



ILLINOIS CPA SOCIETY

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American Institute of Certified Public Accountants
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Durham NC 27707-8110

Re: Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews

Dear AICPA Peer Review Board Members:

The Illinois CPA Society Peer Review Report Acceptance Committee (Committee) is pleased to provide our comments on the *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*. The Committee consists of 31 CPAs from public practice ranging in size from sole practitioner to regional firms with over one hundred professionals. Experience on the Committee ranges from newly appointed to inception of the Program. The comments expressed below represent the collective views of the Committee members and not the individual views of members or the organizations with which they are affiliated.

General Comments

The Committee does not agree with the statement on page 6 of the “Explanation of Changes to Existing Standards” that “there isn’t an adequate remedy to restore independence for a reviewer involved in the development of maintenance of...CPE programs used by the firm subject to review.” In fact, we believe there is no correlation whatsoever between CPE and independence with regard to the performance of peer reviews. We believe that existing standards for the development and presentation of CPE programs and the testing of a firm’s CPE for compliance with state licensing, regulatory and membership requirements as well as its appropriateness for the types of services provided to the firm’s clients during a peer review, adequately protects the public interest. We therefore believe CPE should be removed from the proposal.

The Committee also believes it is not appropriate to set strict guidelines as to when independence is impaired by a reviewer whose firm provides QCM to other firms. Independence is a state of mind and should be left to the professional judgment of the peer reviewer and reviewed firm. Such judgments should be based on the level of involvement of the peer reviewer in developing or maintaining the QCM and the reviewed firm’s degree of reliance on such materials. As a result, the Committee feels strongly that independence rules not be added to the peer review *Standards* and *Interpretations*, but that the Program rely instead on existing independence rules in the ethics section of professional standards.



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The Committee further believes that a blanket prohibition against such services will make it much more difficult for reviewed firms to find a qualified peer reviewer, one with the experience and expertise matching the reviewed firm's industries and size, particularly at a time when many states, including Illinois, are implementing peer review as a licensing requirement.

In short, the Committee believes the proposed *Standards* and *Interpretations* add nothing to public confidence and should not be implemented.

Alternative Position

If the Board elects to move forward with the proposal, the Committee believes guidance should be added that more clearly defines situations where independence would/would not be impaired. Such guidance could be based on existing *Interpretations* on Independence, Integrity, and Objectivity which give rise to the concepts of materiality and frequency or extent –

- Firm A may audit the financial statements of Firm B's pension plan and either firm may perform the peer review of the other **provided the fees incurred for the audit are not material to either firm** (Interpretation No. 21-5).
- Similarly, Firm A may occasionally consult with Firm B with respect to specific accounting, auditing, or financial reporting matters and Firm B may still perform Firm A's peer review **provided the frequency or extent of the consultation is not such that Firm B is an integral part of Firm A's consultation process** (Interpretation No. 21-8).

Examples of situations where the Committee believes independence is clearly not impaired but would be considered impaired under the proposed *Standards* and *Interpretations* related to CPE programs include:

- 1) Reviewers who serve as discussion leaders and/or speakers for state CPA society programs who attendees may include peer review clients.
- 2) Reviewers whose firm sponsors an annual accounting and auditing, governmental or not-for-profit update where outside speakers are brought in to serve as discussion leaders and whose attendees may include peer review clients.
- 3) Reviewers who plan and perform a single CPE event for a peer review client's staff at the peer review client's offices.

Examples of situations where the Committee believes independence is clearly not impaired but would be considered impaired under the proposed *Standards* and *Interpretations* related to QCM include:



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- 1) Reviewers who work for a large firm that develops and maintains practice aids and has little or no involvement in the actual development or maintenance of such aids, but provides them to other firms for use on their engagements.
- 2) Reviewers who provide sample planning documentation based largely on practice aids available from a third party provider.
- 3) Reviewers who provide a sample format for audit documentation lockdown procedures.

If the proposed *Standards* and *Interpretations* were to become effective, peer reviewers would likely discontinue providing these value-added services for fear of losing the ability to perform peer reviews for its existing and prospective clients. This would be a great disservice to the firms that utilize these services and receive great value from them.

In short, the Committee believes that frequency or extent, materiality, timing, subject matter, and significance to the user firm's system of quality control over its accounting and auditing practice should all be considered before a reviewer's independence is automatically impaired.

Other Comments

Implementation Date

The proposed *Standards*, if adopted, will be effective for peer reviews scheduled on or after November 1, 2010, with the exception of revisions to the procedures for performing CPE peer reviews, which are effective upon issuance of the proposed *Standards*. The effective date for revisions to the *Interpretations*, including those related to independence, is not clear. However, questions pertaining to independence are included in Exhibit 2 to the Information Required for Scheduling Reviews ("BG form") and these forms have already been sent to firms with peer review due dates of February 28, 2011 or earlier. In addition, CPE programs have already been written and scheduled for the 2010/2011 year. We recommend the implementation date be sufficiently delayed so that the applicable questions within the BG form may be updated as appropriate. We further recommend the Board align all future Standards and guidance changes with an entire peer review cycle (e.g., a calendar year, May 1st to April 30th, etc.)

The exposure draft also fails to clearly indicate that this pronouncement does not, in any way, impair the independence of peer reviewers on any peer review reports issued prior to the effective date of this pronouncement. An affirmative comment to this effect is absent from the exposure draft and could taint the perception of independence on previously issued reports and could result in unintended consequences to both peer reviewers and reviewed firms on reports issued prior to the proposed effective date of this exposure draft.



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Inconsistencies

We noted several inconsistencies between the proposed revisions to the Interpretations and the “Explanation of Changes to Existing Standards.” For instance, the Explanation of Changes notes that “The proposed revisions would preclude **any personnel from a provider firm** {emphasis added} from participating on the review team of a firm that uses QCM or CPE programs that provider firm developed,” whereas the paragraph added to the end of Interpretation No. 21-1 notes “If the reviewed firm uses quality control materials (QCM) or CPE programs that **any member of the review team** {emphasis added} helped to develop or maintain, the independence of the reviewing firm is impaired.” The latter appears to leave open the possibility a review team’s independence would not be impaired provided other members of their firm(s) developed or maintained the programs or materials.

Similarly, while the Explanation of Changes appears to be unequivocal with regard to the aforementioned prohibition regarding QCM and CPE programs, the second and third paragraphs under “Relationships With the Reviewed Firm” in Interpretation No. 21-1 and the last sentence of Interpretation No. 21-7, for which no revisions have been proposed, retain the notion of materiality of fees for services between firms, the frequency of CPE programs, and occasional attendance by representatives of one firm at programs developed by another firm. The latter appears to leave open the possibility that a review team’s independence would not be impaired in certain circumstances. Careful consideration should be given to re-reviewing the existing language to ensure consistency and eliminate any misinterpretations.

For the sake of consistency and to help eliminate confusion, we suggest paragraph .159(c) be revised as follows: “A third party organization **that conducts peer reviews** {emphasis added} and provides QCM and CPE programs as a primary function of its business.”

When discussing reporting in a QCM or CPE review, the following sentence was added to paragraph .176(i): “Express an opinion that the quality control materials were reliable aids at the year-end (QCM report only)” for a report with a peer review rating of *pass*. However, we believe a similar sentence needs to be added to the reporting elements for a report with a peer review rating of *pass with deficiencies or fail*.

We also noted several instance where “or programs” was added following the word “materials” in the proposed *Standards*. However, there appears to be several instances in paragraph .176, Appendix A, and the next to last paragraph in Interpretation No. 42-2 where “or programs” should also be added.

While we, as a Committee, are not prepared to support the current proposed changes, we are dedicated to keeping the public’s trust with the constant betterment of our profession in mind. Perhaps a clearer understanding of the issues at hand will provide more thought and



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insight into a joint resolution. We would be pleased to consider any further discussion when more facts are available for review.

We appreciate the opportunity to offer our comments.

Sincerely,

John J. Belletete, CPA

Chair, Peer Review Report Acceptance Committee

Gregory J. Pierce, CPA

Vice-chair, Peer Review Report Acceptance Committee