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)

The Explanatory Memorandum of the Exposure Draft describes several key future complementary and conforming guidance proposals which are scheduled to be presented at the May 2016 Peer Review Board meeting. One proposal is to enhance Sections 4500 and 4600 Guidelines for Review of Quality Control Policies and Procedures for Sole Practitioners with No Personnel and Firms With Two or More Personnel, respectively, with guidance to assist team captains and firms in identification of risks that a firm's system of quality control would not provide the firm with reasonable assurance of conformity with professional standards. Specifically, we understand that the checklists are intended to identify quality control risks by 1) expanding the analysis and assessment of the firm's system of quality control against best practice policies and procedures and 2) introducing new sample tests and procedures to assess the firm's compliance with its quality control procedures.

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Page 3

Our firm has seen drafts of the proposed revisions to the checklist and additionally, been exposed to the proposed changes through AICPA training programs such as the program entitled "Drive Your Edge With Audit Quality". We believe that the changes set forth in the checklists are substantial. We expect there will be a need to create a stronger awareness within the profession through training and communications. We further expect that the changes will cause many firms to supplement or rewrite their quality control documents and related policies and procedures, and to make changes in their quality control practices. Although these proposed changes are not expected to be considered by the Board until May 2016, the effective date that has been proposed for the final revisions to the standards and interpretations is for reviews commencing on or after January 1, 2017. If these changes are approved at the May 2016 Board meeting, they would be exceedingly difficult, if not impossible, for reviewed firms and peer reviewers to fully implement in a timeframe that would coincide with the proposed effective date of the revised standards and interpretations. We would therefore strongly recommend that the revised Guidelines, if adopted in May 2016, be made effective no earlier than for peer reviews commencing on or after January 1, 2018.

In addition to the foregoing comment, we have two recommended technical corrections specific to the Proposed Revisions section of the Exposure Draft, as follows:

- 1) Paragraph 9 on page 54 in Appendix A appears to be a duplicate of paragraph 8 on page 53 in Appendix A.
- 2) The second sentence of the third paragraphs appearing in a) the Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review and b) the Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Review Captain for an Engagement Review on pages 66 – 68 of the Exposure Draft should be deleted as it is not applicable for a firm who is eligible to have an engagement review. We also recommend that the third and fourth sentences of the same paragraph should be placed at the end of the same paragraph.

In conclusion, we commend the AICPA for initiating these important changes to improve the transparency and effectiveness of peer review. Peer review is critical to the viability and strength of our profession – and must be administered and performed with professionalism, utmost integrity, greater effectiveness and improved transparency in the reporting of results.

Please contact either Jeff Gendreau at 612.876.4660 or Kim Tredinnick at 608.240.2318 if you wish to discuss our comments further.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP





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January 29, 2016

Rachelle Drummond
Senior Technical Manager, AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

RE: AICPA Exposure Draft on Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review, November 10, 2015

Dear Ms. Drummond:

On behalf of the California Board of Accountancy (CBA), I am pleased to submit our comments on the American Institute of Certified Public Accountants (AICPA) Exposure Draft on Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review (Exposure Draft).

The CBA supports improving the transparency and effectiveness of Peer Review to enhance the knowledge and competency of its licensees. The clarifications outlined in the Exposure Draft regarding the performance of reviews and reporting standards will improve the peer review process, which is consistent with the CBA's mission to protect consumers by ensuring only qualified licensees practice public accountancy.

The CBA is grateful for the opportunity to comment on this exposure draft.

Sincerely,

A handwritten signature in cursive script that reads 'Katrina L. Salazar'.

Katrina L. Salazar, CPA
President

c: Members, California Board of Accountancy
Patti Bowers, Executive Officer

January 15, 2016

Rachelle Drummond, Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Exposure Draft: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews. Improving Transparency and Effectiveness of Peer Review

The California Peer Review Committee (the “Committee” or “We”) of the California Society of Certified Public Accountants (CalCPA) is pleased to provide our comments to the AICPA Peer Review Board. The Committee administers the AICPA peer review program for over 5,000 firms in Arizona, Alaska, and California. The Committee consists of 19 members who are all team captain qualified and are in firms ranging from large multi-office CPA firms to sole practitioners in public practice.

As a whole, the Committee appreciates the focus of the exposure draft on obtaining a more comprehensive response from firms for matters identified by the peer reviewers. In particular we like removal of the team captain requirement to “close the loop” on a deficiency in a system peer review report. We also like the removal of peer reviewers’ recommendations in the report and in Findings for Further Consideration. These areas are the responsibility of the firms, though we believe it would be appropriate for the new standards to emphasize that peer reviewers may assist firms in determining how to respond to the deficiencies and findings.

Our major concern is the last paragraph in Peer Review Standards Interpretation 100-1 that the team captain may consider failure to appropriately remediate engagements that are not performed or presented in accordance with professional standards in all material respects an indication of a tone at the top weakness that may result in a deficiency or significant deficiency. A primary function of peer review committees is to provide consistency in treatment of similar matters among firms. We believe it will be difficult to apply this standard consistently.

At a minimum, guidance should be provided to help team captains apply the new standards and assist RABs in consistent treatment. For instance, which of the following scenarios would require a tone at the top deficiency:

- The firm seeks legal advice and is advised not to recall or perform additional work.
- The reviewer has found an isolated incident resulting in a non-conforming engagement and the firm has decided not to recall or perform additional procedures. Except for the potential for a tone at the top deficiency, there were no deficiencies noted.

- The firm decides to notify, recall or perform additional work on the engagement(s) selected for review during the peer review, but during the course of the review firm personnel have admitted that all engagements in this industry or practice area would have the same deficiency.
- The firm is receiving a pass with deficiency report because they failed to update reports to the most current standards and have declined to recall the reports. No other deficiencies were noted.

Peer Review Standards Section .139 states that the peer review committee is specifically charged with evaluating the planned remediation for system reviews. We believe firms will feel pressured to recall or perform additional procedures or accept a tone at the top deficiency as part of this evaluation process and that may create additional legal risk for the firm. Alternatively, firms may resist the pass with deficiency or fail report, which may create legal exposure for team captains and peer review committee members.

These are very complex issues that each firm will need to address, with significant risks that each firm will need to consider from their own ethical and business related perspectives. The firm will need to give careful consideration to the relative severity of the issues that caused the non-conforming engagements, impact on decision makers using the financial statements, and risks of exposure to the firm. As a result, a decision not to recall or perform additional procedures does not necessarily translate into a tone at the top deficiency. Furthermore, the time required for the firm to consult with necessary legal and risk management consultants, and make their decisions regarding such issues will, in most cases, delay the process and will cause peer reviews to be late. We understand that the peer review board believes this problem can be alleviated by starting the review sooner, but for small firms with large tax practices that may not be realistic, as their window to get the review done is the short period between October 16 and January 31.

Many of our committee members have also expressed concern that the requirement to add a tone at the top deficiency will put them in a more adversarial position with a firm. It is difficult enough explaining to firms that they will receive a pass with deficiency or fail report, without the suggestion that the firm's tone at the top is unacceptable. Our committee members believe that fewer experienced reviewers will take on difficult firms and fewer peer reviewers will agree to be peer review committee members with these new requirements. We already have a peer reviewer shortage and with the additional scrutiny of reviewers we do not expect this to change.

In conclusion, the AICPA Peer Review Board has already made progressive changes to the program, including accelerating the removal of poor performing peer reviewers and notifying firms on their first pass with deficiency or fail peer review report that receiving a peer review report rating of pass with deficiency or fail on their next review could result in the firm's termination from the peer review program for noncooperation. It does not seem that adding a tone at the top deficiency would alter this outcome. Therefore, we should allow time for these changes to prove their effectiveness and we do not need additional changes at this time.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Chrisley N. Reed
Chair, California Peer Review Committee



Advocacy. Community. Education.

AICPA and CTCPA Peer Review Programs
Administered in Connecticut by the Connecticut Society of CPAs



January 31, 2016

Ms. Rachelle Drummond, Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Ms. Drummond:

Re: Exposure Draft: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews,
"Improving Transparency and Effectiveness of Peer Review"

Thank you for the opportunity to comment on the above-referenced exposure draft. Members of the CTCPA Peer Review Committee have reviewed the draft and, overall, they are in general agreement with the proposed changes. However, we have the following comments and observations:

- Nonconforming Engagements (System and Engagement Reviews) – We agree with the proposed changes. More responsibility should be placed on the firm to address nonconforming engagements.
- Enhanced Peer Review of the Firm's System of Quality Control (System Reviews) – The Peer Review Board should understand that, with the growing complexity of performing reviews, it is difficult enough to get firms to provide the current information, that the suggestion that reviewers begin looking at information from prior year may prove challenging. Researching archived information would create more time and inefficiencies.
- FFC and Report Guidance Descriptions, Firm Responses and Related Reviewer Considerations (System and Engagement Reviews) – Emphasis on the firm's responsibility and responsiveness to address remediation of the findings, deficiencies and significant deficiencies is key. Enhanced guidance and education to the firms about the importance of their responses and peer review overall.

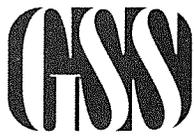
Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in blue ink that reads "Lori Riiska".

Lori Riiska, CPA
Chair, CTCPA Peer Review Committee

The Connecticut Society of CPAs



Gregory, Sharer & Stuart, P.A.

Certified Public Accountants and Business Consultants

Right Answers. Right Now.®

AICPA Peer Review Board
American Institute of CPAs
Attention: Rachelle Drummond

Victoria R. Bartlett, CPA
Bo S. Brault, CPA
M. Timothy Farrell, CPA
Daniel J. Hevia, CPA
Robert L. Ingham, CPA
Troy Kimbrough, CPA
James G. Newman, CPA
Scott C. Pearce, CPA
Paula D. Popovich, CPA
Byron C. Smith, CPA
Carlos R. Vila, CPA

RE: Response to Peer Review Exposure Draft

I would like to thank the PRB for the opportunity to respond to the ED and for its efforts to continue to improve the peer review process. I do have several concerns about the proposals in the ED that I would like to share with the members of the PRB.

Preparing the Report in a Systems or Engagement Review

The major criticism of peer reviews has historically not been in the reporting but rather in the qualifications of the reviewers. So I am uncertain what problem this ED is attempting to fix with the proposed reporting changes. Past surveys and outreach by the PRB with state boards of accountancy, other regulators, and other users of peer review have shown that most of them were concerned about having a simple pass/ fail rating system to assess which firms were doing a poor job. The reporting standards were modified several years ago to address this concern. I believe the current reporting model meets the requirements of most users and no significant benefit would be gained by changing that reporting model as proposed. While some of the suggested changes have some substance, most are more about cosmetics. Our members are all inundated by the volume of standards changes that have been issued over the past several years and I urge you to not contribute to this "standards fatigue" unless you have a strong belief that these proposed reporting changes will drive behavior in a positive manner. Setting a standard about when to use plural vs. singular in reports is in my view nonsense.

Firm Responses to a Systems and Engagement Reviews

The proposal to eliminate the reviewer's recommendation in the peer review report is in my opinion not helpful. The reality is that most reviewed firms look to their peer reviewer for suggestions on how to respond to deficiencies in a report. The current reporting model is consistent with how we report significant deficiency and material weakness on an audit or findings in a consulting engagement. I believe that is a good model to stay with for several reasons. It recognizes that this communication is taking place between the reviewer and the firm and is more transparent about that communication rather than leading a reader to believe that the firm came up with these recommendations solely are their own. It also informs a reader what the reviewer's opinion is about the most effective corrective action rather than asking a reader to speculate about what the reviewer's assessment of the response would be. I believe firms with less complex A&A practices, particularly those that qualify for engagement reviews, will have significant difficulty developing appropriate responses in language acceptable to the PRB without the assistance of the reviewer developing recommendations. I potentially see a lot of back and forth with drafting of engagement review responses with little value gained from the exercise.

Submission of Peer Review Documents

I do not support the proposed change of requiring the reviewer to hold up the submissions of peer review documents and exit conference until the reviewed firm response letter to the report is received. I don't see the benefit this provides over the current approach where a reviewer evaluates the firm's response prior to the response being submitted to the AE. I believe this proposed change will create very practical problems and cause significant delays in the submission of peer review reports. Under the

proposal you are asking reviewers to hold-up completed peer reviews pending the receipt of letters of response from the reviewed firm. This change I believe will be disruptive in the way most good reviewers perform peer reviews today in that they have the peer reviews completed very soon after fieldwork and in well in advance of the firm's letter of response. I have little doubt that where a reviewer will have to go back and look at peer review documents that were compiled a month earlier that this will increase peer review time and cost. I urge the PRB to reconsider this proposal and consider that the current approach of the reviewer assessing the response letter prior to submission to the AE as being a substantially equitable approach to what is being proposed.

Communicating Conclusions at the Closing Meeting and Exit Conference

The ED proposal for the most part is consistent with much of existing practice. Under the current standards it is very common to have a preliminary exit conference at the completion of fieldwork with a follow-up phone call, email or meeting when MFCs, FFCs and report have been completed. I believe the current standards already allow for this and support additional guidance in this area. However, I have concerns about prescribing standards on how this is to be handled for every peer review. A reviewer should have the flexibility to deal with the timing of communications with the reviewed firm. I suggest that any type of communications, such as a chain of emails, resolving any open issues would be sufficient without the need for a more formal exit conference unless the reviewer believed it was appropriate. I would leave this to the peer reviewer's discretion.

Expanding Scope Outside of the Peer Review Year for Compliance

While I generally support this notion, I am concerned about the additional costs vs. benefit associated with this scope expansion and also defining boundaries. There should be more guidance to clarify when a peer reviewer would expand the scope outside the peer review years for consideration of functional areas. For example what about a change in level or type of service or reporting to cover specialized industries that was not in the peer review year, hiring new employees, independence impairment considerations. It is not uncommon for smaller practices to have very little change in their clients and staff, so it is more likely that they will not have any new audit or review clients in the peer review year or new employees. As a result, most of the cost burden of implementing this proposal will fall on these smaller firm's since they will disproportionately be subject to this scope expansion.

Respectfully Submitted


Daniel J. Hevia

Rachelle Drummond

From: David Feldman <david@feldover.com>
Sent: Wednesday, November 11, 2015 12:52 PM
To: PR_expdraft
Subject: initial comments of Exposure Draft dated November 10, 2015

In skimming through the exposure draft for the first time I just want to let you know of my concern that in my experience in performing strictly engagement reviews for small firms, in most cases, they will not be able to provide an appropriate recommendation to remediate any findings or deficiency's without my input. I currently work with them to determine what will help them avoid repeating any findings or deficiencies. They need my suggestions as it seems they never stop to think about it until they undergo the once every 3 years peer review. When we come to a mutual agreement on what should work for them I document that as my recommendation. A lot of my time is spent with these firms in assisting them with understanding and completing the forms that are required of them to undergo the review process. Sometimes just getting them to prepare the representation letter or engagement summary appropriately takes several tries. It can be very frustrating. I am happy to be relieved of the responsibility to provide a recommendation, but I do not think it is practical for the smaller firms. Just my initial thoughts.

Thank you.

David A. Feldman, CPA
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December 29, 2015

Rachelle Drummond, Senior Technical Manager
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220 Leigh Farm Road
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Re: Response to the AICPA Peer Review Board Exposure Draft: Proposed Changes to the AICPA Standards for Performing and Reporting On Peer Reviews: Improving Transparency and Effectiveness of Peer Review

Dear Ms. Drummond:

As a sole practitioner who undergoes peer review, I am pleased to provide my comments on the exposure draft referenced above. The opinions expressed in this letter are my own.

Comments on Nonconforming Engagements (System and Engagement Reviews)

I agree with the Board that more needs to be done to explain the evaluation of nonconforming engagements by the peer reviewer to determine a peer review rating.

Comments on Performing System Reviews

As to the discussion starting with paragraph .38(b)(x), I agree that there should be a demarcation between a closing meeting and an exit conference if, at the end of fieldwork a firm needs more time to consider its response to matters identified during the peer review.

Regarding paragraph .44, is the proposed change mandating that a firm adopt a stand-alone quality control document versus a filled-in questionnaire that covers all the required elements of SQCS 8? I direct your attention to SQCS 8 paragraph .A80: "Smaller firms may use more informal methods in the documentation of their systems of quality control, such as manual notes, checklists, and forms."

In paragraph .73, I believe the FFC form should include the reviewer's recommendation, description of the finding, the systemic cause, if known... and the reviewed firm's response. The reviewer's recommendation is an integral part of the process and to eliminate it from the FFC form would reduce the effectiveness of the review.

In paragraph .75, it should be the team captain's responsibility to assert the systematic cause of matters identified. It is then the reviewed firm's responsibility to refute the assertion. This may lead to a more robust discussion of the finding, its cause, and its nature.

Comments on Forming Conclusions on the Type of Report to Issue in a System Review

For both engagement reviews and system reviews the requirements of a formal "closing meeting" as described starting in paragraph .91 should be required.

Comments on Reporting on System Reviews

I agree with the changes proposed to the systems report starting in paragraph .95 and the engagement review report starting at paragraph .122, and the applicable appendices.

I appreciate the opportunity to express my opinion on these matters and would be pleased to discuss my comments in greater detail if requested.

Sincerely,

A handwritten signature in black ink, appearing to read "David W. Elks". The signature is fluid and cursive, with a prominent initial "D" and a stylized "E".

David Elks, CPA, Managing Member



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January 5, 2016

AICPA Peer Review Program
American Institute of CPAs
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Attn: Rachele Drummond, Senior Technical Manager

PR_expdraft@aicpa.org

Re: Exposure Draft

Dear Members of the AICPA Peer Review Board:

We appreciate this opportunity to comment on the proposed changes to the *AICPA Standards for Performing and Reporting on Peer Review - Improving Transparency and Effectiveness of Peer Review*.

We believe the issuance of these enhancements to the AICPA Peer Review Standards strengthens the peer review process through increased transparency and establishment of high-quality peer review standards. We applaud the AICPA for its dedication to make improvements to its process and for continually striving to best serve the public interest. We are strongly supportive of the development of the proposed changes and have no further comments for your consideration.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Dave Sullivan at 1 (714) 436-7788.

Very truly yours,

Deloitte & Touche LLP

January 31, 2016

Rachelle Drummond, Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

I have read the Exposure Draft “*Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews*,” and have certain comments and suggestions as noted in the following paragraphs.

Overall, I agree with most of the changes made and applaud the Board’s and staff’s work on this project. In particular, I believe the changes made to introduce a closing conference, in addition to an exit conference, reflect practice and are a positive and constructive addition.

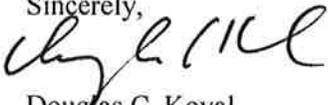
I also believe the changes made to determination of deficiencies not being tied to the existence of nonconforming engagements is a step forward. I agree with the idea that it is the firm’s responsibility to address those instances and state how they will be remediated, if needed. However, on that point, I believe the additional wording added to the report is contradictory to this concept. In the new second paragraph, the sentence “*The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating*” can be misleading. It might imply to a reader that consideration of nonconforming engagements is what drives the peer review rating. I do not believe that was intended and I doubt that many readers actually go to the website to gain a thorough understanding of the peer review process, but rely on the main points illustrated in the report. I am not privy to the intent for adding this sentence and there may be valid reasons such as addressing a main topic included in this Exposure Draft. But, I believe that it gives an improper impression, serves little purpose that would be understood, and should be eliminated.

I agree with many of the changes and additions made to the representation letters. However, there is one change that I believe should be modified. In the discussions regarding communication of regulatory and other matters, verbiage was added to say that “We have discussed *significant* issues from....” I question the inclusion of the word “significant” to the communication process. I am concerned that a firm’s interpretation of what is significant could be different than that for a peer reviewer, and could result in matters not being communicated to the reviewer. I believe all matters should be communicated and left to the team captain’s judgement as to whether those matters are significant.

Lastly, and admittedly a small matter, the Exposure Draft uses the term “*complimentary*” in many instances. I question the use of this term as I am not sure it was meant to imply either “free” or “praising” in its use. I believe the term to use is “*complementary*.” This would denote materials and guidance that would enhance or emphasize. Just changing the “i” to “e” would accomplish that. If my understanding of the intent of the term is incorrect, then this might not be an issue.

Please feel free to contact me directly should you wish to discuss any of these matters.

Sincerely,

A handwritten signature in black ink, appearing to read 'Douglas C. Koval', written in a cursive style.

Douglas C. Koval



January 20, 2016

Rachelle Drummond, Senior Technical Manager
AICPA Peer Review Program
220 Leigh Farm Road
Durham, North Carolina 27707-8110
Via e-mail: PR_expdraft@aicpa.org

Re: Improving Transparency and Effectiveness of Peer Review

Dear Peer Review Board Members:

The Peer Review Acceptance Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed the above referenced Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews – Improving Transparency and Effectiveness of Peer Review. The FICPA has approximately 18,500 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee has the following comments related to the above referenced exposure draft:

First off, the Committee would like to commend the Peer Review Board for undertaking one of the most comprehensive changes to the Peer Review Program in some time. The proposed changes are in-line with the changing times of peer review from both a public and regulatory standpoint. The comments below address the major changes in the proposed exposure draft:

1. Supplementing the existing guidance for peer reviewers, reviewed firms, technical reviewers and RAB responsibilities for nonconforming engagements:

The Committee agrees with proposed guidance regarding peer reviewer and firm responsibilities when there are nonconforming engagements. The firm should provide details of remediation of nonconforming engagements on the MFC form, FFC form, or its letter of response, as applicable. On system reviews, the team captain should have always considered expanding scope to determine pervasiveness, but the new guidance makes it even clearer as to the reviewer's responsibility.

The Committee also agrees with the revised peer review report explaining the evaluation of nonconforming engagements by the peer reviewer to determine the peer review rating. Often times the public and regulatory bodies associate nonconforming engagements with a rating of other than pass on a peer review report. This will go a long way in helping explain the association between the report and nonconforming engagements.

The Committee also agrees with requiring an addition to the firm representation letter that addresses the remediation of nonconforming engagements. This will help ensure that the firm is aware that there is a nonconforming engagement and will support the response in the MFC, FFC, or report.

2. Enhanced peer review of the firm's system of quality control:

The Committee agrees with the proposed changes to the standards to define a systemic cause as a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected whether as a design or noncompliance weakness. The Peer Review Program Manual should definitely be revised to apply consistent usage of the term "systemic cause" instead of other interchangeable terms.

The Committee also likes the proposed change in standards that clarifies that the identification of the systemic cause of matters, findings, deficiencies and significant deficiencies is determined by the team captain, in collaboration with the firm. In practice, that should have been already in place in the current standards, but we have seen far too often when the team captain has made the determination solely without input from the firm. The proposed standard change places emphasis on the determination being a collaborative effort between the firm and the team captain.

The Committee agrees with proposed changes that deficiencies could exist in the firm's system of quality control without the existence of a nonconforming engagement. In addition, we agree with the new guidance that allows a team captain to inquire about and review evidence prior to the peer review year to support assessment of the design and compliance controls. This is often times necessary when the control was not present in the peer review, but was in year subsequent to the last peer review and prior to the current peer review year.

3. FFC and report guidance, firm responses, and related reviewer considerations (system and engagement reviews):

The Committee likes the idea of linking the requirement of SQCS No. 8 to the descriptions of the findings, deficiencies, and significant deficiencies. In addition, the requirement to note a nonconforming engagement in a must select industry or practice area in the description of the deficiency or significant deficiency provides much needed additional information rather than just noting the industry when the deficiency in industry specific.

The Committee agrees with the change to remove the reviewer's responsibility to provide an explanation of how the firm remediated nonconforming engagements in the report (closing the loop). Closing the loop was often times omitted in report deficiencies by various reviewers. Sometimes reviewers were hesitant to note that in the report. With the proposed changes, the firm is now required to provide details of remediation of nonconforming engagements in the MFC, FFC, or letter of response. As a result, closing the loop by the team captain should not be necessary.

The Committee agrees the proposed change to remove the reviewer's responsibility to provide a recommendation to remediate the systemic cause, or in the case of an engagement review to remediate the finding, deficiency or significant deficiency and place that responsibility on the firm in collaboration with the team captain. Often times the firm does not give consideration to the appropriate remediation and only mirrors the recommendation by the team captain, whether that was the right or wrong remediation. The firm will have more input in the peer review process as a result of this change.

Of all of the proposed changes in the exposure draft, the Committee likes the proposed guidance for a closing meeting the best. This allows the firm time to assess appropriate remediation, if applicable, prior to the exit conference. Many times the firm is provided MFCs at the exit conference and is not really provided adequate time to research the matters provided to them. Hopefully, this will reduce future disagreements and possible hearing panels over disagreements.

The Committee also likes the proposed changes to the peer review report to mirror reports under the clarified audit report. This adds clarity to the report with descriptive report titles as to the firm's responsibilities, reviewer's responsibilities, and opinions or conclusions.

4. Considerations of firm representations:

In addition to the changes already mentioned regarding firm representations for remediation of nonconforming engagements, the Committee likes the idea of having a separate representation letter for engagement reviews. Many of the current required representations are related to system reviews and are not applicable to engagement reviews. By adding a separate example for engagement reviews this will create less confusion for those firms.

5. Transparency of Review Status

The Committee agrees with the proposal to create an interpretation that addresses reasons why a peer review committee may not approve a peer review report within 120 days.

More importantly, the Committee agrees with creating an additional interpretation that addresses information the administering entity can publicize about the progress of a peer review and what information can be provided. The administering entity is often times requested by the firm to provide "in-process" information for various regulatory bodies and/or various client requests as to the firm's most recent peer review when the prior review is at the 3-year peer review interval. The Committee agrees that the term "in-process" can mean a number of different things. By providing more specific guidance allows administering entities the flexibility to meet the firm's needs.

6. Effective Date

Finally, the Committee agrees with effective date of the proposed changes to be effective for reviews commencing on or after January 1, 2017 with the exception for the interpretations related to transparency, which would be effective upon approval by the Board.

The Committee appreciates the opportunity to respond to this exposure draft. Members of the Committee are available to discuss any questions you may have regarding this communication.

Respectfully submitted,

Froment John Gonzalez, CPA
Chair, FICPA Peer Review Acceptance Committee



441 G St. N.W.
Washington, DC 20548

January 29, 2016

Ms. Rachele Drummond
Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

GAO's Response to the American Institute of Certified Public Accountants' November 2015 Exposure Draft, *Improving Transparency and Effectiveness of Peer Review*

Dear Ms. Drummond:

This letter provides the U.S. Government Accountability Office's (GAO) comments on the American Institute of Certified Public Accountants' (AICPA) exposure draft entitled *Improving Transparency and Effectiveness of Peer Review*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States. GAO supports the AICPA's initiatives to enhance the peer review process by incorporating best practices of effective peer reviewers into the peer review standards and improving audit performance. We believe that the proposed changes to standards for performing and reporting on peer reviews would mitigate many of the issues identified by the AICPA in its recent analysis of matters for further consideration in peer review engagements.

Recent research has indicated that some peer reviews that are nominally conducted in accordance with the AICPA requirements are not effective in identifying deficient audit work and ensuring compliance with professional standards.¹ We are particularly concerned by these findings because the audit deficiencies identified by the research appear to be especially numerous in the internal control and control risk assessment work performed by CPA firms. GAO has long maintained that strong internal control is especially important in the government environment, where it serves as a critical safeguard for public resources and for the government's effectiveness in carrying out its responsibilities to the people it serves.

The exact cause of the peer review problems identified by the research is not clear, but there appears to be a wide range in the quality of the peer reviews currently being provided. While we believe that the proposals in the exposure draft will strengthen the peer review process, they may not be sufficient to address these concerns. We encourage the AICPA to consider whether steps beyond the changes proposed in the exposure draft may be needed to meet the challenges highlighted by the research. To help ensure high levels of quality and consistency in peer reviews performed in accordance with AICPA standards, the AICPA should consider whether a process that goes beyond the current requirements is necessary for determining who is competent to lead or participate in a peer review team. Such a process might include regular

¹U.S. Department of Labor, *Assessing the Quality of Employee Benefit Plan Audits* (Washington, D.C.: May 2015).

evaluations of peer review leaders' and other team members' competency to perform peer reviews through a periodic certification program.

Thank you for the opportunity to comment on this exposure draft. If you wish to discuss any of our comments or need further information, please feel free to contact me at (202) 512-3133 or dalkinj@gao.gov or Eric Holbrook, Assistant Director, at (202) 512-5232 or holbrooke@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin
Director
Financial Management and Assurance

January 29, 2016

Rachelle Drummond
American Institute of Certified Public Accountants
220 Leigh Farm Rd
Durham, NC 27707-8110

Dear Ms. Drummond,

The Georgia Society of CPAs Peer Review Executive Committee would like to thank the American Institute of Certified Public Accountants (AICPA) for the opportunity to comment on the recent exposure draft regarding the proposed revisions to the AICPA Standards for Performing and Reporting on Peer Reviews.

GSCPA's Peer Review Executive Committee took an in depth look at the proposed suggestions and agree that the revisions are necessary and will continue to help in the overall charge of enhancing audit quality and the peer review program.

The only concern the Executive Committee has is in relation to the proposed changes to the firm representation letter as outlined on pages 63-68 regarding the modification in who the information will be reported to in the event a firm is terminated from the peer review program. Currently, the representation letter states firms who are dropped for misrepresentation "will result in a referral to the AICPA Professional Ethics Division for investigation of a possible violation of the AICPA Code of Professional Conduct". Under the proposed revision, this would change to "will result in a referral of the matter to the appropriate regulatory, monitoring and enforcement bodies."

GSCPA's Peer Review Executive Committee would like more clarification on the proposed change related to regulatory, monitoring and enforcement bodies that will be obtaining the information from the AICPA Peer Review Program. Will they be obtaining more information than what is outlined in Interpretation 146-3? In the interpretation, the new guidelines suggest that "neither the administering entity nor the AICPA will provide information that is subjective (due to different definitions/interpretations by third parties), even with firm authorization". If the AICPA is referring firms to appropriate regulatory, monitoring and enforcement bodies, is that not a violation of the confidentiality standards of the program and Interpretation 146-3? We recognize peer review is becoming a regulatory program, but do we lose self-regulation when we start reporting firms to other regulatory, monitoring and enforcement bodies?

In conclusion, the Peer Review Executive Committee recognizes the AICPA Peer Review Board, AICPA staff and the AICPA Standards Task Force has put a lot of thought and effort into this exposure draft. We appreciate all the work these groups have done to try to enhance audit quality in the profession and support the revisions outlined in the paper with the exception of the item addressed above.

Sincerely,



Kathy Redgate, CPA
GSCPA Peer Review Executive Committee Chair



Boyd E. Search, CAE
GSCPA Chief Executive Officer



January 29, 2016

Ms. Rachele Drummond
Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, North Carolina 27707-8110

Via Email to PR_expdraft@aicpa.org

Grant Thornton LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370
T +1 312 856 0200
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grantthornton.com

Re: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews – *Improving Transparency and Effectiveness of Peer Review*

Grant Thornton appreciates the opportunity to provide feedback and comments on the above referenced Exposure Draft. We are supportive of the AICPA and the Peer Review Program, and we believe that the AICPA is taking appropriate actions to strengthen the Peer Review Program. This Exposure Draft furthers the Enhancing Audit Quality initiative by adding clarity to the responsibilities of Peer Reviewers and reviewed firms identifying and addressing the systemic causes of threats to audit quality, determining appropriate responses to nonconforming engagements and improving Peer Review reporting.

In reviewing the exposure draft we found it to be well done and thoughtful. We respectfully submit the following comments for consideration.

The title prior to paragraph .91 “Communicating Conclusions at the Closing Meeting and Exit Conference” would be better worded as “Communication Requirements for Closing Meeting and Exit Conference” as several of the items listed in this section are not conclusions but rather items to be completed and / or considered as part of the acceptance process.

Interpretation 99-1 states “... the team or review captain and firm should collaborate to determine the response.” We suggest changing “should” to “may” as should has a mandatorily presumptive meaning and collaboration may not be necessary in all cases.

We recommend the last bullet in the first list of bullets of Interpretation 146-3 be revised as follows to be more clear.

- The AICPA or administering entity, as provided in procedural guidelines, is in the process of determining whether the firm is cooperating with the peer review.

Additionally, the third bullet in the second list of bullets of Interpretation 146-3 seems at odds with the last bullet in the first list of bullets. Both deal with cooperation in a peer review, yet this bullet indicates such information cannot be provided even if authorized, while the previous

section appears to indicate that, if authorized by the firm, information regarding determination of cooperation may be provided.

We would be pleased to discuss our comments with you. If you have any questions, please contact Trent Gazzaway, National Managing Partner of Professional Standards, at (704) 632-6834 or Trent.Gazzaway@us.gt.com.

Sincerely,

Grant Thornton LLP



February 5, 2016

Rachelle Drummond, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Dear Ms. Drummond:

The Peer Review Report Acceptance Committee of the Illinois CPA Society (Committee) is pleased to provide our comments on the *Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews: Improving Transparency and Effectiveness of Peer Review*. The organization and operating procedures of the Committee are reflected in Appendix A to this letter. These comments and recommendations represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which such members are associated.

General Comments

The Committee agrees with the AICPA Peer Review Board's (Board) efforts to improve transparency and effectiveness of peer review and its desire to enhance the peer review process by incorporating best practices of effective peer reviewers into the Peer Review Standards, Interpretations, and related guidance.

The Committee also agrees with the Board's decision to remove Sections 4300 and 4400 due to inappropriate reliance and failure to timely update the forms by some firms as well as the concept of a "closing meeting" prior to the exit conference. However, the Committee recommends that the Board consider switching the terms "closing meeting" and "exit conference." The exit conference would occur at the end of field work, approximately 30 days before the reviewed firm's peer review due date and the closing meeting would be conducted at the close of the evaluation period for assessing whether the firm's responses are appropriate and consideration of any additional impact to the peer review results.

In addition, the Committee recommends that the Board consider adding a "Definitions" section at the beginning of the Peer Review Standards similar to that found in the clarified audit standards for the many terms defined throughout the Standards, Interpretations, and this exposure draft (e.g., matter, finding, deficiency, significant deficiency, systemic cause, nonconforming engagement, closing meeting, etc.)

Specific Comments

It appears that the Board has attempted to replace the generic “finding” used throughout the Standards with the more specific “matter,” for which the Committee concurs. However, paragraphs .70c, .70d., and .76 should also be revised to replace the phrases, “one or more findings” and “one of more deficiencies,” with the phrase, “one or more matters.”

The flowchart in Exhibit A of paragraph .71 should be revised to indicate that Finding for Further Consideration (FFC) forms may also be issued in conjunction with a peer review rating of *pass with deficiencies* or *fail*.

Paragraph .74 should define “closing meeting” or include a reference to paragraph .38b(x) or paragraph .91 where it is defined (or refer to the “Definitions” section as recommended in our General Comments).

Paragraph .91 – replace “team captain” with “review team” OR replace “its” with “his or her.”

Paragraphs .92 and .115c should include the same comment as Interpretation 17-1 that “Ordinarily, extensions will not be granted subsequent to commencement to allow the review team and reviewed firm more time to finalize peer review documents.”

The Committee concurs with the revisions proposed in paragraph 146 and Interpretation 146-3.

Paragraph .207, Appendix A - #8 & #9 appear to be repeats.

Paragraph .208, Appendix B - #5 should make clear that the firm representation letter is to be signed with an individual’s name(s) and not the firm name.

Paragraph .219, Appendix M – By adding “or report dates” the reader may be confused that the report covers more engagements than is actually included in the population of engagements from which the sample was selected (client periods ending during the peer review year as well as compilation, review, and attestation reports dated within the peer review year, but for client periods ending prior to the peer review year), and is inconsistent with the conclusion paragraph which was not similarly revised. The Committee recommends that the phrases, “or report dates” and “as applicable,” not be added.

Interpretation 17-1 indicates that “In order to provide sufficient time to the firm, the peer review should be conducted within 3-5 months after the end of the year to be reviewed, **ordinarily providing the reviewer and firm the last 30 days prior to the due date for this assessment** {emphasis added} and submission of the peer reviewer’s materials, peer review report, and letter of response, if applicable, by the review due date,” for which the Committee concurs.

However, the Committee recommends that the following programming changes be made in the AICPA Peer Review Information System Manager (PRISM) (or its replacement) and related scheduling and administrative forms:

1. The Closing Meeting date (month/date/year) should be required in Exhibit 1 of the peer review scheduling form as follows:

Commencement Date: _____

Closing Meeting Date: _____ No later than 30 days before the firm's peer review due date

Exit Conference Date: _____

Note: This would need to be altered if the Board adopted the Committee's recommendation to switch the closing meeting and exit conference as suggested in our General Comments.

2. The Closing Meeting date should be a required field in PRISM for schedule approval of a reviewed firm's peer review. PRISM however should not preclude the closing meeting date and exit conference date from being the same date. This would emphasize to the reviewed firm the importance of this meeting especially when the scheduling form becomes a self-serve process. The reviewed firm would also realize that the peer review administering entity (AE) has been informed of this date and might be less likely to change or ignore the date if they know the AE is expecting the closing meeting to be performed on a certain date. It will also help peer reviewers in scheduling their reviews timely. Required dates would then be: commencement, closing meeting, and exit conference.
3. The schedule approval letters should be updated in PRISM to include the specific closing meeting date just as the commencement and exit conference dates are listed. The reviewed firm should also be expected to notify the AE if the closing meeting date changes along with the commencement and exit conference dates. This will only be possible if the closing meeting date becomes a required field in PRISM similar to the commencement and exit conference dates.
4. Non-cooperation letters should generate in PRISM if the reviewed firm does not have the closing meeting date as scheduled. The letters should also be spaced quickly:

Closing Meeting Date Non-Cooperation by Firm:

Letter 1 – Sent upon notification from the peer reviewer that the meeting did not take place. The reviewed firm is allowed 7 days (not beyond the firm's peer review due date) to complete this meeting.

Letter 2 – If the meeting does not take place after 7 days, the second letter would be sent certified allowing an addition 7 days.

Letter 3 – If the closing meeting has still not taken place, the third letter is also sent certified with the termination resolution allowing the firm 10 additional days before a hearing is requested for termination.

This format is similar to the current manual non-cooperation series of letters for reviews that have already commenced.

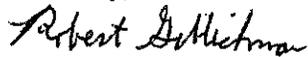
5. Since the peer review work papers cannot be submitted until the exit conference, we believe the generation of the overdue work paper letter to the peer reviewer would still be based on the exit conference date or reviewed firm's peer review due date, whichever is earlier. However, these letters should generate 15 days after the exit conference date or 7 days after the reviewed firm's peer review due date. Currently, the letter generates 51 days after the scheduled exit conference date or 21 days after the reviewed firm's peer review due date, whichever is earlier. In addition, the overdue letter should permit a peer reviewer 10 days to submit the documentation to the AE. Currently, a reviewer is permitted 21 days in the first overdue work paper letter.
6. Peer review due date extension policies should not be changed due to this new element.
7. The Summary Review Memorandum on a system review and Review Captain Checklist on an engagement review should be revised to include questions for documenting the date and significant items discussed with the reviewed firm at the closing meeting.

Effective Date

The Committee concurs with the proposed effective dates in the exposure draft.

The Illinois CPA Society appreciates the opportunity to express its opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,



Robert Giblichman, CPA

Chair, Peer Review Report Acceptance Committee

APPENDIX A
PEER REVIEW REPORT ACCEPTANCE COMMITTEE
ORGANIZATION AND OPERATING PROCEDURES
2015 – 2016

The Peer Review Report Acceptance Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members. These members have Committee service ranging from newly appointed to inception of the peer review program. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of peer review standards. The Committee's comments reflect solely the views of the Illinois CPA Society, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of peer review standards. The Subcommittee develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

National:

Catherine Allen, CPA	CliftonLarsonAllen LLP
Cary Drazner, CPA	Marcum LLP
James Gibson, CPA	CliftonLarsonAllen LLP
James Javorcic, CPA	Mayer Hoffman McCann, P.C.

Regional:

V. Gregory McKnight, CPA	Sikich LLP
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Local:

Richard Atterbury, CPA	Martens and Company, CPA, LLP
William Duffner, CPA	Duffner & Company, P.C.
Hugh Elliott, CPA	Dugan & Lopatka CPAs, P.C.
Janice Fergie, CPA	Janice Fergie, CPA
Robert Giblichman, CPA	Warady & Davis LLP
Steven Grohne, CPA	May, Cocagne & King, P.C.
Arthur Gunn, CPA	Arthur S. Gunn, Ltd.
Annette Hipkiss, CPA	Scheffel Boyle CPAs
Kim Hunsaker, CPA	CPA Associates, P.C.
Paul Inserra, CPA	McClure, Inserra & Co, Chtd.
Steven P. Kessler, CPA	Kessler, Orlean, Silver & Company, P.C.
Mark Klesman, CPA	Klesman & Company, P.C.
Jerome McDade, CPA	Heinold-Banwart, Ltd.
Michael McNichols, CPA	McGowen, Hurst, Clark & Smith, P.C.
Kim Meyer, CPA	Hudgens & Meyer LLC
William Moss, CPA	May, Cocagne & King, P.C.
Richard Phillips, CPA	Phillips & Associates CPAs, P.C.
Gregory Pierce, CPA	Demarco, Sciacotta, Wilkens & Dunleavy, LLP
Gilda Belmonte, CPA	E.C. Ortiz & Co, LLP
Linda Rapacz, CPA	Linda C. Rapacz CPA, P.C.
Stella Santos, CPA	Adelfia LLC
Mark Schultz, CPA	Dugan & Lopatka CPAs, P.C.
Russell Wilson, CPA	Porte Brown LLC
Ken Yu, CPA	Mitchell & Titus, LLP

Staff Representative:

Paul Pierson, CPA	Illinois CPA Society
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January 25, 2016

Rachelle Drummond, Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

RE: Comments to Exposure Draft:

Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews
Improving Transparency and Effectiveness of Peer Review

Dear Ms. Drummond:

These comments are submitted on behalf of the Peer Review Committee of the Indiana CPA Society (the Committee). These comments have no official status and do not represent the approval or disapproval of the exposure draft by the Indiana CPA Society or its Board of Directors.

The Committee appreciates the opportunity to offer our comments on the AICPA Peer Review Board's proposed changes to *Improving Transparency and Effectiveness of Peer Review*. The Committee agrees with the AICPA Peer Review Board's proposed changes to the Peer Review Standards as outlined in the exposure draft with suggestions and comments mentioned below:

Nonconforming Engagements (System and Engagement Reviews)

The Committee agrees with the key changes proposed to clarify guidance that the firm should provide details of remediation on nonconforming engagements and the team captain should expand scope in System Reviews to determine pervasiveness of the nonconforming engagements. The Committee also agrees with the proposed change for the peer reviewer to explain evaluation of these such engagements in determining peer review rating. Lastly, the Committee agrees with the proposed change to add remediation actions of the nonconforming engagements to the firm representation letter.

Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)

The Committee agrees with the key changes proposed to increasingly tie weaknesses back to the firm's system of quality control and allowing team captains the review of engagements prior to the peer review year. Enabling team captains to interpret the level of weakness that could happen instead of just documenting what did happen is a move closer to how weaknesses are evaluated in Sarbanes-Oxley Section 404, and is a preferred more robust approach. Focusing on identifying the "why" (systemic cause) and solving the "why" (systemic cause) helps the firm become better in the peer review process as well.

FFC and Report Guidance Description, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews)

The Committee agrees with the key changes proposed in responsibilities among review captains, team captains and the firm regarding who should identify and document recommendations and action plans and how all should work collaboratively on identifying systemic causes.

The AICPA guidance on what constitutes a systemic cause could be strengthened, on the other hand. Some of the examples are more like examples of the systemic cause rather than the root cause itself. The question "why" needs to be asked several times to get at the root cause. Focusing the team captains back

Indiana CPA Society

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to the firm's system of quality control is a step in the right direction. This may be on the final form, but responsibilities for recommendations were not listed as one of the requirements.

Shifting the responsibility from the peer reviewer to the firm on how to remediate nonconforming engagements on the FFC form or letter of response is a preferred step. This is a better approach because it moves responsibility to the firm, which should increase buy-in and cause the firm to be more involved in determining the right solution.

Lastly, the Committee agrees with changing the peer review reports to conform with the clarified standards.

Appendix B – Considerations and Illustration of Firm Representations

The Committee agrees with the key changes proposed for the firm representation letter, specifically adding to the representation letter the firm's action plan for remediation of nonconforming engagements.

Transparency of Review Status

The Committee agrees with the key changes proposed to create an interpretation that addresses why a peer review committee may not approve a peer review within 120 days, to clarify the information the administering entity can publicize about the progress of a peer review and to clarify the type of information that the AICPA and administering entities are able to provide.

Changes in the Standards

The following are some minor comments on the changes in the Standards:

1000.68: The term "aspects of functional areas" is not clear. Does this refer to the system of quality control? If so, it should say so.

1000.73: The term "the scenario that led to the finding" could be interpreted several ways. We think the intent was a specific description of item found by the team captain.

1000.75: Getting to the real systemic cause is a critical step in improving the firm's system of quality control. We suggest that report acceptance bodies should monitor team captains who continually fall back on "it is not practicable to identify the systemic cause" to provide feedback for them to improve their diagnostic abilities.

1000.79: While we agree with the intent of this section to allow the team captain to consider the whole of the firm's system of quality control in determining the rating, we can see this is an area where considerable judgment is needed. Additional guidance from the AICPA would be helpful to ensure consistency among reviewers and RABs.

1000.83: The examples are not really the root systemic causes of the situations described. This section needs to be redone with more concrete examples of root causes and not examples of the effects of root causes.

1000.96.p: Same comment as for 1000.73

1000.125: Should add the responsibility of the firm to address the actions with the non-conforming engagements.

Appendix A – Systems Reviews – Item 9: This is a duplication of item 8.

Appendix A – Systems Reviews – Item 12: Add that the report should close the loop on firm actions.

Interpretation 67-2: The SRM should include a question to enable the team captain to document the evaluation of the actions taken by the firm to remediate a non-conforming engagement.

If you have any questions or need further clarification of our comments, please contact Nichole Favors, Director – Peer Review of the Indiana CPA Society Administering Entity.

Respectively submitted,

A handwritten signature in black ink, reading "Charles J. Naber, CPA". The signature is written in a cursive style with a prominent initial "C".

Charles J. Naber, CPA
Indiana CPA Society Peer Review Committee, Chair

Rachelle Drummond

From: Joe King <jking@fandkcpa.com>
Sent: Wednesday, January 13, 2016 5:07 PM
To: PR_expdraft
Subject: Response to November 10, 2015 Exposure Draft on Proposed Peer review Changes

Good Afternoon,

By way of introduction, my name is Joe King. I have been practicing public accounting since 1975 and I am the managing shareholder of a one-office firm with 12 accounting professionals located in the small town of Mt. Sterling, Kentucky, 30 miles from Lexington. Our firm performs around 35 audits and 10 reviews annually in a wide variety of industries including but not limited to banking, construction, wholesale distributors, governmental units, not-for-profit organizations, and defined contribution retirement plans, both 401(k) and 403(b).

I have been team captain for roughly 500 peer reviews since 1990, 95% of those being one-office firms of 15 or fewer professionals, probably half of those with 5 or fewer professionals. I have been on the KY Peer Review Committee for most of its existence (still on the Committee), including serving as statewide Chair. I have performed numerous oversights in Kentucky, West Virginia and Tennessee and have worked with several reviewers who have served in the national Peer Review Hierarchy, including Alan Long, Jerry Hensley, Roger Johnson and Richard Hill.

For the reason above, I believe that I have a good grasp on what actually goes on in the trenches of local CPA firms. Now I want to comment on two issues.

The first issue regards the proposal to have an on-site closing conference and then later an exit conference, either on-site or by phone. First of all, I think that is an excellent idea and I don't think it is radically different from what myself and some other reviewers have been doing already. The closing conference would address all issues noted in the review and should be in some written outline form, in my opinion. The review team should identify to the firm the issues that are of more importance and accordingly would or might be documented on MFC and FFC forms. The team captain should also indicate the type of report expected to be issued or at least the matters that need more consideration if more deliberation and outside consultation is needed to determine one grade versus another.

Our state technical reviewer made some comments summarizing this exposure draft at our November committee meeting and one thing he said was that the MFC and FFC forms must be completed on site prior to the closing conference. I have read the Summary pages 13 & 14, as well as Standards paragraphs .38b. vi, x, and xi. This same issue comes up in paragraph .74, .91, .92.115, and also Interpretation 91-1. While it is clear that the firm is not expected to respond to the MFC/FFC forms at the closing conference, it is not clear to me that such forms must be completely drafted by the review team at that point.

If mandatory drafting on site is anticipated, I think that is a bad idea. Pulling together the potential matters from various engagement checklists and trying to aggregate similar matters and group them appropriately on various MFC forms takes some time and independent thought. Furthermore, completing the MFC itself is more time-consuming now that it is online and it takes some time to locate and insert the correct professional references, all of which are often more easily accessible from my office computer and my own research materials. Additionally, internet connectivity is quite often spotty in some rural CPA office locations and sometimes they do not have wireless internet.

Maybe the most important consideration is that time constraints are tight on many peer reviews and I try very hard to leave adequate time for the closing conference so that the firm is not rushed when reviewing my comments, asking questions, and obtaining a good understanding of the issues. Small firms have limited in-house resources and they are often eager for information. Forcing reviewers to completely finish MFC and FFC forms prior to the closing conference

would often result in a rushed closing conference and sloppy, hastily-drafted forms that don't adequately document the issues. Additionally, it could cause an unplanned and unscheduled return to the firm to finish up the closing conference, sometimes 2-3 hours away from the reviewer's office. It would be much better to allow the reviewer to collect their thoughts and draft logical forms to email back to the firm in a day or two. The applicable MFC topics would be thoroughly discussed at the closing conference.

My other issue pertains to Interpretation 17-1 on page 118. As I read this, extensions would not be granted if the review cannot be done within 6 months of the firm's peer review year end. The Interpretation also states that the review should commence 3-5 months after year end. In a perfect world that all sounds great. But this could be a difficult standard for local firms to be able to comply. Very few firms that I review (and very few in Kentucky, West Virginia or Tennessee located outside of the major cities) have separate "tax staff" and "audit staff". They have "staff" and that staff works primarily on deadline-oriented income tax work until it is finished or extended at April 15.

It does not matter how much availability the reviewer might have, you cannot wedge yourself into a firm to allow you to perform a peer review prior to early May, and you have to push hard to have a firm willing to undergo a review that early. Additionally, the same work pressures often cause many calendar year financial statement engagements (audit, review or whatever) to be pushed back into Spring or early Summer, so it is sometimes difficult to get an adequate sample of completed engagements, particularly risky ones. This is particularly a problem with December 31 peer review years, but can also be a problem with September or October year-ends if the firm has any significant A&A engagements at those dates. Realize that the delays you are trying to avoid are seldom (and in my case almost never) the reviewer's "fault". They are because the firm simply does not have enough engagements completed to satisfy the reviewer's risk assessment standards for selection. Consider some real-life flexibility on this issue.

I have no other comments on the exposure draft, report language changes, etc. Thank you for your consideration.

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Rachelle Drummond

From: Joseph M Larsen <jmlarsencpa@comcast.net>
Sent: Thursday, November 19, 2015 2:40 PM
To: PR_expdraft
Subject: Peer Review Changes

I like the peer review process the way it is. Please don't make any changes.

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NOTE: I usually check my e-mail weekdays at noon.



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January 29, 2016

Ms. Rachelle Drummond
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Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews

Dear Ms. Drummond:

We appreciate the opportunity to comment on the American Institute of Certified Public Accountants Peer Review Board's (the Board) Exposure Draft, *Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews*, and related interpretations (the Exposure Draft).

The Board has requested public comment on the proposed changes that are intended to improve the transparency and effectiveness of peer reviews. A robust peer review program is important to us and our clients, the profession and the capital markets. We are supportive of the Board's objectives to enhance the peer review standards and align the responsibilities of the peer reviewer, reviewed firm, technical reviewer and Report Acceptance Body to focus on a firm's system of quality control. In addition, we are supportive of the Board's improvements to the peer review reporting. We believe the guidance for drafting descriptions of findings, deficiencies and significant deficiencies are consistent with the objectives of the other enhancements to the peer review standards.

Aggregating and Systemically Evaluating Matters

The responsibility to design, implement and maintain a system of quality control rests with a reviewed firm. In monitoring its system of quality control, a reviewed firm also is responsible for determining if identified deficiencies are systemic or repetitive in order to design and implement responsive remedial actions. A critical component of the peer review program is an independent and objective peer reviewer. The Exposure Draft (paragraphs .75 and .76) proposes to assign principle responsibility for determining the systemic cause of a matter identified in a Systems Review to the team captain. We believe this proposal is inconsistent with the Statements



Ms. Rachelle Drummond
American Institute of Certified Public Accounts
January 29, 2016
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on Quality Control Standards and may impair the objectivity and independence of the peer reviewer. Further, the inability of a reviewed firm to determine the systemic cause of a matter may be indicative of an additional deficiency in such firm's system of quality control.

We believe that the team captain does have a responsibility to evaluate the reasonableness of the reviewed firm's determination of a systemic cause. We also recognize that reviewed firms with less sophisticated processes to determine systemic causes may need to collaborate with the team captain, but such involvement by the team captain should not be a substitute for the reviewed firm's own process. At the same time, a failure of the reviewed firm to determine the systemic cause of a matter does not relieve the team captain from making a determination and considering its impact, if any, on the peer review report.

We have proposed changes below to paragraphs .75 and .76 to illustrate how such changes might be presented (additions are underlined and deletions are struck through). While our proposed changes are specific to these paragraphs, the Board will need to make conforming changes to paragraph .83 and Interpretation 83-1 and other paragraphs for Systems Reviews, Engagement Reviews and reviews of Quality Control Materials. In addition, we believe it would be helpful to clarify in paragraphs .91 and .92 how and when systemic causes are considered in the closing meeting and exit conference processes.

~~The team captain, in collaboration with the firm, should determine the systemic cause of matters identified.~~ A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected. ~~Proper determination of a systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control.~~ The firm, in accordance with Statements on Quality Control Standards 10.52 – 10.59, is required to establish a monitoring process designed to provide it with reasonable assurance that its system of quality control is operating effectively. Such process includes the identification of the systemic cause, if any, of identified deficiencies in the system of quality control and the development of relevant remedial actions. To conclude on the results of a peer review, the review team must aggregate the matters noted during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures. The review team should consider the relative importance of the matters to the firm's system of quality control as a whole, including the nature, systemic causes, pattern, and pervasiveness, to determine the impact to the peer review report. The review team also should consider the systemic cause of matters as determined by the firm. The team captain may assist the firm by offering a point of view on systemic causes, however, he or she should maintain objectivity and independence from the firm. In rare circumstances where ~~it is not practicable to identify the systemic cause, the team captain~~ the firm has not identified the systematic cause, the team captain should determine whether or not it is practicable to impose his or her judgment to identify the



Ms. Rachelle Drummond
American Institute of Certified Public Accounts
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Page 3

systemic cause, and should document the reason(s) and judgments as part of his or her summary review memorandum. Further, the team captain should consider whether the inability of the firm to determine a systemic cause is an additional weakness in the firm's system of quality control.

~~Proper~~ Application of the quality control standards assists team captains in evaluating the firm's identification of the systemic cause of matters and, as a result, the type of report to issue. Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the peer review.

In many instances, the determination of a systemic cause may be self-evident to the reviewed firm and team captain. In other cases, a more thoughtful evaluation of the operational, cultural and behavioral aspects of the system of quality control will be required. We believe the peer review standards should recognize the challenges of performing an appropriate analysis.

Appendix B – Considerations and Illustrations of Firm Representations

We believe that the second bullet of 8.d. is missing language from the current peer review standards and recommend that it be modified to read as follows: “State that the firm has provided the team captain or review captain with any other information requested, including communications or summary of communications from ~~by~~ regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of ~~its~~ an accounting, audit, or attestation engagements performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end, ~~if applicable~~. The information should be obtained in sufficient detail to consider its effect on the scope of the peer review.”

Other

Attached to this response is a list of additional comments and suggested changes for the Board's consideration in finalizing the revised peer review standard, appendices, and related interpretations.

* * * * *



Ms. Rachele Drummond
American Institute of Certified Public Accounts
January 29, 2016
Page 4

We appreciate the Board's careful consideration of our comments, and fully support the Board's efforts to improve the transparency and effectiveness of peer reviews. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Tom Whittle, 212-954-2289, twwhittle@kpmg.com, or Scott Szabo, 212-954-6242, sszabo@kpmg.com.

Very truly yours,

KPMG LLP

Attachment



Attachment – Response to Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews

The following is a list of additional comments and suggested changes for the Board’s consideration in finalizing the revised peer review standard, appendices and related interpretations (additions are underlined and deletions are struck through).

Peer Review Standards

- .44 “The understanding of the firm’s accounting and auditing practice and system of quality control is ordinarily...and reviewing the firm’s quality control ~~document~~ documentation or documents.”
- .79 If reasonable assurance cannot be meet by the reviewed firm, then a fail report also may be possible. We recommend the last sentence in the paragraph be modified as follows to consider such possibility: “A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects and may result in a deficiency in a report with a peer review rating of *pass with deficiencies* or fail. (interpretation)” This modification also is consistent with Interpretation 79-1.
- .84 In the second sentence, we recommend striking the word “probable” so that it reads as follows: “However if the reviewer believes that the ~~probable~~ systemic cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a matter on an engagement or within a functional area also exists in other engagements or in other functional areas, the reviewer needs to consider carefully whether to elevate the matter to a finding, deficiency, or significant deficiency.”
- .92.b At the time of the exit conference, the team captain will not know if the RAB will impose additional corrective actions or an implementation plan. The original intent of this paragraph was to explain to the reviewed firm the role of the RAB and the potential implications of the RAB acceptance process. As modified, it would appear that the team captain would be required to have insight into the RAB conclusions before the report has been presented for acceptance. We recommend modifying the paragraph to capture the original intent.
- .96 p. In the fourth bullet, clarify that the applicable industry should only be referenced if it is relevant to the finding as follows: “Identify the applicable industry if a deficiency or significant deficiency is industry specific and identification of the industry is relevant to the deficiency or significant deficiency.”
- .99 and Appendices F, H, J, and L
Paragraph .99 c. requires the reviewed firm to address the timing of its remediation in its response to each finding, deficiency, and significant deficiency. While we support this requirement, we do not believe the illustrations of responses in the Appendices provide an appropriate level of specificity as to the timing of future oriented actions.



Attachment – Response to Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews (Continued)

Appendix A – Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials Reviews (as Referred to in a Peer Review Report)

- .13 “The firm is responsible for ~~evaluating~~ ~~taking~~ actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, ~~when appropriate~~, and for remediating weaknesses in its system of quality control, if any.”

Interpretation 17-1

Large firms rarely complete their peer reviews within six months and extensions are granted on a routine basis. The language in the last paragraph should be modified to contemplate these situations.

Interpretation 83-1

The first two sentences of the last paragraph should be modified as follows: “To properly assess the systemic cause, reviewers should not accept “oversight” or “isolated” as the firm’s response without further investigation. Accordingly, the firm should provide sufficient detail for the reviewer to understand what caused the matter.” Further, the reference to paragraph .84 in the last sentence does not add anything to the Interpretation as such paragraph does not provide guidance on an isolated matter.



Montana Society
of Certified Public Accountants

MSCPA Peer Review Program
Administered in Montana
By the Montana Society of CPAs



Peer Review Program

Administered in Montana
By the Montana Society of CPAs

January 25, 2016

Rachelle Drummond
Senior Technical Manager
AICPA Peer Review Program
AICPA
220 Leigh Farm Road
Durham, NC 27707-8110

RE: Comment letter on Proposed Changes To The AICPA Standards For Performing and Reporting On Peer Reviews- Improving Transparency and Effectiveness of Peer Review

Dear Ms Drummond:

The Montana Society of CPAs (MSCPA) Peer Review Committee is pleased to provide this comment letter on the November 10, 2015 Exposure Draft: Proposed Changes To The AICPA Standards For Performing and Reporting On Peer Reviews- Improving Transparency and Effectiveness of Peer Review.

The Committee thanks the AICPA Peer Review Board (Board) on its continuing efforts to enhance the peer review process. The MSCPA committee fully supports all changes illustrated in the above referenced Exposure Draft with the exception of the following items that we believe should be addressed and clarified.

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies - Paragraph .73 and Reporting on Systems reviews – Paragraph .96 p

The Committee fails to understand the reason for the requirement to document the scenario leading up to the finding. We do not believe this requirement effects or enhances the underlying finding, but will result in numerous technical reviewer comments that may delay the acceptance of the review. Technical reviewers and RABs may be required to send back reviews to the team captain simply because of this requirement. This additional documentation serves little or no purpose since the reviewed firm will have fully understood the scenario and if signed, will have agreed with the finding. We believe the requirement to document the scenario leading up to the finding should be eliminated.

Aggregating and Systemically Evaluating Matters-Paragraph .75

A systemic cause is defined as a weakness in the firm's system of quality control that allowed a matter to occur and remain undetected. The Committee is struggling to understand how any matter identified by the review team would be anything other than a systemic cause since most matters are brought to the attention of the firm and were not timely detected.

The Committee would like the Board to be explicit describing the relationship of a systemic cause in relation to a matter deemed isolated. Based on the definition in the exposure draft, the Committee can't see any situation where a systemic cause could be isolated. The example in paragraph .84 seems to underscore our concern.

Aggregating and Systemically Evaluating Matters-Paragraph .84

The example provided in this paragraph seems to contradict the definition of a systemic cause. The Board's example further confuses this Committee. In the example in this paragraph, the result of an isolated human error is a matter that can go undetected, thus the cause of the matter would be described as a "systemic" cause. Furthermore, in your example, the additional commentary introducing "probable" systemic cause reinforces our concern. This leads our Committee to an unintended conclusion that a systemic cause would likely result in at least a finding.

If the firm's system of quality control failed to detect a matter it would be virtually impossible not to elevate the cause the matter to at least a finding. We come to this conclusion because there is no materiality/significance threshold in the current definition of a finding.

Therefore, with the new definition of systemic cause, the Board may be implying all matters where the cause is described as systemic, should be elevated to at least a finding. We don't believe this is the Board's intent and believe the Board should clarify this.

Communicating Conclusions at the Closing meeting and exit conference –paragraph .91 and .92

The Board does modify paragraph .91 requiring the team captain be physically present at the closing meeting. However, in many circumstances an exit conference will still be the final closing meeting. We recommend adding "/exit conference" in those situations where an exit conference is convened since there are no open pending items regarding the type of report to be issued or the firm's response that the team captain concludes is genuine, comprehensive and feasible. This situation is more likely to be the case in many reviews.

Paragraph .92 implies the exit conference may be postponed if there is any uncertainty about the report to be issued or the deficiencies to be included. This is still appropriate. However, the Board goes to say the exit conference should be held after the firm has had sufficient time to respond to MFC and FFC forms as well as deficiencies. This Committee believes this is very confusing to add MFC and FFC forms in this section of paragraph .92. We recommend the focus be on type of report being issued and deficiencies and significant deficiencies included in the report be the focus and MFCs and FFCs eliminated from the paragraph. Otherwise this Committee believes the Board is sending an unintended message implying the team captain will hold both a closing meeting and exit conference whenever there are MFCs or FFCs to enable the firm additional time to respond. We concur that if there is any uncertainty on the type of report rating to be issued than allowing for more time improves the peer review process.

Communicating Conclusions at the Closing meeting and Exit Conference –paragraph .115c

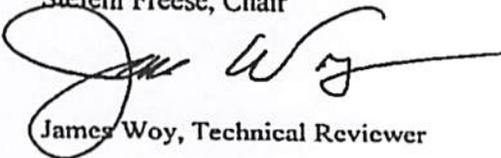
The Board should eliminate references to the MFC and FFC forms. This Committee believes the exit conference may be postponed if there is any uncertainty about the report to be issued or the deficiencies to be included. However, as stated above, the Board is implying the review captain will hold both a closing meeting and exit conference whenever there are MFCs or FFCs to enable the firm additional time to respond and this sends the wrong message.

Sincerely,

Montana Society of CPAs (MSCPA) Peer Review Committee



Stefani Freese, Chair



James Woy, Technical Reviewer



National Association of State Boards of Accountancy

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January 11, 2016

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

Attn: Rachelle Drummond, Senior Technical Manager

PR_expdraft@aicpa.org

Re: Exposure Draft

Dear Members of the AICPA Peer Review Board:

We are pleased to respond to the request for comments from the American Institute of CPAs (the “AICPA” or the “Institute”) on its *Exposure Draft – Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews for Improving Transparency and Effectiveness of Peer Review*. 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 Changes are made in consideration of our charge as state regulators to promote the public interest.

OVERALL COMMENTS

We support the development of initiatives to improve audit quality by modifying standards to strengthen the guidance as to each party’s responsibilities for non-conforming engagements, to heighten the reviews of firms’ systems of quality control so that causes and appropriate remediation for nonconforming engagements can be more readily identified, and to add clarification throughout that will help enhance the effectiveness and allow for greater transparency. These efforts are in line with the State Boards’ charge of protecting the public interest.

Background

Enhancing Audit Quality Initiative

We support the AICPA’s efforts to enhance audit quality via short-term and long-term initiatives.

Peer Review Standards

Improving Transparency and Effectiveness of Peer Review

We support efforts to improve audit quality and have no areas of major disagreement with the AICPA's Exposure Draft. In particular, we agree with:

- Par. 38- Requiring both a closing meeting and an exit conference.
- Par. 39- Removing the Team Captain's responsibility in "closing the loop" in his/her report.
- Par. .96 and .122- Updating of the peer review reports – improved language and layout for better consistency with the clarity standards.
- Par. .99 and .125- Requiring the reviewed firm to comment on Matters for Further Consideration and Findings for Further Consideration, as applicable, in Letter of Response.
- 146-3- Giving the Administrating Entity the right to communicate with certain governmental agencies that the peer review is in process and in review. Transparency in this area is paramount to State Boards to enable them to oversee licensees and firms.

While we basically agree with the following changes, we suggest some clarifications:

- Par. 38- Including the firm's plan of remediation for nonconforming engagements in the Representation Letter.

Suggestion: We also recommend that the Representation Letter be maintained and given to the subsequent reviewer. Further, Par. 38 should be changed to (1) eliminate the conditional language regarding a closing meeting, and (2) the language in Par. 91 that requires a closing meeting should be used.

- Par. .99 and .125- No longer requiring the Team Captain or the reviewer to provide recommendations for remedying deficiencies to the reviewed firm. The reviewed firm should be responsible for developing plans of remediation.

Suggestion: The Team Captan should be permitted to assist in the development of suggested remediations when appropriate.

- Par. 208- For Engagement Reviews, require the firm to specifically indicate that they do not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to PCAOB inspection. Several cases have come before State Boards where firms have not subjected these types of engagements to peer review and, by elevating this matter to the Representation Letter, this loophole may be closed.

Suggestion: Explore the development with the OMB, DOL, etc., of databases that Team Captains could access to see if the firm performed Yellow Book and/or DOL audits.

We also suggest the following issues be given some consideration:

1. Par. 38b(xiii) – It is unclear from this change whether the Team Captain is expected (or permitted) to provide the results of their evaluation of the firm’s actions, taken or planned, to the firm being reviewed. We believe this would be beneficial to the process and should be mandated.
2. Par. 75 – The definition of “systemic cause” seems to imply that every “matter” results from a systemic cause. Paragraph 70 indicates a matter is “typically one or more ‘No’ answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm’s system of quality control.” It would seem that a matter, as defined, might be determined to be isolated rather than systemic; to imply otherwise may cause reviewers to stretch the concept of “systemic” to the point that the importance of determining systemic causes is lost.
3. Related point in Par. 84 – “...if the reviewer believes that the probable systemic cause...of a matter...also exists in other engagements...” Considering whether the probability that the matter exists in other engagements should be included as part of the definition of whether the cause is systemic.
4. The guidance in proposed interpretation 83-1 is troubling in this regard: “...the failure to follow the firm’s practice aid for a particular area may have been an isolated occurrence; however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter.” This seems to indicate that every cause is a systemic cause; if so, there is no need for the adjective “systemic.”
5. Appendix A .207 (1) states: “Firms (and individuals) enrolled in the AICPA Peer Review Program are required to have a peer review, once every three years, of their accounting and auditing practice. An accounting and auditing practice for purposes of these standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS);” With the issuance of SSARS 21, and in particular AR-C Section 70, Preparation of Financial Statements, would this mean that this type of service would be subject to peer review? In AR-C Section 70 it is stated that such a service is not an attest service. We believe this should be clarified as State Board rules/regulations may treat this type of service differently.

* * *

NASBA appreciates the opportunity to provide our perspectives on these important topics. 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



National Conference of CPA Practitioners

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January 25, 2016

Ms. Rachelle Drummond, Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
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Re: Exposure Draft – Improving Transparency and Effectiveness of Peer Review

Dear Ms. Drummond:

The National Conference of CPA Practitioners (NCCPAP) is comprised of members from across the United States. Most of our members are a part of small local firms and in many cases are single member firms. Our governing board and committees consist of volunteers from our membership that take time from their busy practices to help insure the quality and integrity of our profession.

NCCPAP's Issues Committee discussed the above referenced exposure draft at our quarterly meeting on January 5th, 2016. We are forwarding our attached comments for your consideration. We are prepared to continue the discussion with you and your committee should you so desire. We truly appreciate the opportunity afforded us to comment on this exposure draft.

Very truly yours,

Ed Caine

Ed Caine
Past President
Co-Chair – Issues Committee

Mark A. Stewart Jr.

Mark A. Stewart Jr.
Secretary
Co-Chair – Issues Committee

go.nccpap.org

**COMMENTS ON
AICPA PEER REVIEW EXPOSURE DRAFT ON IMPROVING TRANSPARENCY AND EFFECTIVENESS OF PEER
REVIEW**

With respect to the specific requests of respondents, we offer the following:

ITEM 1 – PROPOSED REMOVAL OF SECTIONS 4300 AND 4400

The National Conference of CPA Practitioners (NCCPAP) is not supportive of the removal of Sections 4300 and 4400, Quality Control Policies and Procedures Questionnaires for Sole Practitioners with No Personnel and Firms With Two or More Personnel, respectively, from the Peer Review Program Manual. As NCCPAP represents primarily the smaller practitioner, this places undue hardship on the smaller practitioner. Smaller firms do not have dedicated staff to develop their own quality control document, nor the same operating budgets as a larger firm to constantly produce their own quality control documents from scratch. The existing questionnaires provide an excellent method for a firm to produce their quality control document. Such questionnaires are further considered a valuable AICPA member benefit for the smaller practitioner.

NCCPAP members regularly communicate with several peer reviewers. In general, the peer reviewers view Section 4300 and 4400 as useful documents to a smaller firm. In fact, many peer reviewers were against the AICPA decision many years ago to scale back the questionnaires to just two questionnaires meant to cover all firm sizes.

NCCPAP recognizes the dilemma the AICPA has in that these questionnaires are not always updated in a timely fashion. However, the interactive tool being proposed as a replacement will not solve that problem. In fact, it could serve to magnify the problem. Nothing would prevent a non-compliant firm from using the tool just once to develop a quality control document and thereafter never update their document for important changes in the quality control environment. This effectively would place the peer reviewer in the same position they are now, at times looking at outdated quality control documents. The more prudent change to make is to simply make the language governing quality control more forceful. Such language should state that a firm that chooses to use the AICPA questionnaires must replace their quality control document with each revision of the questionnaires made by AICPA or must at a minimum update their quality control document once a year.

While NCCPAP feels the development of an interactive tool for a firm to develop its own quality control document is potentially promising, sight unseen it is troublesome. At a minimum NCCPAP feels a transition period, during which both the checklists or the interactive tool could be utilized, would be prudent. It would provide an opportunity for the practitioner and also the peer reviewer to comment on the strengths and weaknesses of the interactive tool. After such a transition period, it can be clearly determined if an interactive tool is a viable alternative to the Section 4300 and 4400 questionnaires.

ITEM 2 – REFERENCES TO PROCEDURES FOR EXAMINING BEYOND ONE PEER REVIEW YEAR

The following is stated as a “key change proposed” on page 9 of the exposure draft:

“Create guidance that allows a team captain to inquire about and review evidence prior to the peer review year to support assessment of the design and compliance with system controls. For example, it may be necessary to look at client acceptance from two years ago if that was the last time a new engagement was accepted.”

That proposed key change has created confusion among many practitioners. First, we would respectfully request how this item changes certain provisions already in the regulations. Depending on the type of engagement, there are already other provisions that allow expansion of examination beyond a single peer review year. NCCPAP respectfully would request clarification as to the meaning of this item as it is ambiguous. Will it essentially mean that any time a peer reviewer has a “Not Applicable” item during the review the peer reviewer must then start reviewing and sampling engagements from the two or more years prior to the peer review year?

ITEM 3 – TRANSPARENCY PROVISIONS

NCCPAP is in agreement with all the provisions regarding changes to transparency provisions and giving clarity to the process of release of information to third parties by the AICPA. NCCPAP believes this will clear up the “ad hoc” process that often goes on now when information is released to third parties. Further, it reinforces to the practitioner that they should not release peer review results until final approval of their peer review.

ITEM 4 – NONCONFORMING ENGAGEMENT PROVISIONS

NCCPAP is in agreement with all the provisions regarding changes to the treatment of nonconforming engagements. The language change correctly puts the emphasis on the firm itself to provide details of how they will remediate on a nonconforming engagement on a Matter For Further Consideration Form (MFC), Finding For Further Consideration Form (FFC) and/or letter of response. Further, NCCPAP believes it clarifies for the peer reviewer their role to then evaluate the policies and procedures that a firm uses to remediate a nonconforming engagement.



January 28, 2016

Sent via email to: pr_expdraft@aicpa.org

Ms. Rachel Drummond
Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews
Improving Transparency and Effectiveness of Peer Review

To Whom It May Concern at the AICPA:

The New Jersey Society of CPAs - Peer Review Executive Committee (NJPREC) and the New Jersey Society of CPAs – Accounting and Auditing Interest Group (NJAA) appreciates the opportunity to provide feedback and comments on the above referenced Exposure Draft (ED). While the NJCPA represents over 15,000 certified public accountants and prospective CPAs, the comments herein represent those of our NJPREC/NJAA and do not necessarily reflect the views of all members of the NJCPA.

Generally, NJPREC/NJAA strongly endorses the AICPA Peer Review Board (Board) commitment to strengthen the Peer Review Program. The ED furthers the AICPA's Enhancing Audit Quality (EAQ) initiative by augmenting the standards and interpretations related to remediation actions for nonconforming engagements, the requirements for identifying the systemic causes and improving peer review reporting. While we are fully supportive of these proposed revisions to the Peer Review Standards, which should improve transparency and effectiveness, we do have the following comments.

We recommend clarifying the timing and location for closing meetings as there are inconsistencies within the ED about the meeting. Specifically, Paragraph 38(b)(x) addresses timing of closing meetings in situations when the firm requires additional time to respond to matters identified; whereas, Paragraph 92 permits the combining of the closing and exit conferences when the firm has responded to matters identified. The ED also states the team captain "be physically present at the closing meeting" (Paragraph 91); however, the ED articulates if all closing meeting requirements are completed before the closing meeting or are not necessary, the closing and exit conference could be combined and held via teleconference (Paragraph 92). We recommend the final standards or interpretations address these inconsistencies, such as, inserting the concept of combining the closing meeting and exit conference within paragraph 38 and by changing the physical present to attend the meeting. We also recommend providing additional guidance as to the specific differences between the closing meeting and exit conference as they are very similar in communicating/discussing various aspects of the peer review.

Next, we suggest revising the title prior to paragraph .91 "Communicating Conclusions at the Closing Meeting and Exit Conference" to "Communication Requirements for Status Meeting and Exit Conference" as the substance of these paragraphs are requirements for matters to be completed/considered and the status about the matters identified as Paragraph 91(a) indicates these are "preliminary peer review results".



Ms. Rachel Drummond
Senior Technical Manager

January 28, 2016
Page 2

Revised Paragraph 75 stipulates the team captain and reviewed firm should collaborate in identifying the systemic cause for matters identified; conversely, paragraph 73 and the last sentence of 75 indicates there may be situations where it is not practical to identify the systemic cause. Our suggestion would be to revise Paragraph 73 and 75 by removing, “if known” and the last sentence of 75 as the team captain and firm should identify systemic causes for all matters to improve the firm’s system of quality control and to improve audit quality.

Interpretation 67-2 states “Reviewers and administrating entities should not instruct firms to perform omitted procedures, reissue reports or have previous financial statements revised or reissued.” Interpretation 99-1 addressing appropriate remediation for any finding, deficiencies or significant deficiencies states “... the team or review captain and firm should collaborate to determine the response” implying the team captain should instruct firms to complete appropriate remediation, which may include items prohibited by Interpretation 67-2. We suggest changing “should” to “may” in Interpretation 99-1 to remove the mandatorily presumptive meaning of instructing firms to complete appropriate remediation and remain consistent with Interpretation 67-2 regarding not instructing firms to perform certain types of remediation.

Interpretation 146-3 appears to contain conflicting guidance relating to whether the administrating entity or AICPA may disclose when a reviewed firm is “going through fair procedures to determine whether it is cooperating with the peer review”. The first section permits the disclosing of such information as stated in the last bullet point; whereas, the next section strictly prohibits the disclosing of “whether the firm is cooperating with the AICPA or administering entity”. We recommend the clarification of information to be disclosed in the final interpretation.

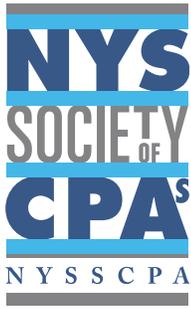
Thank you for the opportunity to comment. We are available to discuss our comments at your convenience.

Respectfully submitted,

D. Dean Beddow, CPA, Chair
NJ Society of CPAs – Peer Review Executive Committee
New Jersey Society of Certified Public Accountants

Margaret Gallagher, CPA, Leader
Accounting and Auditing Standards Interest Group
New Jersey Society of Certified Public Accountants

cc: Frank R. Boutillette, CPA, CGMA, President
Ralph Albert Thomas, CGMA, CEO & Executive Director
James Hardenberg, CPA, CGMA, CAE, Chief Learning Officer
New Jersey Society of Certified Public Accountants



January 22, 2016

Ms. Rachelle Drummond
Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

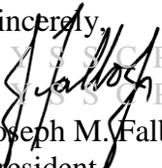
By e-mail: PR_expdraft@aicpa.org

Re: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review

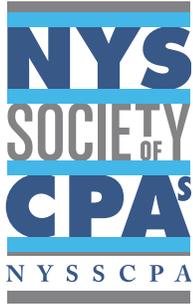
Dear Ms. Drummond:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Peer Review Committee deliberated the proposed changes and prepared the attached comments. If you would like additional discussion with us, please contact Liren Wei, Chair of the Peer Review Committee at (718) 445-6308, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Joseph M. Falbo, Jr.
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND
REPORTING ON PEER REVIEWS, IMPROVING TRANSPARENCY AND
EFFECTIVENESS OF PEER REVIEW**

January 22, 2016

**Principal Drafters
Samuel M. Bronsky
Raymond M. Nowicki
John M. Sacco**

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NYSSCPA Staff

Ernest J. Markezin
Mark Rachleff

New York State Society of Certified Public Accountants

Comments on

Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review

General Comments

We welcome the opportunity to respond to the AICPA's request for comments on its exposure draft of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review (the Exposure Draft).

Specific Comments

Presented below are our specific comments on three of the sections within the Explanation of Proposed Changes in the Exposure Draft.

Nonconforming Engagements (System and Engagement Reviews)

On page 8, regarding peer reviewer and firm responsibilities when there are nonconforming engagements under the heading *Key Changes Proposed*, while we are supportive of changes that facilitate efforts toward improved audit quality, we believe that consideration be given to ensure that changes achieve the desired improvements judiciously. For example, the time and effort required to remediate non-conforming engagements is frequently substantial and can have a detrimental effect on client relationships. Guidance issued in a recent general alert by the Peer Review Board (the Board) (May 2015 Peer Review Program Manual, section 3200, page 3211, last paragraph, last sentence) requires a reviewer to evaluate whether a firm's failure to recall and reissue reports is indicative of a leadership deficiency. Some may view this instruction to reviewers as using the peer review reporting process in a manner that interferes with the reviewed firm's relationship with the subject client.

Certain regulators such as GAO and DOL have either required or expect firms to remediate non conforming engagements and do not limit such remediation to the current reporting period. Some instances may require significant levels of increased documentation going back six years, under the rules proposed by these regulators. If peer reviewers are to evaluate the sufficiency of a plan of remediation, the periods of required remediation should be evaluated and specific guidance issued by the Board as to what constitutes sufficient remediation and the periods for which such remediation is required. If the Board concludes such guidance is not appropriate, then we suggest the Board should make it clear that the sufficiency of the remediation plan is a matter of professional judgment.

Further, if the Board determines that remediation is a matter for the professional judgment of the peer reviewer, then the Board should provide guidance for the peer reviewer on how to document the decision to not require remediation for the current engagement or prior years' engagements. We also suggest that the Team Captain be required to document his communication to the reviewed firm of the possibility or likelihood of sanctions by the regulatory body. We also believe the current guidance in Interpretation 67-1 (penultimate paragraph) is inadequate as it is permissive ("...The administering entity can require..." the reviewed firm to document its reasons for not remediating the non conforming engagement as a condition of final acceptance of the peer review). We believe the Board should amend the interpretation and use the word "must" so that the firm is required to document its reasoning in a signed statement issued on the firm's letterhead and become a required document to be submitted to the administering entity as part of the document package for the review.

Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)

We believe that the recommendation contained in the last bullet on page 9 of the Exposure Draft, that a reviewer "go out of period" to review compliance with a firm's policy regarding new client acceptance, would create a number of technical issues.

Under existing Statements on Quality Control Standards (SQCS), the policy and procedures for client acceptance and client continuance are included in the third element of quality control and, with some exceptions, apply both to new clients (acceptance) and existing clients (continuance). We believe that compliance with such policies as they pertain to new clients can be achieved by testing the reviewed firm's documented procedures for a few continuing client engagements.

If a reviewer does "go out of period" to test new client acceptance procedures and such compliance testing (or system design) is observed to depart in a material manner from SQCS No. 8, then a question arises as to the appropriate 12 month period to be cited regarding the reported deficiency (significant deficiency). In addition, if such policies were deficient, then uncertainty exists as to whether the reviewer should select one or more new engagements in the period prior to the peer review period for review or otherwise close the loop on a deficient design or compliance with the third element of quality control.

Further, a distinction can be made between "going out of period" to test the client acceptance element versus the engagement performance element for a must select engagement for which the current year engagement will not be finished prior to the due date of the peer review. The majority of procedures for new client acceptance can be tested by reference to existing client continuance procedures for the current period. However unlike the acceptance element, the audit, accounting and independence issues present in must select engagements cannot be tested without reverting to the prior 12 month period engagement if a peer review period engagement is not available to the reviewer. Accordingly, we believe the exception for must select engagements is not a precedent for promulgating a similar exception for the client continuance element of quality control.

On page 10 of the Exposure Draft, the first bullet under *Key future Complimentary and Conforming Guidance to be Proposed*, we believe the removal of PRP Sec 4300 and 4400 and

offering a new tool is a helpful concept. However, the Board should amend the Standards to require a single comprehensive quality control document for all firms. At present, Standards requires only “documentation of the quality control system” as opposed to mandating a “quality control document.”

FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews)

On page 12, the fourth bullet under the heading “For System Reviews,” we believe that repealing the provision requiring the review captain to make recommendations to the reviewed firm regarding undetected departures will not substantively change the dynamic between the reviewed firm and the review captain. Our experience has been that for most reviews of small non complex accounting and auditing practices, the firm is unable to develop an action plan without a significant contribution from the review captain. In many of those cases, we believe the review captain will still be the primary source of such remediation steps.

The principal effect of the change would, therefore, be to diminish the value of the peer review in the eyes of the reviewed firm and perhaps result in disagreements between the firm and reviewer given the transfer of responsibility and possible inference by the reviewed firm that it is equally qualified as its reviewer to assess the underlying causes and make practical and effective recommendations.

On page 13, under the heading “For System and Engagement Reviews” we believe the Board should reconsider the efficacy of adding a closing meeting to discuss peer review preliminary results and then discuss the firm's plans for remediation of the systemic cause underlying the undetected systemic departures. We recommend the closing meeting be optional. It will likely be appropriate only for firms with larger and more complex practices and systemic design and compliance. Many peer reviews administered by state society administering entities are of a smaller and less complex nature.

We also believe that whether the Standards retain an exit conference only provision, or migrate to an interim closing conference and subsequent exit conference upon completion of the review, there are other issues associated with the exit conference provisions that require the Board's consideration. With respect to documentation of all “No” answers from engagement checklists and non engagement questionnaires for which the reviewer concludes an MFC is not required as an exit conference matter, we have the following observations:

- Review Acceptance Bodies (RABs) - as a general rule, RABs accept the reviewer's judgment as supported in the Summary Review Memorandum (SRM) exit conference narrative unless they have reasonable cause to believe the reviewer used the wrong criteria to conclude a Matter for Further Consideration (MFC) is unnecessary. To make the RAB determinations more efficient, we believe the SRM exit conference item explanation should be expanded to expressly require reviewers to provide reasons as to why the matters were not documented on an MFC form.

- If the RAB still believes the No answer may have warranted an MFC, then the RAB could either: a) request the team captain to furnish additional explanations or, b) prescribe an engagement or full scope oversight to assess the No answer and its implications to the type of report issued, need for an MFC and engagement classification.

January 27, 2016

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

submitted via email: PR_expdraft@aicpa.org

Dear Peer Review Board members:

The North Carolina Association of CPAs (NCACPA) is pleased to offer our comments in regard to the recent exposure draft, "Improving Transparency and Effectiveness of Peer Review," issued by the AICPA Peer Review Board (the Board) on November 10, 2015. This comment letter represents the NCACPA Peer Review Committee which annually administers approximately 400 peer reviews. Our committee currently has fifteen members. These committee members are members of firms ranging from sole proprietor to firms with 75 members.

NCACPA and its members offer our appreciation to the Board and to AICPA staff for their time and effort for their service to AICPA and to the peer review program. The NCACPA supports those efforts and the AICPA Peer Review Program (the Program). Since its inception, we believe the Program has served both the profession and the public well. As a profession that still maintains a significant degree of "self-regulation", we believe continued evaluation and changes for improvement to the Program are appropriate and needed over time.

NCACPA supports the Board's plan approved in 2014 to implement substantive changes to the current Program. We agree these changes should be a part of AICPA's "Enhancing Audit Quality" initiative. The Program should be an integral part of that initiative.

In response to the exposure draft, we respectfully offer the following comments which are headed by paragraph number(s):

I. Nonconforming Engagements (Systems and Engagement Reviews) – Paragraphs .09, .66, and .67; Interpretations 66-1, 67-1, and .67-2.

1. We support the change to clarify the guidance regarding the peer reviewer and firm responsibilities when there are nonconforming engagements. We agree the firm should provide the details of remediation of nonconforming engagements on the MFC Form, FFC Form, or in the firm's letter of response, if applicable.
2. We support the consideration of expansion of scope by the team captain in a System Review to determine pervasiveness of the nonconforming engagement(s) to properly assess the systemic cause and impact on the peer review.
3. While this seems to be present within the current Program Standards, we support evaluation of nonconforming engagements by the peer reviewer to determine a peer review rating.

4. We support the requirement that the firm must add a representation in the firm's representation letter that addresses remediation of nonconforming engagement(s).

We do offer the follow concerns in regard to the changes related to these paragraphs and interpretations:

1. We believe the Standards or Interpretations should be clear as to how much, if any, participation the peer reviewer can have in regard to the firm's remediation. While the requirements for a firm's remediation are clear and understandable to those performing peer reviews, we believe there should be guidance provided as to the level or participation the peer reviewer can have in the remediation process. This obviously "runs" to the possible impairment of required independence of the peer reviewer.
2. We also have concern if the peer reviewer should consider whether the remediation is acceptable, and if not, does that conclusion affect the reviewer's report as to deficiencies documented or rating? We will also address this in the paragraphs of the exposure draft related to "systemic causes."

II. Enhanced Peer Review of the Firm's System of Quality Control (System Reviews) Paragraphs .39 through .185 (not inclusive of all); Interpretations 39-1 through 83-3 (not inclusive of all)

1. We support the definition of "systemic cause" and the application of consistent use of "systemic cause" throughout the Program.
2. We support the clarification of the "systemic cause" of matters, findings, and deficiencies are determined by the team captain in collaboration with the firm.
3. Without any qualification, we believe the emphasis of the peer review should be on the firm's system of quality control. We enthusiastically support the Program's original intent of being "remedial and educational." We believe the intent of "remedial and educational" is founded by the emphasis of the peer review being on the firm's system of quality control.
4. However, we do have concern in regard to the "expectations" of users of peer review reports and FFCs. We firmly believe there is "gap" in the "expectations" of users of peer review reports and findings and the information provided in reviewers or the Program as a whole. We also firmly believe the "users" whose "expectations" are not being met are regulators. While not specifically addressed in this exposure draft, we do believe the Board and/or AICPA needs to address this issue. It is our opinion and through communication to you, we believe "external users" place more emphasis on the results of specific "engagement reviews" by the reviewer than on a review of the firm's "system" of quality control.
5. We support the creation of guidance that allows a team captain to inquire and review evidence prior to the peer review year to support assessment of the design and compliance with system controls.
6. We also believe there is a need for a better definition of an engagement "not in conformity with standards in all material respects" We believe judgment continues to be a struggle for many, if not most reviewers. We believe recent experience with regulators and "external users" suggests those parties have an expectation that any departure (a "no" answer) should dictate that reviewer conclude the engagement is

nonconforming. We believe the recent development of concepts such as “blacklining” significant checklist questions and/or adding “part A” type checklists should be considered “tools” for reviewers to be provided and used in order to assist reviewers in their evaluation of the significance of the matter identified. We also believe this would provide a gain in the consistency within the Program.

III. FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews) Paragraphs .16 through .226 (not inclusive of all); Interpretations 17-1 through 100-1 (not inclusive of all)

1. We support the clarification of the timing when results of the peer review should be communicated to the firm to allow time for firms to identify appropriate remediation. We believe this is consistent with the remedial and educational purpose of the Program.
2. We support the clarification of the guidance for drafting descriptions of findings, deficiencies, the report model, and providing greater transparency on the result of the peer review.
3. In System Reviews, the team captain should include a link to the requirements of SQCS No. 8 in the descriptions of findings, deficiencies, and the inclusion of the nonconformance and the practice/industry area in the description.
4. In System Reviews, we support the removal of the team captain’s responsibility to provide an explanation of the firm remediated nonconforming engagements described in the report (“closing the loop”) and responsibility to provide a recommendation to remediate the systemic cause. We agree these responsibilities are the firm’s responsibilities.
5. We support the clarification of the information a firm should include in its response to an FFC form, or a letter of response to the report, the firm’s actions taken or planned to remediate the engagement(s) identified, the firm’s actions taken or planned to remediate findings and deficiencies on the firm’s system of quality control, related systemic issues unrelated to nonconforming engagements, and the timing of the remediation.
6. We support the guidance created for a “closing” meeting prior to the exit conference as the suggested timing for discussion of peer review preliminary results.
7. We support the clarification of guidance in which the peer reviewer should assess the firm’s response(s) to findings and deficiencies.
8. We support the clarification of the peer review report by the restructuring of the placement of information under appropriate headings similar to the clarified peer review report, the purpose of the report, a descriptive report title, and the reviewed selections paragraph by appropriately indicating when singular selections are made. This also applies to the proposed reviewed guidance related to the list of items that should be included in a peer review report and letter of response.

IV. Appendix A – Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials Reviews – Paragraph .207

1. We support the proposals as outlined for Appendix A.

V. Appendix B – Considerations and Illustrations of Firm Representations – Paragraph .208 and Interpretation 208-1-1

1. We support the proposals for Appendix B.

VI. Transparency of Peer Review Status - Paragraphs .133 and .146; Interpretations 133a-1 and 146-3

1. We support the creation of an interpretation that addresses reasons why a Peer Review Committee may not approve a peer review report within 120 days, which includes determination during technical review or presentation that an oversight should be performed, significant revisions required to the review documentation, necessary inquiries that are a result of the technical review or presentation, and enhanced oversight procedures.
2. We support the creation of an interpretation that addresses information which the administering entity can publicize about the progress of a peer review and the clarification of the type of information the AICPA and administering entities are able to provide.

The above concludes our comments specific to the exposure draft and related paragraphs and interpretations. While outside the scope of the exposure draft and your instructions as to comment letter "comments," we to take this opportunity to communicate the following:

1. As evidenced from the number of times above we offered our support for a significant number of changes proposed in the exposure draft, we do believe at some point the Board and/or the AICPA needs to address the commercial considerations of the current compensation fee structure for firms performing peer reviews. We believe this concern becomes even greater as to the additional requirements for reviewers in the exposure draft, the addition of a "closing" meeting in addition to the exit conference, and the timing of reviews outlined in Exhibit 1 of the exposure draft regarding the outline of a 270-day (nine month) model for the conduct and acceptance of reviews.

The quality of the Program is the responsibility of the AICPA and those of us involved in the Program. The quality of the Program is clearly dependent on those participating in the Program. We believe, based on our experience in the past and by current observation, quality is being affected in a negative manner by the fee structure in the current Program. We respectfully request the Board and the AICPA to provide assistance in the communication to the public and firms required to have a peer review performed that the costs associated with the conduct of a peer review will and should increase. These costs include both the expenses incurred by the administering entities and firms performing reviews.

2. As addressed in II above, we believe more communication is needed regarding the "expectation" gap of users of peer review reports. As stated above, it appears to us the "users" most conflicted by their expectations and what the current Program is doing and will do as a result of the exposure draft, are regulators. We encourage

more communication and perhaps a task force to meet with these "users" and gain a better understanding of what we and they can do to close this "gap."

We thank you for the opportunity to offer our comments. We stand ready to discuss these comments and our opinions with you. Your time and consideration of the comments we have offered are greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Henry L. White", with a long horizontal flourish extending to the right.

Henry L. White, CPA
Chair
NCACPA Peer Review Committee

cc: NCACPA Board of Directors
NCACPA Peer Review Committee
James T. Ahler, CAE, NCACPA CEO
Mary C. Kelly, NCACPA Peer Review Coordinator



January 27, 2016

Rachelle Drummond, Senior Technical Manager
Via email: PR_expdraft@aicpa.org

RE: Exposure Draft Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews – *Improving Transparency and Effectiveness of Peer Review*

Dear Members of the AICPA Peer Review Board:

The Peer Review Committee of The Ohio Society of CPAs is pleased to provide comment on the above referenced Exposure Draft – Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews - *Improving Transparency and Effectiveness of Peer Review*. A task force, composed of peer reviewers, technical reviewers, and peer review committee members, was appointed to consider the proposed *Standards* and develop this response.

Overall

We generally support these proposed revisions to the *Standards*, and believe that they will more fully involve reviewed firms in the process of determining the systemic causes of matters noted in a firm’s peer review, and in designing the appropriate remediation of these matters. We also believe that the revisions will generally strengthen the peer review process and enhance users’ ability to understand and rely on the reporting of peer review results.

However, we do have various suggestions for revision or improvement of the proposed *Standards*.

Non-Conforming Engagements

Paragraph .09: We support the requirement that firms take responsibility for determining the remediation required for non-conforming engagements by documenting the details of the remediation plan on the MFC form, FFC form, or letter of response, as appropriate. We would suggest that the MFC and FFC forms be redesigned to force reviewed firms to respond more specifically and robustly regarding its plans for remediation and the completion date for those plans.

Enhanced Peer Review of the Firm’s System of Quality Control (System Reviews)

Paragraph .75: We particularly support the guidance that requires identification of a systemic cause for each matter (currently, “isolated” or “inadvertent” are frequently given as reasons, and no further investigation or summarization occurs.)

Paragraph 44: We strongly support eliminating the option for a firm to complete a quality control questionnaire in lieu of furnishing a written quality control document. Too often, firms provide a questionnaire with minimal information that is of little practical use in understanding how the firm’s system of quality control operates. A written document requirement will increase the efficiency and effectiveness of the review process, and firms will genuinely benefit from having to identify risks and design responses during the process of writing its document (though many will not perceive this as a benefit until much later.)

Paragraph 54d: We do not support expanding the scope of the review to allow inclusion of evidence from outside the review year. We recognize that the review of engagements from prior years is occasionally necessary, and approve of the current *Standards* that clearly define this as something that should be done infrequently, as a last resort. We believe that routinely allowing introduction of other evidence from outside the peer review year could result in situations where reported conclusions about the system of quality control for the peer review year could be based on significant amounts of evidence that relate to some other period than the review year. We believe the use of evidence outside of the current year should continue to be discouraged, as it is now with the current guidance in the *Standards* being sufficient.

We have particular concerns about prior year evidence no longer being valid or relevant, and about the apparent implied prohibition against using evidence subsequent to the peer review year end. (At a minimum, this should be clarified.) We believe that this may result in inequitable results for a firm and among firms. To take one simple example: Assume that a small firm has added only one or two engagements since its prior peer review, early in the year following that review. The previous review was performed subsequent to the acceptance of those two engagements. In the firm's previous peer review, a finding was identified related to the design of the firm's acceptance procedures. The firm modified its quality control document. Since the modification was made, there have been no acceptance decisions to review. Under the proposed guidance, the reviewer would look to the last two acceptance decisions and would determine they were not appropriately made (they followed the firm's previous policy, which was deemed deficient); since we can't base our conclusions on review of policies alone, and our only evidence is based on a system that no longer exists, do we have to report a finding? If an acceptance decision under the revised policies was made a month after the current peer review year end – are we permitted to consider that as evidence about the revised system? The vague nature of determining when to use evidence outside the review year seems to compromise the reliability of the results being reported, and does not enhance the objectives of transparency and effectiveness of peer review reporting.

Paragraph .79: We do not agree with the removal of the rebuttable presumption that, in the absence of findings in the review of engagements, a design matter would ordinarily be reported on an FFC form. We believe the current language is sufficient to allow a reviewer to exercise professional judgment as to when a design matter, absent related engagement findings, is egregious enough to elevate to a deficiency, rather than an FFC, and should be retained. The current guidance indicates that elevation to a deficiency should occur infrequently; the proposed guidance appears to change this to an almost presumptively-mandatory assumption that it would always be elevated to a deficiency.

FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations

We are generally supportive of these changes, particularly the elimination of the reporting requirements related to the results of remediation of non-conforming engagements and of recommendations for remediating systemic causes. We believe it will be far more effective to require the firm to take ownership of problems and their resolution.

However, we do have the following suggestions to improve the proposed *Standards*.

Paragraph .92: We suggest adding language before the next-to-last sentence to the effect that “This is also intended to provide the firm with additional time to identify and document the systemic cause of a matter, finding, or deficiency if the firm has not already done so by the closing meeting date. If necessary the firm may consult with the reviewer to arrive at the systemic cause.”

Paragraphs .93 and .116: While we believe it is appropriate for the reviewed firm to give due consideration of how best to remediate findings and deficiencies, we believe that this could give rise to unnecessary delays in completion of reviews. Under current standards the report date is the date of the exit conference but prior to the date of the firm’s letter of response. The proposed changes will delay completion of the report (and submission of the review to the administering entity) by extending the review to allow the firm to consider its responses to findings and deficiencies. Since firms normally wait until receiving the report to draft their response, we recommend additional consideration and guidance including acknowledging the need for the reviewer to issue a draft report where appropriate and setting reasonable response times for the reviewed firm.

Appendix A – Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials Reviews.

We noted that the effective date will need to be changed to the effective date of the revised *Standards*.

Paragraph 207-12 and 207-20: We believe that the revised guidance for reporting industry-specific findings, other than for must-select engagement types, reduces the transparency of reports and may result in inconsistencies in reports among firms. As we understand the proposal, it would be possible that the identical deficiency occurring in two firms could be identified as industry-specific in one report and not the other. If a firm only practices in one industry, any findings or deficiencies noted in the peer review, even if noted on a single engagement, would be reported as having “...contributed to audit engagements in the [specific industry] that did not conform...” However, if the firm performed services in two, or more, industries and had the same deficiency on multiple engagements the report would not identify it as industry specific.

Determining when to include or not include a reference to a specific industry does not appear to have relevance when it allows such inequitable reporting results, and may be perceived by a user as indicating that there is a qualitative difference in findings or deficiencies that are industry-specific and those that are not. We would propose that only deficiencies which were noted on a must-select engagement be specifically identified, which is consistent with the additional selections and considerations section of the report. Since it is not deemed significant enough to include in the scope paragraph a list of all industries in which the firm performs engagements, we do not see how it can be significant enough to include references to such industries in the deficiencies. Further, without an indication of all industries in which the firm practices, it is impossible to place such deficiency identification in proper perspective relative to the firm’s overall practice.

Paragraph 207-16: We believe that it would be helpful to include a list of engagements subject to an engagement review in the same level of detail as Paragraph 207-1 (related to system reviews.) We also feel that the usefulness of this paragraph (and paragraph 207.1,

for system reviews) would be enhanced by clarifying to what extent Preparation engagements (AR-C Section 70) are included within the scope of peer review. Many, if not all, state boards of accountancy will find this information critical when establishing licensing or other regulations regarding such engagements and rules regarding sufficiency of peer reviews for registration and renewal purposes in the states.

Paragraphs 207-8 and 207-9: These paragraphs appear to duplicate one another; it would seem that one could be deleted.

Appendix B – Considerations and Illustrations of Firm Representations

Paragraph 208-4: We believe that the proposed additions to the representation letter in an engagement review require changing the dating requirements for the representation letter. Paragraph 208-8c of the proposed *Standards* require inclusion of a representation regarding remediation of non-conforming engagements, if applicable. (The example representation letters are different, depending on whether or not this representation is required.) But, as of the engagement summary date (the required date of the representation letter) it cannot be determined whether any non-conforming engagements exist. Thus, it is not possible to determine whether the additional representation regarding remediation of non-conforming engagements is required (that is, whether to use the example of a representation letter with no significant matters to report, or with significant matters to report.) We recommend that this be resolved by changing the dating requirement of the representation letter to the report date (as it is in system reviews.)

We also have one enhancement to suggest.

Paragraph 208-8b: We strongly support the addition of the requirement that the firm, in an engagement review, positively assert that it did not perform any of the engagements that would require a system review. We also believe that requiring a similar representation, regarding must-select engagements in a system review, would be a worthwhile addition for required representations in system reviews.

We do have a few minor suggestions for clarity and consistency of text:

Paragraph 208-2: In the second sentence, we would suggest that the term “fair” be eliminated from the phrase “...and the firm would be subject to *fair* procedures that could result...” We believe “fair” is too subjective, and could be used to create deflective and frivolous arguments about the meaning of “fair” by firms trying to avoid termination from the program. Further, we believe that the due process of establishing and amending such procedures creates an implicit assurance that such procedures are fair, and no explicit qualifier is needed.

In addition, we suggest that, in the third sentence, the presumptively mandatory “...*may* result in referral...” be changed to a mandatory “...*shall* result in referral.” We could not, in our discussions, identify any situation in which a firm would merit termination without having committed a violation that would require referral for further action. This is also consistent with the required representation list in paragraph 208-8b: “Acknowledge that...if termination occurs, *will* result in referral...”

Paragraph 208-3: We suggest specifying the addressees, in a manner similar to that used in Paragraph 208-4.

Paragraph 208-5: This paragraph would be much clearer if it simply used the same terminology used in the Quality Control Standards: “The written representations should be signed by the managing partner and the quality control partner (if other than the managing partner.)” These persons should already be identified in the firm’s quality control document – and with the elimination of the checklist-as-quality-control-document option, each firm is required to have a written document.

Paragraph 208-7: Replace “as noted in the text that follows” with the simpler, and clearer, “as noted in paragraph 208-8.”

Transparency of Review Status

We generally support these changes, and have no specific comments.

We appreciate the opportunity to comment. If you have any questions, please contact me at the below email address.

Best Regards,

A handwritten signature in black ink that reads "Mark A. Malachin, CPA". The signature is written in a cursive, slightly slanted style.

Mark A. Malachin, CPA, Chair
OSCPA Peer Review Committee
mam@lmdcpa.com

February 3, 2016

Ms. Rachelle Drummond
Senior Technical Manager
AICPA Peer Review Program
220 Leigh Farm Road
Durham, NC 27707-8110

Re: November 10, 2015 AICPA Peer Review Board Exposure Draft of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, *Improving Transparency and Effectiveness of Peer Review*

Dear Ms. Drummond:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the proposed clarifications and changes to the Standards as an important step toward enhancing the efficacy and transparency of the Peer Review Program. TIC especially appreciates the Board's efforts in developing eight new interpretations, which clarify areas that have led to some confusion in the past. The Specific Comments section below includes TIC's assessment regarding each major section of the proposal. TIC has also requested clarification of the Board's intent or additional guidance in certain areas.

TIC appreciates the Board's efforts on this ED and encourages continued efforts to improve the consistency of application of the Standards among peer reviewers and oversight bodies.

SPECIFIC COMMENTS

Nonconforming Engagements (System and Engagement Reviews)

Isolated Matters—Expansion of Scope

TIC anticipates that some firms may have reservations about the expansion of scope clarifications in paragraph .68 that could potentially result in a finding or deficiency in a firm's system of quality control. Extant standards require expansion of scope only if a potential significant deficiency in quality control was detected. However, TIC agrees with the Board that the peer reviewer should review other identified findings and deficiencies, as well as significant deficiencies, to determine whether a reviewed firm's "failure" to reach an appropriate conclusion on the application of professional standards in one instance is indicative of a pattern of failures. Consideration of these additional matters is appropriate to further enhance the quality of the peer review process.

TIC believes a potential concern could arise that the expansion of scope by the reviewer could result in extension of the overall peer review timelines based on the additional assessments required by the clarifications made in this ED. TIC understands that in certain circumstances delays are unavoidable and even necessary to ensure compliance with standards and a quality peer review. Example exceptions are identified in. TIC suggests that additional language be added to Interpretation 133a-1 to emphasize that these circumstances are exceptions and should not be seen as the norm and that every effort should be made to reduce delays in the timely issuance of peer review reports.

Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)

Aggregating and Systemically Evaluating Matters—Design Matters

The amendments to paragraph .79 of the ED indicate that certain conditions could result in a deficiency in the design of the entity's system of quality control even though a nonconforming engagement was not identified. TIC believes this change could contribute to disagreements among the peer reviewer and the reviewed firm if additional guidance is not provided. The following guidance was removed from the standard:

However, in the absence of findings in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in a FFC as a finding rather than result in a report with a peer review rating of pass with deficiencies or fail.

TIC suggests this sentence be added back to paragraph .79 with additional guidance stating that, although this may be a typical conclusion, the reviewer should consider the entity's system of quality control even though there were no nonconforming engagements identified.

TIC also recommends that peer reviewers be encouraged to start with system reviews to avoid the risk of assuming the firm's quality control system is functioning properly simply because few or no matters were detected in the compliance tests at the engagement level. Reviewers should also be looking at the design and conducting compliance tests on the other areas of the firm's quality control system.

FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews)

Removal of the Team Captain's Responsibility to Provide Recommendations for Remediation

The most significant proposal in this section of the ED is the amendment shifting the responsibility for the development of the remediation plans from the team captain to the reviewed firm. While many firms with nonconforming engagements, findings, deficiencies and significant deficiencies, may ask for guidance, TIC agrees with the Board's conclusion that this process should be collaborative, yet still the responsibility of the firms themselves to remediate any findings.

TIC members noted that the team captain may wish to include recommendations for remediation on the MFC form. TIC believes that the proposed guidance in paragraph .98 and Interpretation 99-1 (*Firm Responses and Related Team or Review Captain Considerations*) is unclear whether the MFC form may continue to include such recommendations (especially since reviewer recommendations have been dropped from the peer review report). As written, the guidance could be interpreted to mean that the peer reviewer needs to be independent of the remediation process.

TIC recommends that Interpretation 99-1 be amended to indicate that the team captain's recommendations for remediation may continue to be part of the MFC form. TIC believes this added language would encourage firms to work collaboratively with their peer reviewers and would be consistent with the intent of Interpretation 99-1 to have the peer reviewer assist the reviewed firm with its remediation assessment. Recommendations from the peer reviewer often provide insight and guidance to the reviewed firm as it prepares its remediation plan. Such assistance can be crucial to a small firm that is trying to navigate the peer review system and have its remediation plan accepted by a Report Acceptance Body or other oversight body.

Firm Responses in a System Review

TIC also supports the additional information that the reviewed firm will be required to include in its response to an FFC form or in a letter of response to the report. TIC believes the additional information will further improve transparency and will also reveal the importance a firm places on these matters.

Clarifications re: the Peer Review Report Model

TIC believes these clarifications are consistent with the remainder of the ED. As noted above, TIC supports the clarifications related to firm responsibilities for nonconforming engagements and systemic weaknesses. While certain firms may disagree with disclosure of specific industries which have associated findings, TIC believes this to be appropriate. A failure to understand a certain industry may be relevant to stakeholders, as there are many industry-specific standards within U.S. GAAP.

Firm Representations (Interpretation 208-1-1)

The proposed changes related to firm representations appear to address many key concerns, most specifically providing an illustration that mirrors all requirements in the peer review standards. To enhance the efficacy of the peer review program, TIC believes it is appropriate for firms to represent that they intend to complete the remediation communicated to the peer reviewers. TIC also agrees with the revisions to Interpretation 208-1-1, limiting a firm's ability to tailor the representation letters only for items outlined in paragraph .208(8) of the ED.

Transparency of Review Status

Delays Preventing the Timely Acceptance of Peer Reviews

Interpretation 133a-1, *Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities*, provides an example of four circumstances that may lead to a delay in acceptance of a peer review report. TIC recommends adding "an unanticipated expansion of scope" as an additional bullet item to the list of circumstances that can cause unavoidable delays in the timely acceptance of a peer review.

Publicizing Peer Review Information

Interpretation 146-3, *Publicizing Peer Review Information*, which indicates the type of information the administering entities or AICPA may disclose about a peer review that is still in progress, provides a robust listing of the various items that may be requested by third parties about an open peer review. TIC appreciates the Board's attempt to provide additional support related to this communication for firms to maintain licensure while a peer review is open.

However, in consideration of the various items that would not be disclosed by the administering entities or the AICPA, TIC recommends that the bullet point for "If the firm is going through fair procedures to determine whether it is cooperating with peer review" (page 137 of the pdf; page 135 of the ED) be moved to the section of information that would not be provided by either the AICPA or the administering entity. TIC is proposing this change because it considers the evaluation of fair procedures to be subjective in nature.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees

Ms. Rachele Drummond
Senior Technical Manager
AICPA Peer Review Program
220 Leigh Farm Road
Durham, NC 27707

Exposure Draft: Improving Transparency and Effectiveness of Peer Review

RubinBrown LLP appreciates the opportunity to comment on the AICPA's Exposure Draft on Improving Transparency and Effectiveness of Peer Review. RubinBrown is a public accounting firm with approximately 500 total team members. Our practice focuses on private, public, nonprofit, and governmental organizations. RubinBrown also performs peer review services.

Overall, we support the AICPA's efforts to improve the transparency and effectiveness of the peer review. We reviewed the proposed changes and provide the following comments:

- Supplement the existing guidance for peer reviewer, reviewed firm, technical reviewer, and Report Acceptance Body responsibilities for nonconforming engagements
 - We support the clarification that the firm is required to provide details of the remediation.
 - We support the clarification that the team captain should consider expanding scope to determine pervasiveness of the nonconforming engagements
 - We support the new explanation regarding evaluation of nonconforming engagements to determine the peer review rating.
 - We support the addition of an additional representation in the firm representation letter that discusses remediation of nonconforming engagements.
- Enhance the peer review of the firm's system of quality control to better assist the team captain and firm in identifying systemic causes and appropriate remediation of nonconforming engagements and system weaknesses
 - We support the new definition of a systemic cause as a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected.
 - We support the new consistent usage of systemic cause throughout the Peer Review Program Manual.
 - We support the clarification that the identification of the systemic cause is determined by the team captain.
 - We support the clarification that while there may be no nonconforming engagements, there is still the potential for deficiencies in the firm's system of quality control.
 - We support the guidance that allows a team captain to inquire and review evidence prior to the peer review year.

- Clarify the timing of when results of the peer review should be communicated to the firm to allow time for the firm to identify appropriate remediation, clarify the guidance for drafting descriptions of findings, deficiencies, and significant deficiencies, clarify the peer review report model and provide greater transparency on the results of the review
 - We support the new requirement that requires nonconforming engagements in a must select industry or practice area to be included in a description. Given the renewed focus by the Department of Labor on audit plan quality, this is a method to improve audit quality.
 - We support the removal of the team captain's responsibility to provide an explanation of how the firm remediated nonconforming engagements described in the report. We also support the removal of the team captain's responsibility to provide a recommendation to remediate the systemic cause and place that responsibility on the firm in collaboration with the team captain.
 - We support the clarification on firm responses to nonconforming engagements and planned remediation, as well as firm responses to systemic issues, and the firm's expected timing.
 - We support the creation of guidance for a closing meeting, as well as the suggested timing.
 - We also support the clarification of the peer review report by restructuring the information under appropriate headings, similar to the clarified audit report.

- Clarify the required firm representation for System and Engagement Reviews
 - We support the effort to restructure guidance, to better indicate what applies to System Reviews, Engagement Reviews, or both.
 - We support the addition of a representation for firm remediation of nonconforming engagements.

- Clarify information the AICPA and administering entities may provide about a review to third parties
 - We support the creation of a new interpretation, indicating what the AICPA would be allowed to release to third parties.

Thank you for your continued efforts to improve the transparency and effectiveness of peer review. We believe this is an important endeavor and are grateful for the opportunity to comment.

RubinBrown LLP

RubinBrown LLP
January 30, 2016



November 24, 2015

Rachelle Drummond, CPA
AICPA Peer Review Board
American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Exposure Draft on changes to *AICPA Standards for Performing and Reporting on Peer Reviews*

Dear Ms. Drummond and Peer Review Board Members:

In its November 12, 2015 meeting the Tennessee Society of CPAs' (TSCPA) Peer Review Committee (committee) heard a presentation of the key features of the Exposure Draft (ED) issued on November 10, 2015. These key features were lifted from the "Explanatory Memorandum" accompanying the ED. On November 11th, all committee members (and all reviewers in the program) were provided the ED for review.

Comments or observations were made regarding a few of the changes, most notably the establishment of a "closing conference", revised and extended requirements regarding non-conforming engagements, elimination of use of the quality control questionnaire (in lieu of a written quality control document) due to some firms' inappropriate reliance thereon, and improved transparency. No committee member voiced objections to either of these changes or any other aspect of the ED. Recognizing that some committee members might need additional time to review certain key features, committee members were asked to e-mail the undersigned any comments, especially disapproving comments, for the purpose of formulating this response.

One week later, having received no disapproving comments, I am pleased to report the TSCPA Peer Review Committee endorses without exception the proposed revisions.

Sincerely,

R. Joe Savage, CPA
Chair, TSCPA Peer Review Committee

January 21, 2016

Rachelle Drummond
Senior Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

RE: Comment to Exposure Draft:
Proposed Changes to the AICPA Standards for Performing and Reporting on Peer
Reviews, *Improving Transparency and Effectiveness of Peer Review*

Dear Ms. Drummond:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Peer Review Committee (PRC) to represent those interests on peer review matters. The views expressed herein are written on behalf of the PRC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

There are several proposed changes that we agree will improve transparency and effectiveness of peer review; however, there are other changes where we believe the costs of incurring the additional work exceeds the benefits. Our comments are summarized by the focus areas as described under "Explanation of Proposed Changes" in the exposure draft.

Nonconforming Engagements (System and Engagement Reviews)

Interpretation 67-2 requires the reviewed firm to include a representation in its representation letter confirming it will remediate nonconforming engagements as stated by the firm on its MFC forms, FFC forms, or letter of response, as applicable.

We believe that adding such information to the representation letter does not provide any additional strength to the overall peer review process and will put additional pressure on the reviewer to complete the review in a timely manner. In some instances, there may be a number of complicated decisions and communication with the client and other parties the firm must make before a final decision is reached regarding the remediation on nonconforming engagements. Additional information in either an interpretation or other peer review guidance would be helpful to assist the reviewed firm and reviewer in this area and ensure a timely response.

Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)

Paragraph .39 requires a reviewer to consider the prior FFC forms when planning the peer review to gain an understanding of the reviewed firm's quality control policies and procedures.

We believe in practice that this is being done, but agree with adding the reference to the standards.

Interpretation 39-1 requires the reviewer to evaluate the actions implemented by the reviewed firm to the prior peer review report and FFC forms.

Directing the reviewer to review all responses from the prior peer review and determine if the firm implemented them or alternative procedures and whether the new procedures are effective adds time for the reviewer to perform this look back. Reviewers are expected to consider the results of the prior review particularly in light of possible repeat findings or other continuing similar problems to help address what the corrective action should be. This evaluation of the firm's quality control system is included in the risk assessment and documented in the Summary Review Memorandum (SRM). If the current review does not reveal issues in the areas previously identified, no further work is performed assuming whatever corrective action(s) implemented by the firm was appropriate. Going back and assessing the reviewed firm's responses from a prior review when nothing in this review indicates a problem would add additional time to the review for no real benefit. The interpretation should be dropped and current procedures should be considered sufficient.

Paragraph .44 removes the use of a questionnaire to document the reviewed firm's quality control policies and procedures.

We agree with the removal of the questionnaires and that the firm should have a quality control document.

Paragraph .54 (d) requires the reviewer when conducting compliance tests of engagements to review other evidential material, including evidence since the previous peer review, as appropriate.

This requirement expands testing to include prior periods if an event is not evident in the peer review period, such as a new engagement or a consultation. Many more matters addressed in the reviewed firm's quality control document (QCD) may not be present in the current review and to expect the peer review team to expand scope to prior years could and likely would add significant time to the review for little benefit. The review should be limited to a reading of the QCD (particularly in areas that will not be tested given the lack of anything to test in the peer review period) to determine if the document adequately addresses what the firm would do if the matter was encountered.

The current peer review reporting model opines on a specific period of time and this expanded procedure might be performed outside of the reporting period, thus necessitating consideration of changing the current reporting model.

FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Consideration (System and Engagement Reviews)

Paragraph .91 establishes a closing meeting to allow the reviewer and reviewed firm to discuss preliminary peer review results, including any matters documented on the MFC form(s), findings documented on FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report expected to be issued if determinable at this point. A closing meeting is also discussed in paragraphs .92, .115 and Interpretations 17-1 and 91-1.

It is much better to have one date for an exit conference meeting in which the results of the review are discussed with the reviewed firm. Providing for a close meeting and then later an exit conference meeting would extend the peer review process by allowing the firm additional time to respond and making it harder for a reviewer to finish the review. We would recommend removing the requirement for a closing meeting.

Appendix A-Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials Reviews

Paragraphs 208 (12) (13) (20) and (21) require additional wording for System and Engagement reports by adding references to explanations regarding nonconforming engagements and the review firm's remediation(s).

We suggest that this wording not be included when the review report rating is a pass. Readers of the peer review reports may be confused as to whether there were any nonconforming engagements identified and if so, why weren't they mentioned in the report. In peer review reports with a rating of pass with deficiencies or fail, the "if any" and "when applicable" could be dropped.

Appendix B-Considerations and Illustrations of Firm Representations

Paragraph 208 (8) (c) requires a representation regarding the firm's remediation of nonconforming engagements, if applicable.

Refer to our earlier response to Interpretation 67-2.

Transparency of Review Status

We have no comments regarding the proposed changes to the communications to third parties regarding a firm's peer review status.

We appreciate the opportunity to provide input into the standards setting process.

Sincerely,



Robert Beam, CPA
Chair, Peer Review Committee