January 27, 2016

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Via email: PR_expdraft@aicpa.org

RE: Exposure Draft Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews – *Improving Transparency and Effectiveness of Peer Review*

Dear Members of the AICPA Peer Review Board:

The Peer Review Committee of The Ohio Society of CPAs is pleased to provide comment on the above referenced Exposure Draft – Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews - *Improving Transparency and Effectiveness of Peer Review.* A task force, composed of peer reviewers, technical reviewers, and peer review committee members, was appointed to consider the proposed *Standards* and develop this response.

Overall

We generally support these proposed revisions to the *Standards,* and believe that they will more fully involve reviewed firms in the process of determining the systemic causes of matters noted in a firm's peer review, and in designing the appropriate remediation of these matters. We also believe that the revisions will generally strengthen the peer review process and enhance users' ability to understand and rely on the reporting of peer review results.

However, we do have various suggestions for revision or improvement of the proposed *Standards*.

Non-Conforming Engagements

Paragraph .09: We support the requirement that firms take responsibility for determining the remediation required for non-conforming engagements by documenting the details of the remediation plan on the MFC form, FFC form, or letter of response, as appropriate. We would suggest that the MFC and FFC forms be redesigned to force reviewed firms to respond more specifically and robustly regarding its plans for remediation and the completion date for those plans.

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

Paragraph .75: We particularly support the guidance that requires identification of a systemic cause for each matter (currently, "isolated" or "inadvertent" are frequently given as reasons, and no further investigation or summarization occurs.)

Paragraph 44: We strongly support eliminating the option for a firm to complete a quality control questionnaire in lieu of furnishing a written quality control document. Too often, firms provide a questionnaire with minimal information that is of little practical use in understanding how the firm's system of quality control operates. A written document requirement will increase the efficiency and effectiveness of the review process, and firms will genuinely benefit from having to identify risks and design responses during the process of writing its document (though many will not perceive this as a benefit until much later.)

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Paragraph 54d: We do not support expanding the scope of the review to allow inclusion of evidence from outside the review year. We recognize that the review of engagements from prior years is occasionally necessary, and approve of the current *Standards* that clearly define this as something that should be done infrequently, as a last resort. We believe that routinely allowing introduction of other evidence from outside the peer review year could result in situations where reported conclusions about the system of quality control for the peer review year could be based on significant amounts of evidence that relate to some other period than the review year. We believe the use of evidence outside of the current year should continue to be discouraged, as it is now with the current guidance in the *Standards* being sufficient.

We have particular concerns about prior year evidence no longer being valid or relevant, and about the apparent implied prohibition against using evidence subsequent to the peer review year end. (At a minimum, this should be clarified.) We believe that this may result in inequitable results for a firm and among firms. To take one simple example: Assume that a small firm has added only one or two engagements since its prior peer review, early in the year following that review. The previous review was performed subsequent to the acceptance of those two engagements. In the firm's previous peer review, a finding was identified related to the design of the firm's acceptance procedures. The firm modified its quality control document. Since the modification was made, there have been no acceptance decisions to review. Under the proposed guidance, the reviewer would look to the last two acceptance decisions and would determine they were not appropriately made (they followed the firm's previous policy, which was deemed deficient); since we can't base our conclusions on review of policies alone, and our only evidence is based on a system that no longer exists, do we have to report a finding? If an acceptance decision under the revised policies was made a month after the current peer review year end – are we permitted to consider that as evidence about the revised system? The vague nature of determining when to use evidence outside the review year seems to compromise the reliability of the results being reported, and does not enhance the objectives of transparency and effectiveness of peer review reporting.

Paragraph .79: We do not agree with the removal of the rebuttable presumption that, in the absence of findings in the review of engagements, a design matter would ordinarily be reported on an FFC form. We believe the current language is sufficient to allow a reviewer to exercise professional judgment as to when a design matter, absent related engagement findings, is egregious enough to elevate to a deficiency, rather than an FFC, and should be retained. The current guidance indicates that elevation to a deficiency should occur infrequently; the proposed guidance appears to change this to an almost presumptively-mandatory assumption that it would always be elevated to a deficiency.

FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations

We are generally supportive of these changes, particularly the elimination of the reporting requirements related to the results of remediation of non-conforming engagements and of recommendations for remediating systemic causes. We believe it will be far more effective to require the firm to take ownership of problems and their resolution.

However, we do have the following suggestions to improve the proposed *Standards*.

Paragraph .92: We suggest adding language before the next-to-last sentence to the effect that "This is also intended to provide the firm with additional time to identify and document the systemic cause of a matter, finding, or deficiency if the firm has not already done so by the closing meeting date. If necessary the firm may consult with the reviewer to arrive at the systemic cause."

Paragraphs .93 and .116: While we believe it is appropriate for the reviewed firm to give due consideration of how best to remediate findings and deficiencies, we believe that this could give rise to unnecessary delays in completion of reviews. Under current standards the report date is the date of the exit conference but prior to the date of the firm's letter of response. The proposed changes will delay completion of the report (and submission of the review to the administering entity) by extending the review to allow the firm to consider its responses to findings and deficiencies. Since firms normally wait until receiving the report to draft their response, we recommend additional consideration and guidance including acknowledging the need for the reviewer to issue a draft report where appropriate and setting reasonable response times for the reviewed firm.

Appendix A – Summary of the Nature, Objectives, Scope, Limitations of, and Procedures Performed in System and Engagement Reviews and Quality Control Materials Reviews.

We noted that the effective date will need to be changed to the effective date of the revised *Standards*.

Paragraph 207-12 and 207-20: We believe that the revised guidance for reporting industry-specific findings, other than for must-select engagement types, reduces the transparency of reports and may result in inconsistencies in reports among firms. As we understand the proposal, it would be possible that the identical deficiency occurring in two firms could be identified as industry-specific in one report and not the other. If a firm only practices in one industry, any findings or deficiencies noted in the peer review, even if noted on a single engagement, would be reported as having "…contributed to audit engagements in the [specific industry] that did not conform…" However, if the firm performed services in two, or more, industries and had the same deficiency on multiple engagements the report would not identify it as industry specific.

Determining when to include or not include a reference to a specific industry does not appear to have relevance when it allows such inequitable reporting results, and may be perceived by a user as indicating that there is a qualitative difference in findings or deficiencies that are industry-specific and those that are not. We would propose that only deficiencies which were noted on a must-select engagement be specifically identified, which is consistent with the additional selections and considerations section of the report. Since it is not deemed significant enough to include in the scope paragraph a list of all industries in which the firm performs engagements, we do not see how it can be significant enough to include references to such industries in the deficiencies. Further, without an indication of all industries in which the firm practices, it is impossible to place such deficiency identification in proper perspective relative to the firm's overall practice.

Paragraph 207-16: We believe that it would be helpful to include a list of engagements subject to an engagement review in the same level of detail as Paragraph 207-1 (related to system reviews.) We also feel that the usefulness of this paragraph (and paragraph 207.1,

for system reviews) would be enhanced by clarifying to what extent Preparation engagements (AR-C Section 70) are included within the scope of peer review. Many, if not all, state boards of accountancy will find this information critical when establishing licensing or other regulations regarding such engagements and rules regarding sufficiency of peer reviews for registration and renewal purposes in the states.

Paragraphs 207-8 and 207-9: These paragraphs appear to duplicate one another; it would seem that one could be deleted.

Appendix B – Considerations and Illustrations of Firm Representations

Paragraph 208-4: We believe that the proposed additions to the representation letter in an engagement review require changing the dating requirements for the representation letter. Paragraph 208-8c of the proposed *Standards* require inclusion of a representation regarding remediation of non-conforming engagements, if applicable. (The example representation letters are different, depending on whether or not this representation is required.). But, as of the engagement summary date (the required date of the representation letter) it cannot be determined whether any non-conforming engagements exist. Thus, it is not possible to determine whether the additional representation regarding remediation of non-conforming engagements is required (that is, whether to use the example of a representation letter with no significant matters to report, or with significant matters to report.) We recommend that this be resolved by changing the dating requirement of the representation letter to the report date (as it is in system reviews.)

We also have one enhancement to suggest.

Paragraph 208-8b: We strongly support the addition of the requirement that the firm, in an engagement review, positively assert that it did not perform any of the engagements that would require a system review. We also believe that requiring a similar representation, regarding must-select engagements in a system review, would be a worthwhile addition for required representations in system reviews.

We do have a few minor suggestions for clarity and consistency of text:

Paragraph .208-2: In the second sentence, we would suggest that the term “fair” be eliminated from the phrase “…and the firm would be subject to *fair* procedures that could result…” We believe “fair” is too subjective, and could be used to create deflective and frivolous arguments about the meaning of “fair” by firms trying to avoid termination from the program. Further, we believe that the due process of establishing and amending such procedures creates an implicit assurance that such procedures are fair, and no explicit qualifier is needed.

In addition, we suggest that, in the third sentence, the presumptively mandatory “…*may* result in referral…” be changed to a mandatory “…*shall* result in referral.” We could not, in our discussions, identify any situation in which a firm would merit termination without having committed a violation that would require referral for further action. This is also consistent with the required representation list in paragraph 208-8b: “Acknowledge that…if termination occurs, *will* result in referral…”

Paragraph 208-3: We suggest specifying the addressees, in a manner similar to that used in Paragraph 208-4.

Paragraph 208-5: This paragraph would be much clearer if it simply used the same terminology used in the Quality Control Standards: “The written representations should be signed by the managing partner and the quality control partner (if other than the managing partner.)” These persons should already be identified in the firm’s quality control document – and with the elimination of the checklist-as-quality-control-document option, each firm is required to have a written document.

Paragraph 208-7: Replace “as noted in the text that follows” with the simpler, and clearer, “as noted in paragraph 208-8.”

Transparency of Review Status

We generally support these changes, and have no specific comments.

We appreciate the opportunity to comment. If you have any questions, please contact me at the below email address.

Best Regards,

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