August 30, 2010

Ms. LaShaun King, Technical Manager
Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

**Re: Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews, *Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs Statement on Auditing Standards Consistency of Financial Statements***

Dear Ms. King:

We appreciate the opportunity to provide comments on the Peer Review Board's Exposure Draft, *Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) Programs Statement on Auditing Standards Consistency of Financial Statements*. We offer the following comments for consideration by the Board in finalizing the Proposed Standards.

**Overall Thoughts**

Developing and providing QCM for use as an integral part of firm quality control systems plays an important role in promoting quality within the public accounting profession. The PPC-brand quality control materials developed by Thomson Reuters are the most-used QCM in the United States. We take our QCM development responsibility very seriously, and we continually strive to provide firms superior guidance and practice aids. In doing so, we often involve some of the foremost recognized industry experts in the profession in the development and maintenance of our QCM.

We agree that the existing Peer Review Standards and Interpretations are not adequate to ensure the independence and objectivity of firms that develop and sell QCM if the firm also provides peer review services for firms that use those QCM. However, we believe that the broad-brush, one-size-fits-all prohibitions on the participation in QCM development by peer reviewers, as described in the proposed revision to Interpretation 21.1, are much too restrictive. Further, we believe that those prohibitions are inconsistent with the risk-based approach for analyzing independence outlined in the *Conceptual Framework for AICPA Independence Standards* section of the AICPA *Code of Conduct*. We fear that if the proposed revisions are approved as written, the strict prohibitions on peer reviewer participation in the development of QCM could actually have a *detrimental* effect on the quality of QCM used by firms and on the profession itself.

**Responses to Questions Posed**

1. *Do you believe that the peer review relationship currently permitted by paragraph 159 is appropriate?*
2. *Are there any independence concerns that arise as a result of the peer review relationship currently permitted by paragraph 159?*

We do not believe that Paragraphs 159–161 of the Peer Review Standards as currently written are adequate to protect against an impairment of independence, and we generally agree with the proposed revisions to Paragraphs 159–161 of the Standards.

However, we *strongly disagree* with the restrictions proposed in the fourth paragraph of Interpretation 21-1c, which states:

> If the reviewed firm uses quality control materials (QCM) or CPE programs that any member of the review team helped to develop or maintain, the independence of the reviewing firm is impaired. Development and maintenance activities with respect to QCM and CPE programs include but are not limited to authoring or writing the materials and programs or any portion thereof, performing technical reviews, assessments, or evaluations of the materials and programs, performing any type of editorial services on the materials and programs, etc. This is applicable regardless of whether the materials or programs are provided by a CPA firm, association, or any other type of entity. Additionally, if an entity that develops and maintains materials or programs is affiliated with a reviewing firm, the independence of the reviewing firm to peer review a firm that uses those materials is impaired.

The second sentence of the paragraph essentially prohibits an individual who participates in the development of QCM *in any way* from also performing peer reviews of firms using those materials. There is no consideration of the individual's function, type of involvement, level of effort, compensation for participation, etc. We believe that this paragraph contradicts the intent of Paragraph 100.08 of the *Conceptual Framework for AICPA Independence Standards* section of the AICPA *Code of Conduct,* which states, "Because the risk-based approach requires judgment, the [independence] definition should not be interpreted as an absolute."

3. *Do you believe that the proposed revisions are necessary to serve the main goal of the AICPA Peer Review Program (promoting quality in the accounting and auditing services provided by AICPA members and their CPA firms in order to serve the public interest and enhance the significance of AICPA membership)?*

   No—We believe that the proposed revisions to the Peer Review Standards and Interpretations could have significant *adverse* repercussions in the industry. Although the goal is to promote quality and to serve the public interest, we believe that the proposed revisions could potentially result in the *opposite* occurring. Rather than improving or promoting quality, prohibiting highly knowledgeable industry experts (whose firms also happen to perform peer review) from participating to some degree in the development of QCM could have the unintended consequence of actually *diminishing* the quality of the resulting QCM, which would serve neither the profession nor the public interest.

4. *Is it more appropriate to have safeguards instead of prohibition?*

   Yes—PRPM 1000.21 indicates that a peer reviewer should maintain independence in fact and appearance, and 1000.22 indicates that the *Code of Conduct* be considered in making independence judgments. We believe that the application of the *Conceptual Framework for AICPA Independence Standards* section of the *Code of Conduct* is an appropriate means for determining independence, and the *Conceptual Framework* provides for a risk-based approach for analyzing independence involving identifying threats and safeguards. The severe restrictions against any participation in the development of QCM as proposed in the fourth paragraph of Interpretation 21-1c does not apply a risk-based approach or permit the application of judgment.

   We believe that threats to independence should be identified based on the facts and circumstances in question. We believe that *the closer the relationship* between the firm QCM developer and the peer reviewer participant (Participant), the more difficult it is to mitigate a threat to independence in fact and appearance. When evaluating the relationship between the

QCM developer and the peer reviewer participant, factors such as the following may be considered:

- What was the extent of the Participant's involvement in the QCM development process? For example, was the Participant's involvement in the development process limited to functions such as providing technical consultation and sharing practice area experiences; performing only high-level technical review of selected materials; or drafting small amounts of material under the supervision and review of others?
- Does the Participant have a familial relationship to an individual who was integrally involved in the development of the QCM?
- Does the Participant report directly or indirectly to an individual who was integrally involved in the development of the QCM?
- Is the Participant in the same office location as the QCM developer personnel or in close proximity to that office and also performing engagements with personnel from that office?
- Was the Participant compensated for his or her services? If so, was the compensation significant to the Participant or to the Participant's firm?
- Does the Participant share in profits generated from both sales of QCM materials and the performance of peer review services? If so, are the profits generated other than clearly immaterial to the Participant's practice?

Numerous other circumstances could present significant threats to independence and objectivity, and an even greater number of circumstances could present situations that could be *perceived* by a third party to impair independence. Thus, we believe that the specific facts and circumstances of each situation should be analyzed.

To illustrative, here are two examples:

EXAMPLE 1

Two partners in a three-partner, one-office firm develop a set of QCM programs and sell them to the firm's existing peer review clients. The partners receive 100% of the profits from the sale of the QCM and share in the profits from the firm's peer review services.

We believe this is a clear-cut case, where both the partners' and the firm's independence are impaired with respect to peer review clients that use the partner-developed QCM. The partner-developed QCM are an integral part of the peer review clients' systems of internal control; the partners have a vested interest in the success of the firm clients' peer reviews; and the partners have a significant economic interest in both the QCM and the firm profits from the performance of peer review services. In this example, independence in fact and appearance are clearly impaired; there are no safeguards that could be applied to mitigate the independence threat.

EXAMPLE 2

A partner in a large local accounting firm performs peer reviews and also annually participates in the update of a governmental auditing product developed and maintained by a commercial QCM provider. The partner is a recognized expert in the field of governmental auditing. The extent of the partner's involvement in the annual governmental auditing guide update is to perform a technical review of update revisions and provide comments to the commercial provider project team, and the partner annually receives $2,000 for her participation. The commercial QCM provider is responsible for the content of each periodic update that the partner participates in and is free to accept, reject, or modify the input of the partner, as it sees fit.

We believe there is nothing related to this case that would jeopardize the partner's independence and objectivity regarding the performance of peer reviews of firms that use the commercial provider QCM. The partner does not personally have a vested interest in the success of her peer review clients simply because she provided a limited amount of expert assistance with respect to one QCM product. Further, she received only *de minimis* compensation for her participation with the product. In this example, there is no need to apply safeguards to mitigate an independence threat because *no independence threat exists*. There is no impairment of independence, either in fact or appearance.

In situations with fact patterns that fall between the extreme examples presented above, there may be circumstances that present threats to independence that could be mitigated by establishing safeguards such as additional oversight, technical review of selected higher-risk areas by domain experts, or by other means. At a minimum, we believe that the proposed Interpretation should be revised to prohibit small firms that develop QCM from performing peer reviews of firms that use their materials.

5. *If the proposed revisions are implemented, do you believe there will be a negative impact on your firm's ability to obtain QCM or CPE programs and/or ability to find qualified peer reviewers?*

We believe that approval of the Peer Review Standards and Interpretations as drafted could potentially cause a significant negative impact on the quality of QCM, the number of highly qualified peer reviewers, or both. As proposed, a number of recognized industry experts who assist in the development of PPC-brand QCM and also perform peer reviews would be required to choose one over the other. Either the Peer Review Program would lose some of its most knowledgeable and active peer reviewers, or our PPC-brand QCM would lose the valuable input and practical insight provided by our practitioner experts. Either loss could potentially result in the diminished engagement quality of accounting firms across the country.

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We appreciate the opportunity to express our views. Feel free to contact me by phone at 817-252-4237 or email at cliff.griffith@thomsonreuters.com if you have questions or would like to discuss our comments further.

Sincerely,

J. Clifford Griffith, CPA
Vice President, Product Development
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