

September 7, 2010

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

**Re: June 1, 2010 Exposure Draft (ED) of 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***

Dear Ms. King:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

**GENERAL COMMENTS**

TIC's comments on this ED are limited to the amendments relating to provider firms that are involved in the development and maintenance of QCM or CPE programs for the benefit of user firms, as defined in the ED, and the effects of such involvement on the independence of a provider firm to perform a peer review for a user firm.

TIC believes the proposed revisions to the peer review interpretations that pertain to the CPE-related prohibitions for peer reviewers of user firms are incomplete and thereby fail to clarify the guidance for provider and user firms. The theory behind the amendments to the interpretations is presented only in the explanatory material and not in the text of the interpretations. In addition, TIC is concerned that the CPE provisions may be not be operational as written since certain implementation considerations have not been addressed. Some of the statements made in the interpretations could also have unintended consequences, if taken out of context. As a result of these factors, the ED does not provide clear guidance as to when a CPE provider would be prohibited from performing a peer review of a user firm. TIC has presented various suggestions below for improving the usefulness of the interpretations.

## **SPECIFIC COMMENTS**

### Theoretical Basis for CPE Amendments

TIC believes the proposed amendments to the interpretations are incomplete because they do not include the theory behind the QCM/CPE-related prohibitions or an adequate discussion of the Board's related intent. The theoretical underpinnings of any interpretation should always be incorporated within the interpretation to help members analogize to fact patterns that may differ from the examples given. The explanatory text on pages 6 and 7 of the ED forms the basis for the Board's conclusions on the issues, but this material was not carried forward to the revised interpretations to explain why the provider/user relationship creates an independence impairment for the provider. When the interpretations are finalized, the explanatory material will no longer be available to members. TIC therefore recommends that the interpretations presented in this ED be revised to address the theory behind the prohibited relationships described therein.

TIC believes the theory applied to QCM providers may not be equally applicable to CPE providers. QCM is, by definition, the product that is the subject of a peer review. When a user firm adopts the QCM of a particular provider, that provider has a significant economic interest in how the user firm conducts its accounting and auditing (A&A) practice. A user firm that purchases QCM from a provider generally does so with the intent of adopting the QCM as its A&A methodology. As a result, the QCM provider has become a part of the user firm's system of quality control.

Such a determination may be less obvious for a CPE provider. CPE represents only one aspect of a firm's system of quality control. CPE purchased from a provider can consist of one isolated course or program or an entire suite of materials that may be designed to fulfill the totality of a firm's needs. A user firm may obtain CPE in a variety of formats from a variety of sources. Providers may not have any way of knowing whether a user firm has incorporated purchased CPE into its system of quality control or whether and to what extent the user firm may have modified the CPE material. (In some cases, described in more detail below, a provider may not even be aware of every firm that has used the provider's CPE material.) Therefore, the theory behind the CPE provisions should be re-examined to ensure that an appropriate conceptual framework is developed and can be successfully implemented. It is unclear from the guidance, how, if at all, a CPE provider has become a part of the user firm's system of quality control. More guidance is needed for CPE-related prohibitions to address the various circumstances that can arise in practice and to avoid unintended consequences.

### Unintended Consequences

As written, the ED establishes absolute prohibitions against a CPE provider being part of

the peer review of a user firm. TIC believes the language in the ED could be interpreted to be much more restrictive than the Board intended. For example, the following sentence from page 20 of the ED could easily be taken out of context:

*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.*

Read literally, the above sentence could be interpreted to mean, for example, that a peer reviewer who also happens to develop and present a CPE video or PowerPoint slide show on new FASB standards for an accounting update session at a national or state CPE conference would be prohibited, in theory, from performing the peer review of any firm that sent attendees to the conference. By attending the conference, the firms are using the CPE developed by the provider. The prohibition would also extend to each member of the peer reviewer's firm.

Another example of a possible misperception or misapplication of the proposed guidance, based on the quoted sentence above, would be as follows:

Assume a partner of a CPA firm also serves as an author or editor for an independent third-party publisher of QCM or CPE material. The quoted sentence from the ED implies that the partner would be prohibited from involvement in the peer review of any customer of that 3<sup>rd</sup> party publisher. In addition, the partner's firm would also be subject to the same prohibition. Neither the partner nor his firm would have any way of knowing which user firms were customers of the publisher. Also, the user firm that purchased the material did not compensate the peer reviewer or his/her firm directly.

To avoid such misperceptions or misapplications, the statements made in the interpretation need to be carefully constructed to specify the conditions under which the prohibited behavior would apply. Generalizations should be avoided so as not to be taken out of context.

### Clarity Issues Regarding the CPE Prohibitions

As mentioned above, TIC believes the proposed interpretations do not include enough guidance for firms to determine when a peer reviewer from a CPE provider would be prohibited from performing a peer review of a "user" firm. A typical scenario for one TIC member is as follows:

*The firm meets with its peer review clients the year prior to the official peer review to discuss the new standards that should have been implemented, as well as the ones that are on the horizon that will affect the next peer review year. The firm considers this meeting to*

*be CPE for its peer review clients, but does not consider it to be part of the clients' quality control systems. In most cases, the clients are aware of the new standards but may have questions as to whether the standards were implemented properly or questions about best practices for the implementation of a new standard.*

Based on the ED as currently written, the provider firm in the above example may not have enough information to determine whether it is independent with respect to the client's next peer review. TIC believes an interpretation should address the following issues:

- What effect, if any, does the CPE subject matter have on the determination of independence? For example, are accounting/financial reporting updates acceptable, while auditing, compilation, review or other performance standards updates are potentially problematic?
- How, if at all, is a CPE provider involved in designing or operating a participant's system of quality control?
- If the CPE provided by the reviewing firm is a small proportion of the reviewed firm's total CPE program, would the reviewing firm be considered independent?
- Would the training described above be considered an infrequent occurrence and therefore not a threat to independence? What if the training is infrequent but is a part of the reviewed firm's CPE training plan?
- What type of action on the part of the reviewed firm would make the training "an integral part of its system of quality control"? For example, would the reviewed firm have to formally designate the training as part of its "established guidelines for participation by personnel in professional development programs" (as discussed in the AICPA practice aid, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*)?
- How would the reviewing firm know whether, and to what extent, the reviewed firm had integrated this training into its system of quality control?
- If an auditor can perform this CPE service for its audit client without violating the auditor's independence under the AICPA Code of Professional Conduct, why would a similar service by a peer reviewer for a peer review client be unacceptable?

TIC believes the above questions will arise in practice as firms attempt to understand the proposed revisions. The proposed revisions do not fully address the issues or provide a conceptual framework for analyzing the factors that will affect the reviewing firm's independence. TIC recommends that the response to Interpretation 21-7 be expanded to address the responses to these questions. Additionally, the last paragraph of Interpretation 21-1 should be revisited to ensure that it is consistent with the theoretical aspects of the response in Interpretation 21-7.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Philip J. Santarelli, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees