

August 4, 2010

LaShaun King, Technical Manager
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American Institute of Certified Public Accountants
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Re: Exposure Draft dated June 1, 2010 "Proposed Revisions to the AICPA Standards for Performing and Reporting on Peer Reviews"

Dear AICPA Peer Review Board Members:

The California Peer Review Committee (Committee) of the California Society of Certified Public Accountants is pleased to provide our comments on this proposed standard. Our Committee administers the AICPA Peer Review Program for California, Arizona and Alaska. Last calendar year, the committee accepted 1,229 peer reviews. There are twenty members on the committee with practices ranging from sole practitioner to regional firms with over one hundred professional staff. Several committee members are or have served on the AICPA Peer Review Board and the National Peer Review Committee (or its predecessor).

The California CPA Education Foundation is providing a comment letter concerning the proposed revisions of peer review standards. Our comments and concerns mainly relate to the revisions to the *Peer Review Standards Interpretations*, so the remainder of our letter will focus on those.

Question 21-1

We strongly support removal of peer review as a method to cure an independence impairment. If a firm or association prepares audit and accounting manuals, the lack of independence cannot and should not be corrected by allowing the audit and accounting manuals to be peer reviewed.

We also concur with the additional paragraph added at the end of this question because it expands the notion that independence may be impaired on a *firm on firm* basis if the reviewed firm uses quality control materials (QCM) or continuing professional education (CPE) programs developed or maintained by the reviewer firm. The original interpretation focused on the shared materials and CPE programs by associations of CPA firms. We do believe, however, that additional clarification is needed concerning how much of the quality control materials must be involved for independence to be impaired. For example, when the new quality control standards became effective in 2009, some peer review firms offered to write quality control documents (QCD) for firms. Even though the QCD does not represent an entire accounting and auditing manual, we believe that the peer reviewer is no longer independent with respect to the firm. A peer reviewer could argue, however, that he or she did not provide the firm with an entire quality control system, but simply helped a firm organize their current policies and procedures into a written format and assisted them in making certain that their policies were sufficient to comply with quality control standards.

Even more problematic is the issue of practice aids that enhance audit programs. At what point does a practice aid, prepared by a peer reviewer and either purchased or provided in a class, become so

critical to an audit program that independence would be impaired? Examples of practice aids include risk assessment work sheets or a form for calculating materiality, etc. If the AICPA Peer Review Board does agree that there is a threshold where practice aids would impair independence, what would be the process for determining if this had occurred?

We believe that better clarity would be achieved if reference to CPE programs was deleted in the final paragraph to Question 21-1 and the focus was solely on QCM. It is much more difficult to determine when CPE programs reach the threshold to impair independence and our Committee found the guidance in this area somewhat ambiguous. For instance, is there a difference between CPE that simply provides information about professional standards and CPE that focuses on quality control practice aids? How many hours of CPE would a CPA have to take from a provider for independence to be impaired? How many of the firm's professional staff would have to attend the provider's classes to impair independence? And finally, how much time needs to pass after the last class from a provider to cure the independence issue? Question 21-7 already focuses on CPE programs in firm to firm environments so perhaps this would be the place to further explain the Board's position on CPE rather than Question 21-1. Question 21-7 could be expanded as necessary to provide additional guidance.

Question 21-7

Currently under Question 21-7 the California Society of CPAs Education Foundation is not affected. Our instructors produce over 800 courses and webcasts each year. Some of our best accounting and auditing instructors are also peer reviewers. Since we offer a variety of instructors and courses, we believe this independence issue should not apply. However the use of the phrase "CPA firm, association, or any other type of entity" in the proposed revision makes this unclear. We strongly believe that peer reviewers teaching courses through a state society education foundation should not be subject to this CPE interpretation.

Implementation Date

The proposed implementation date for the revision to standards is for peer reviews scheduled on or after November 1, 2010. What is the effective date for the revisions to Peer Review Standards Interpretations? Questions pertaining to independence are included in Exhibit 2 to the Information Required for Scheduling Reviews and these forms have already been sent to firms with peer review due dates of December 31, 2010 or earlier. Also, CPE programs have already been written and scheduled for the 2010-2011 year. We recommend the implementation date be for peer reviews with due dates after December 31, 2010 to allow the Information Required for Scheduling Reviews form to be revised to include the correct questions.

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.

Very truly yours,



Debbie Ask, Chair
California Peer Review Committee