

February 3, 2016

Ms. Rachelle Drummond  
Senior Technical Manager  
AICPA Peer Review Program  
220 Leigh Farm Road  
Durham, NC 27707-8110

**Re: November 10, 2015 AICPA Peer Review Board Exposure Draft of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, *Improving Transparency and Effectiveness of Peer Review***

Dear Ms. Drummond:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, 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 supports the proposed clarifications and changes to the Standards as an important step toward enhancing the efficacy and transparency of the Peer Review Program. TIC especially appreciates the Board's efforts in developing eight new interpretations, which clarify areas that have led to some confusion in the past. The Specific Comments section below includes TIC's assessment regarding each major section of the proposal. TIC has also requested clarification of the Board's intent or additional guidance in certain areas.

TIC appreciates the Board's efforts on this ED and encourages continued efforts to improve the consistency of application of the Standards among peer reviewers and oversight bodies.

## SPECIFIC COMMENTS

### **Nonconforming Engagements (System and Engagement Reviews)**

#### Isolated Matters—Expansion of Scope

TIC anticipates that some firms may have reservations about the expansion of scope clarifications in paragraph .68 that could potentially result in a finding or deficiency in a firm's system of quality control. Extant standards require expansion of scope only if a potential significant deficiency in quality control was detected. However, TIC agrees with the Board that the peer reviewer should review other identified findings and deficiencies, as well as significant deficiencies, to determine whether a reviewed firm's "failure" to reach an appropriate conclusion on the application of professional standards in one instance is indicative of a pattern of failures. Consideration of these additional matters is appropriate to further enhance the quality of the peer review process.

TIC believes a potential concern could arise that the expansion of scope by the reviewer could result in extension of the overall peer review timelines based on the additional assessments required by the clarifications made in this ED. TIC understands that in certain circumstances delays are unavoidable and even necessary to ensure compliance with standards and a quality peer review. Example exceptions are identified in. TIC suggests that additional language be added to Interpretation 133a-1 to emphasize that these circumstances are exceptions and should not be seen as the norm and that every effort should be made to reduce delays in the timely issuance of peer review reports.

### **Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)**

#### Aggregating and Systemically Evaluating Matters—Design Matters

The amendments to paragraph .79 of the ED indicate that certain conditions could result in a deficiency in the design of the entity's system of quality control even though a nonconforming engagement was not identified. TIC believes this change could contribute to disagreements among the peer reviewer and the reviewed firm if additional guidance is not provided. The following guidance was removed from the standard:

*However, in the absence of findings in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be addressed in a FFC as a finding rather than result in a report with a peer review rating of pass with deficiencies or fail.*

TIC suggests this sentence be added back to paragraph .79 with additional guidance stating that, although this may be a typical conclusion, the reviewer should consider the entity's system of quality control even though there were no nonconforming engagements identified.

TIC also recommends that peer reviewers be encouraged to start with system reviews to avoid the risk of assuming the firm's quality control system is functioning properly simply because few or no matters were detected in the compliance tests at the engagement level. Reviewers should also be looking at the design and conducting compliance tests on the other areas of the firm's quality control system.

### **FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews)**

#### Removal of the Team Captain's Responsibility to Provide Recommendations for Remediation

The most significant proposal in this section of the ED is the amendment shifting the responsibility for the development of the remediation plans from the team captain to the reviewed firm. While many firms with nonconforming engagements, findings, deficiencies and significant deficiencies, may ask for guidance, TIC agrees with the Board's conclusion that this process should be collaborative, yet still the responsibility of the firms themselves to remediate any findings.

TIC members noted that the team captain may wish to include recommendations for remediation on the MFC form. TIC believes that the proposed guidance in paragraph .98 and Interpretation 99-1 (*Firm Responses and Related Team or Review Captain Considerations*) is unclear whether the MFC form may continue to include such recommendations (especially since reviewer recommendations have been dropped from the peer review report). As written, the guidance could be interpreted to mean that the peer reviewer needs to be independent of the remediation process.

TIC recommends that Interpretation 99-1 be amended to indicate that the team captain's recommendations for remediation may continue to be part of the MFC form. TIC believes this added language would encourage firms to work collaboratively with their peer reviewers and would be consistent with the intent of Interpretation 99-1 to have the peer reviewer assist the reviewed firm with its remediation assessment. Recommendations from the peer reviewer often provide insight and guidance to the reviewed firm as it prepares its remediation plan. Such assistance can be crucial to a small firm that is trying to navigate the peer review system and have its remediation plan accepted by a Report Acceptance Body or other oversight body.

#### Firm Responses in a System Review

TIC also supports the additional information that the reviewed firm will be required to include in its response to an FFC form or in a letter of response to the report. TIC believes the additional information will further improve transparency and will also reveal the importance a firm places on these matters.

#### Clarifications re: the Peer Review Report Model

TIC believes these clarifications are consistent with the remainder of the ED. As noted above, TIC supports the clarifications related to firm responsibilities for nonconforming engagements and systemic weaknesses. While certain firms may disagree with disclosure of specific industries which have associated findings, TIC believes this to be appropriate. A failure to understand a certain industry may be relevant to stakeholders, as there are many industry-specific standards within U.S. GAAP.

#### Firm Representations (Interpretation 208-1-1)

The proposed changes related to firm representations appear to address many key concerns, most specifically providing an illustration that mirrors all requirements in the peer review standards. To enhance the efficacy of the peer review program, TIC believes it is appropriate for firms to represent that they intend to complete the remediation communicated to the peer reviewers. TIC also agrees with the revisions to Interpretation 208-1-1, limiting a firm's ability to tailor the representation letters only for items outlined in paragraph .208(8) of the ED.

### **Transparency of Review Status**

#### Delays Preventing the Timely Acceptance of Peer Reviews

Interpretation 133a-1, *Fulfilling Peer Review Committee and Report Acceptance Body Responsibilities*, provides an example of four circumstances that may lead to a delay in acceptance of a peer review report. TIC recommends adding "an unanticipated expansion of scope" as an additional bullet item to the list of circumstances that can cause unavoidable delays in the timely acceptance of a peer review.

#### Publicizing Peer Review Information

Interpretation 146-3, *Publicizing Peer Review Information*, which indicates the type of information the administering entities or AICPA may disclose about a peer review that is still in progress, provides a robust listing of the various items that may be requested by third parties about an open peer review. TIC appreciates the Board's attempt to provide additional support related to this communication for firms to maintain licensure while a peer review is open.

However, in consideration of the various items that would not be disclosed by the administering entities or the AICPA, TIC recommends that the bullet point for "If the firm is going through fair procedures to determine whether it is cooperating with peer review" (page 137 of the pdf; page 135 of the ED) be moved to the section of information that would not be provided by either the AICPA or the administering entity. TIC is proposing this change because it considers the evaluation of fair procedures to be subjective in nature.

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,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair  
PCPS Technical Issues Committee  
cc: PCPS Executive and Technical Issues Committees