Enhancing Audit Quality Discussion Paper Responses

In August 2014, the AICPA published a discussion paper entitled, "Enhancing Audit Quality: Plans and Perspectives for the U.S. CPA Profession". The paper outlined ideas and plans for driving improved performance through all aspects of the audit process. More than 860 comments were received in response to the discussion paper. The themes in those responses appear below, where a theme is defined as a comment that was received more than three times.

Competence and Due Care

1. **How can the profession reinforce the importance of the Code and ensure that all CPAs performing private entity financial statement audits adhere to the due care and competence requirements?**
    a. Launch communication campaign focusing firms on quality/ethical conduct (11)
    b. Launch communication campaign to educate users of the audit (7)
    c. Work with colleges and universities to improve curricula (5)
    d. Expand CPA exam to include emphasis on the Code (4)

2. **What are CPAs' challenges and obstacles in exercising due care?**
    a. Fee pressure and the challenges of running a business (28)
    b. Failure to specialize; acceptance of engagements in areas where the firm has little or no expertise (13)
    c. Firms fail to obtain the necessary resources and/or competence and don't involve knowledgeable third-parties in the audit (11)
    d. Complexity and pace of change (10)
    e. Commoditization of the audit (6)

3. **Should the AICPA provide additional (specific) guidance on what it means to be competent? If so, in what areas? What suggestions do you have to define competence?**
    a. Yes (6) – no themes in suggestions for additional guidance.
    b. No (11)

4. **What methods, other than existing ones, should the profession consider to facilitate the right match of competency with an audit engagement?**
    a. Revise Ethics enforcement process (e.g. be more timely, take more punitive action) (4)

Auditing and Quality Control Standards

5. **Do you believe revisions should be made to the ASB's auditing or firm quality control standards to improve audit quality in the near term? If so, what specific revisions would you propose and why do you believe they would improve audit quality?**
    a. Revise EQCR standards; provide additional EQCR implementation guidance (29)
    b. The standards are not the problem and no revisions should be made (20)
    c. Revise client acceptance standards to provide more specificity (11)
    d. Standards are too complex and time consuming to implement (9)

e. Peer review results should be required to be provided to users (6)

f. Require annual written attestation that owners and staff have read the Code (5)

g. Require documentation of experience/expertise before accepting an engagement (5)

6. **Are revisions needed to the auditing or quality control standards to address specific industries or regulated areas? If so, what revisions are needed and what industries or areas should be addressed?**
   a. Yes (4) – no themes in suggested industries or areas to address.
   b. No (4)
   c. Frequent Standards changes make it difficult to keep up (4)

7. **What other guidance is needed to help practitioners apply the auditing and quality control standards to improve audit performance and quality?**
   a. Require exams/designations/certification in order to practice in specialized areas (20)
   b. Require auditors in high risk industries to take a minimum amount of industry-specific CPE (17)
   c. Require membership in Audit Quality Centers (12)
   d. Require minimum CPE on audit, accounting and QC standards (8)

Guidance, Tools, Learning and Resources

8. **Based on your use of audit engagement training tools and resources, what additional authoritative publications or non-authoritative guidance, tools or training could be developed for audits of financial statements that would enhance competencies and drive quality engagement performance? For which industries or specialized topics is it difficult to obtain educational and professional resources?**
   a. Need more education on the Code (13)
   b. Develop courses and resources based on peer review matters and other evidence of quality issues (13)
   c. Currently available guidance and resources are sufficient – no additional resources needed (10)
   d. A&A Guides need more practical guidance/a common structure (8)
   e. Develop new courses and resources related to client acceptance (5)
   f. Require competency assessments with all CPE (4)

Peer Review – Enhance Quality of Peer Reviewers

9. **What advantages and challenges do these changes present? How could potential challenges or unintended consequences be minimized or avoided?**
   a. Proposed training requirements
      i. In favor of new training requirements/competency testing (29)
      ii. New training requirements should not be implemented (24)
      iii. Need training on various other matters (6)
   b. Must-select reviewers come from AQC firms
      i. In favor of requirement that must-select reviewers come from AQC firms (10)

        ii. Not in favor of requirement that must-select reviewers come from AQC firms (5)
- c. Report Acceptance Body oversights
  - i. Concern about RAB oversights (6)
- d. Other suggestions
  - i. Require the peer review committee to appoint all review teams rather than letting them be hired by the reviewed firm (10)
  - ii. Reviewers need greater economic incentive (8)
  - iii. Increase/change the nature of oversight of reviewers (6)

10. Will removal of poor performing peer reviewers and the suggested training programs increase reviewer quality? Why or why not?
- a. In favor of removing poor reviewers from the pool (32)
- b. Try to remediate poor performing reviewers first before removing (5)
- c. Criteria for removal need to be clearly defined (4)

11. What effect do you expect these requirements will have on the peer review program's ability to maintain a sufficient number of qualified peer reviewers? If you expect them to have an adverse impact on the peer reviewer pool, what implementation steps could mitigate the impact?
- a. Concerns about the impact on the reviewer pool (33)
- b. More costs for peer reviewers and a smaller reviewer pool will increase cost for reviewed firms (12)
- c. Managers should be allowed to be team captains (8)

12. What effect do you expect these requirements will have on peer review stakeholders and on the peer review program as a whole? What should the Peer Review Board require of new peer reviewers to give reasonable assurance that they will develop and maintain the experience and expertise to perform high-quality peer reviews?
- a. New reviewers should undergo mentoring (6)

Peer Review – Address Risks Posed by Low-Volume Auditors of High-Risk Engagements

13. What are the advantages and disadvantages of these changes? Are there potential unintended consequences? How could they be avoided or minimized?
- a. Should low-volume auditors be required to undergo an off-cycle review when they perform a must-select that was not covered by its most recent peer review?
  - i. Yes (16)
  - ii. No (10)
- b. Should low-volume auditors be required to undergo pre- or post-issuance review if a non-conforming must-select is uncovered in their peer review?
  - i. Yes (11)
  - ii. Yes, but for all industries, not just must-selects (5)
  - iii. Yes, but for all sizes of audit practice, not just low-volume auditors (8)
  - iv. No (7)

          v. Use criteria other than size of audit practice in requiring off-cycle and/or post and pre-issuance reviews (6)
- c. Disadvantages
    - i. Concern about impact on small firms (10)
    - ii. Could reduce the number of firms doing audits (6)
- d. General support (6)

14. Should these requirements extend to firms that audit five or fewer engagements in any one industry (not just must-select industries)?
- a. If AICPA goes this direction, requirements should not apply to all industries (20)

Peer Review – Deepen Review of High-Risk Industries and Areas of Concern

15. What are the advantages and disadvantages of this initiative? If there are potential disadvantages or unintended consequences, how can they be avoided or minimized?
- a. Concerns about increased cost (14)
- b. Reviewers need more guidance; program expectations are unclear (4)

16. Peer reviewers currently review complete sets of engagement working papers in order to cover a reasonable cross section of the engagements performed by each firm. The Peer Review Board is considering a new approach where reviewers would still obtain a reasonable cross section but would only review those sections of engagements that represent particularly high risk. Which approach do you support and why?
- a. Reviewers should only examine those working papers in an engagement file that represent high risk (15)
- b. Reviewers should examine working papers that represent high risk, and this approach is allowed for under current standards and guidance (12)
- c. Reviewers should examine all working papers in an engagement file (7)

17. Are the targeted risk areas that the AICPA has identified for initial focus appropriate? What other high risk areas should the Peer Review Board consider?
- a. Yes (18)
- b. Reviewer judgment, not AICPA, should determine highest risk areas (6)
- c. Add A-133 audits to the targeted risk areas (6)

Peer Review – Improve Engagement and Firm Tracking

18. Recent changes were made to peer review practice aids to bring more attention to the completeness of the peer review population. These changes include revisions to the firm representation letter and additional questions in the Team Captain Checklist (System Reviews) and Review Captain Summary (Engagement Reviews). What other measures could ensure that peer reviewers receive complete information on the engagement population and that firms understand their responsibility to accurately report data?
- a. Increased consequences for firms that fail to properly report the engagements they have performed (10)
- b. Peer reviewers should not be responsible for ensuring completeness (7)

19. How could the information provided be verified? What databases could be leveraged?
   a. Wide variety of suggestions received, but no themes.

Peer Review – Create a National Group of Technical Experts Reporting Directly to the Peer Review Board

20. What are the advantages and challenges presented by these changes? How could related potential challenges or unintended consequences be minimized or avoided?
   a. Advantages
      i. This will result in better oversight and/or consistency (15)
      ii. Root cause identification will improve quality (4)
   b. Disadvantages
      i. Decreases the pool of peer reviewers (17)
      ii. Will delay acceptance of peer review reports (16)
      iii. Concern about second-guessing (11)
      iv. Will increase cost (11)
      v. Program unnecessary if the reviewer is properly vetted before performing the review (5)

21. What effect do you expect these requirements will have on the peer review program's ability to maintain the current pool of peer reviewers and attract new ones? If you expect them to have an adverse impact, what implementation steps could mitigate the impact?
   a. Experts must meet certain defined criteria (8)
   b. The party who will bear the cost needs to be made more clear (4)

22. What effect do you expect these requirements will have on other peer review stakeholders and on the peer review program as a whole?
   a. No themes in responses.

Peer Review – Make Peer Review Results More Informative

23. Are the current report rating grades (pass, pass with deficiencies, fail) clear and meaningful? Do you find these categories useful? If not, how would you change the report rating grades? (The peer review reporting model is discussed briefly starting on page 21 of the Peer Review Q&A and in more detail starting in paragraph .94 of the Peer Review Standards; links to these materials appear below.)
   a. Yes (24)
   b. No (11)

24. What actions, if any, does your organization take when a firm receives a pass, pass with deficiencies or fail report? What actions do you think should be taken by others?
   a. No themes in responses.

25. What information about a firm would be useful in better understanding, evaluating and using its peer review report? How should it be made available?

a. Provide demographic information (14)
b. None (12)

26. **Which model do you find more helpful: the peer review reporting model (opinion on the overall system of quality control) or the reporting model used by many regulatory bodies (a list of engagements and topics of deficiencies)? Could a hybrid model better meet your needs? If so, what would that model look like?**
    a. Prefer an opinion on the system of QC (15)
    b. Prefer a hybrid model that finds a middle ground (9)
    c. Focus on engagements and topics of deficiencies (4)

27. **Please share any other suggestions for enhancing the transparency and usability of peer review reporting. Explain how your suggestions would be helpful to you and what you will be able to do with the improved reporting.**
    a. Reports and/or other info should be made public and/or provided to state boards (16)
    b. State boards should take action when a firm receives a pass with deficiencies or fail report (5)

28. **How would your suggestions for improvement enhance audit quality? How will they be more beneficial for the users of the report?**
    a. No themes in responses.

29. **Beyond what is mentioned throughout the "Practice Monitoring" section of this paper, what other requirements should the AICPA Peer Review Program consider that would meaningfully impact audit quality?**
    a. Peer review should have more substantial corrective actions, faster membership terminations and more state board referrals (23)
    b. Peer review needs to enforce the Code and hold practitioners accountable when non-conformity is identified (16)
    c. The proposals in the discussion paper would cause peer review to deviate from its remedial purpose (13)
    d. Launch a communication campaign to help regulators better understand peer review (11)
    e. Client acceptance and competency requirements should be increasingly reinforced through peer review (5)
    f. Report Acceptance Body members and technical reviewers should meet enhanced requirements (5)