



August 16, 2010

Ms. LaShaun King
Technical Manager
AICPA Peer Review Program
AICPA
220 Leigh Farm Road
Durham, NC 27707-8110

RE: Exposure Draft – Proposed Revisions to the
AICPA Standards for Performing and Reporting
On Peer Reviews of Quality Control Materials (QCM)
And Continuing Professional Education (CPE) programs

Dear Ms. King:

These comments are submitted on behalf of the Indiana CPA Society Peer Review Committee. However, the comments have no official status and do not represent either the approval or the disapproval of the exposure drafts by the Society or its Board of Directors. The Indiana CPA Society Peer Review Committee submits our comments on the Exposure Draft regarding the Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews of Quality Control Materials (QCM) and Continuing Professional Education (CPE) programs. Overall, the Committee believes the standards are acceptable as currently written. We believe Independence is the issue of concern. The proposed changes are being made in connection with the desire to clarify conflicts of interest, remove triennial peer review requirements for providers of QCM and CPE, and to revise and separate procedures for peer reviews of CPE programs. We want to caution the AICPA that this Exposure Draft appears to be over reaching of whether there is an Independence problem or not.

Considering all the available QCM and CPE materials, we believe that any unclear excess rules could take away the firm's responsibility over the QCM and CPE. It is the firm's responsibility to critique, evaluate and maintain all of its Quality Control Materials. Since Independence is at the heart of this Exposure Draft, we believe that the conceptual framework of Ethics (fact and appearance) outlined in AICPA Section 100.01 should prevail. For example, if one follows the principles-based concept of Independence, then creating generic QCM documents is acceptable. However, if one becomes involved in customizing the QCM or CPE for a specific firm, then Independence is impaired. By looking at the threats of Independence of reviewing one's own work and/or being an advocate of that same system, we believe guidance on these matters are clearly outlined in the already written AICPA Independence Standards.

From a practical point of view, we consider governmental agencies and businesses as the primary users of the peer review reports. We can understand why the governmental agencies are looking at this issue. To paraphrase the A-133 Standards, if there is an independence appearance problem, there is an Independence issue. We think the government body will weigh in heavily on this issue. For the business users, the whole independence concept already exists and will not be a major issue.

The Committee does not oppose change but wants any changes to be meaningful and beneficial to all concerned and interested parties.

Indiana CPA Society

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The following comments relate to the Exposure Draft's specific questions regarding potential conflicts with the current guidance as written.

1) Do you believe that the peer review relationship currently permitted by paragraph 159 is appropriate? (i.e. is it appropriate for a provider firm to perform the peer review of a user firm?)

The current relationships permitted by paragraph 159 are appropriate when the QCM and CPE programs developed are general in nature and it is the reviewed firm's responsibility to adapt and use them in its system of quality control to meet professional standards.

If the outcome of the peer review would have a significant impact on the peer reviewer (the provider) or if the QCM and CPE programs were customized to a specific firm (user) then the reviewer would be in violation of existing ethics standards and should not accept the review.

2) Are there any independence concerns that may arise as a result of the peer review relationship currently permitted by paragraph 159?

No, the proposed revisions are an overreaction that will decrease the value of the peer review process for many firms; our explanation is summarized as follows:

- QCM are just an interpretation of professional standards. When the QCM are peer reviewed and found to be a reasonable interpretation of the standards, and are then utilized and implemented by a firm, these practice aids should assist the firm in performing attest engagements in accordance with professional standards.
- The value and effectiveness of a peer review are increased when the reviewing firm is familiar with the practice aids (QCM) of the reviewed firm. The value is the ability to enhance how the firm can fully implement and utilize the practice aids in order to improve its system of quality control.
- The peer reviewer's objectivity is not impaired by being intimately familiar (whether by authoring or knowledge) with the general practice aids - which have been separately peer reviewed. It is the firm's responsibility to adapt, implement and utilize these general practice aids.
- In Indiana the results of a peer review are not public, so commercial gain is not an issue. In states where peer review results are public, commercial gain is not an issue either, due to the various options firms have in selecting QCM, CPE and review captains. Additionally, if developing and providing the QCM is a significant revenue source to the reviewer firm, then the resulting commercial pressures would fall under the existing independence ethics standards.

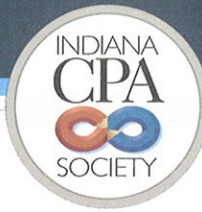
3) Do you believe that the proposed revisions are necessary to serve the main goal of the AICPA Peer Review Program (promoting quality in the accounting and auditing services provided by AICPA members and their CPA firms in order to serve the public interest and enhance the significance of AICPA membership)?

No, we believe the proposed revisions would decrease the value of the peer review process to many members and their CPA firms. Also, making it more difficult to perform peer reviews diminishes the value of AICPA membership.

The commercial business world is already accustomed to conflicts of interest, independence matters and can appropriately address the independence in appearance vs. by fact concept. However, the governmental agencies have a significantly different view on the interpretation of independence and conflicts of interest.

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- 4) **Is it more appropriate to have safeguards instead of prohibition? For example, would independence concerns be mitigated if the peer reviewers were not involved in any way in the development or maintenance of the QCM of CPE program? Or if there were periodic oversights of reviews performed by the provider firm when the reviewed firm uses the provider materials or programs? Please provide your suggestions as to an appropriate safeguard you believe mitigate independence concerns.**

Safeguards would definitely be more appropriate. The existing Code of Professional Conduct is written to guide CPA's in these matters. ET Section 55 states that "Objectivity is a state of mind and a quality that lends value to member's services." "The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest." If the code was being followed by all members, then there would not be a need for revisions of current Peer review standards.

Interpretations could be expanded and clarified to cover the general/generic nature of the QCM and CPE programs and the user firm's responsibility to utilize and implement the practice aids to conform to professional standards. If the provider firms actually customize the general practice aids specifically to a user firm, then the provider firm has just become part of the user firm's system of quality control and is not independent.

Additional safeguards would be for the Peer Review program to continue to require the QCM and CPE programs to be peer reviewed periodically. Also, performing oversights and accumulating feedback on the QCM program from any peer review will only enhance the quality of the program.

- 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?**

The proposed revisions will not have any impact on the majority of firms in the great state of Indiana.

Conclusion

Thank you for allowing us to respond to the Exposure Draft. QCM and CPE programs are just the tools and frameworks for firms to use and do not create or develop the firm's actual QC system. It is the firm's responsibility to design, develop and monitor its system of QC to ensure compliance with professional standards, and we do not think the AICPA Peer Review Board should confuse this responsibility. We understand that the Peer Review Board is looking at this as a principle based matter, and so are we.

If you desire further clarification of our comments, please email Nichole Favors, Peer Review Manager at nfavors@incpas.org.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steven K. Stucky".

Steven K Stucky, CPA
Peer Review Committee Chair

Indiana CPA Society

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