

July 20, 2016

Ms. Beth Thoreson
Director, Peer Review Operations
AICPA Peer Review Program
220 Leigh Farm Road
Durham, NC 27707-8110

By e-mail: prsupport@aicpa.org

Re: Proposed Evolution of Peer Review Administration

Dear Ms. Thoreson:

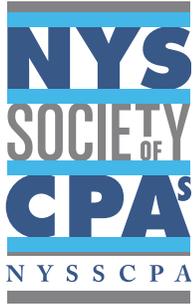
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned discussion paper.

The NYSSCPA's Peer Review Committee deliberated the discussion paper and prepared the attached comments. If you would like additional discussion with us, please contact Liren Wei, Chair of the Peer Review Committee, at (718) 445-6308, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

F. Michael Zovistoski
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON
PROPOSED EVOLUTION OF PEER REVIEW ADMINISTRATION**

July 20, 2016

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New York State Society of Certified Public Accountants

Comments on

Proposed Evolution of Peer Review Administration

General Comments

We welcome the opportunity to respond to the AICPA's request for comments on the Discussion Paper, Proposed Evolution of Peer Review Administration (Discussion Paper). We are supportive of the efforts of the AICPA to strengthen the quality of audits and of peer review and believe that a reexamination of peer review administration is an integral step.

Specific Comments

We have the following responses to the stakeholder feedback questions presented in the Discussion Paper, along with suggestions for the AICPA's consideration.

Question 1: Is the proposed timeline feasible?

Response: As this proposal is in the early stages and will create a major reorganization of the current system from 41 Administrating Entities (AE) to eight to ten AEs, more time will likely be needed for logistics not considered in the proposal such as the coordination with state licensing authorities and their designation of the newly formed or reorganized AEs as official bodies to accept peer reviews (mandatory quality reviews in New York State) that may be required for state licensing.

Question 1(a): Is January 31, 2017 sufficient time to make decisions regarding the role your state CPA society will play in peer review in the future?

Response: Considering this proposal is not final and might change in principle upon release, the January 31, 2017, deadline may not be sufficient time for all state societies to meet with their respective boards to discuss the feasibility of their participation, including budget issues. Possibly a six to 12-month period after a finalized proposal is released might be a preferred timeframe.

Question 1(b): Is December 28, 2018 a feasible timeframe for full transition to the new model assuming appropriate technology is in place?

Response: As the proposal is not final and may not be fully addressed at all state society boards or state boards of accountancy, the December 31, 2018, date may not be feasible.

We consider a timeframe of approximately two years from the final decision due date for the state CPA society would be sufficient time for AEs to put operations in place, including hiring the required employees, scaling up technology and recruiting volunteers for committees and review acceptance bodies (RAB). And a two-year timeframe is what the Discussion Paper implies with the January 31, 2017 decision date and the December 28, 2018, full transition date. However, as noted in our response to Question 1(a), we do not believe that all state societies will be able to make their decisions by January 31, 2017; therefore, the December 28, 2018 date will naturally have to be extended, keeping in mind that many of the newly formed AEs will still have to administer their existing reviews during the two year period as well.

Question 2: Are there other qualifications of Administrators, Technical Reviewers, Directors, RAB members or Committee members that should be included in the required criteria?

Response: We understand that some administrators currently working in the peer review program do not necessarily possess a bachelor's degree at present and we would think that the position does not necessarily warrant that level of education, but more appropriately warrants relevant experience as an equivalency for the college requirement.

Technical Reviewers (TR) should have between seven to 10 years of current public accounting experience at a supervisory level (manager or equivalent) as opposed to the five-year requirement presented to ensure that the TRs have had sufficient and comprehensive exposure that enables them to perform their technical review with sufficient professional expertise. A clarification of the term "current" would have to be understood as well by the AE hiring the individual. Also, clarification of what constitutes "strong knowledge of accounting, auditing and quality control standards" would be helpful as a TR also deals with other attest services and accounting and review services. The TR's depth of knowledge would have to include field experience in many industries, including governmental and ERISA engagements as cited, and their participation in either prior internal inspections or peer review teams would seem to be a necessary requirement. The TR qualifications should include that the TR is team or review captain qualified. In addition, a TR needs to be cognizant of large vs. smaller firm differences and how to cope with bridging that gap with the team captains they are dealing with.

The Peer Review Director qualifications do not appear to include any public accounting experience which would be essential to provide assistance to firms, reviewers, and staff, in particular the technical reviewer. Further, we suggest that the eight years of experience cited in the qualifications be at a supervisory level (manager or equivalent) and include current experience in accounting and auditing at a public accounting firm. In addition, we consider prior participation in either the internal inspection process of a public accounting firm or as a peer review team member to be a desired qualification.

Question 3: Are there procedures that should be standardized at the Committee vs. the RAB level?

Response: While we agree that there should be some formal standards of the procedures to be followed at the Committee vs. RAB level, we would appreciate clarification of how standardization will be achieved across the AEs and if there will be instances where the Committee or RAB can or should diverge from the standards in particular circumstances. For example, currently in our RABs, whether or not reviews are assigned to a specific member to present, all of our RAB members are expected to review and comment bringing their expertise and their viewpoint to the review process. We believe that this process works best for our RAB deliberations and would prefer not to change that process.

In addition, at present, all of our RAB members also serve on our Committee. The Discussion Paper currently anticipates Committee members vs. RAB members (emphasis added). For example, under this scenario, the Committee's education requirement would then necessitate an additional meeting with RAB members to communicate issues raised from RAB deliberations and guidance changes.

Question 4: Are there any additional issues for consideration?

Response:

Overall Comments -

In our view, it appears that the AICPA is proposing more administration in the peer review program (Program), which we believe does not necessarily equate to consistency in applying standards, and is a proposition not lost on existing AEs seemingly stretched by increased administrative demands in recent years.

Reducing the number of AEs from 41 to 10 may reduce the number of inconsistencies in the Program but probably does not eliminate them. Inconsistencies in the application of the standards, unfortunately, is in some instances the result of well-intended attempts to interpret and apply standards in unique situations that turn out to be a reflection of personality and opinion of an individual rather than application of professional judgment.

Perhaps as part of this initiative, some reconsideration should be given to what the Program is intended to accomplish:

- Is the goal to achieve perfection in flawlessly executed engagements or is it to help ensure that those engagements are performed in manner to help mitigate risk to the public? We believe the goal to be the latter, not the former.
 - Under the current Program model and its most recent iterations, and under the proposed model for the future, there seems to be an unbalanced emphasis on form over substance. Was a form filled out correctly or was the right outcome achieved?
 - Work must be documented; however, the interpretation of the appropriate amount of documentation and paperwork remains a matter of professional judgment.

- Our Peer Review Committee’s experience with enhanced oversights and the interplay of condensed checklists (such as Part A of the Single Audit Checklist) is making certain engagements substandard where the application of materiality and professional judgment are not entering into the process; it becomes more purely a checklist mentality where a “no” response cannot be explained for minor issues encountered. The Program began as an educational endeavor but has evolved into more of a mechanical and rigidly structured process for all involved to such a degree that it makes accomplishing the goal of delivering a quality engagement and instilling public confidence in the process a difficult task.

We did not observe in the Discussion Paper any mention of exactly how the existing entities will be consolidated. Perhaps those details are forthcoming, but we believe the consolidation alone will cause inconsistencies as the AEs currently operate relatively autonomously and any merger in practice takes time to assimilate processes and cultures.

Cost of Administration -

The proposal calls for each new AE to administer at least 1,000 reviews at a cost of approximately \$1 million. It would be helpful to obtain a more detailed understanding of how the \$1,015,000 budget number as presented in the Discussion Paper was derived. When establishing 10 AEs in different parts of the country where costs can vary substantially, that number may be unrealistically high in some areas and perhaps even low in others. The salary factor of the AE staff at all levels can vary greatly in different regions. The principle that each AE should recover its costs might be better served if shared on a Program-wide basis, not at the individual AE’s level, particularly considering that the Program is really a national one of the AICPA and is effectively contracted to a local AE for administration.

If 10 AEs are created across the country, the degree and variety of the technical expertise of qualified Directors and TRs can be very different in different areas. The differences in the technical skills in administrating the Program that exist now may well exist in the new structure, just on a smaller scale. As discussed above, the proposed new structure may reduce the number of inconsistencies, but not eliminate them.

Also in relation to costs, and quality, perhaps consideration should be given to changes to the peer review model for engagement reviews so that the efforts on engagement reviews satisfy the primary concerns and needs of the profession and other users (e.g., NASBA) and create a more efficient risk-based model , as follows:

- The Engagement Review of the future might recognize that the compilation is more often than not effectively “regulated” by the marketplace (e.g., bankers). Therefore, firms that only perform “compilations” and “preparations” will undergo an engagement review that is designed to be helpful to the firm and satisfy state regulators that we are testing our CPAs who perform these low-level engagements. The report on this type of engagement review might simply state: *“The firm represented that it does no attestation engagements higher than a compilation. We have examined a sample of compilations. We have offered*

the firm comments and recommendations as part of the review process.” (There would be no comment on a grade of pass or fail).

- A few essential checklists would be executed and signed off by the Review Captain, a representation letter and statistics would be received, the simplified one-page report would be completed, and the entire package would be sent to a clearinghouse electronically which is administered by an administrative person. In addition, the administrative person would check SEC, GAO and DOL databases to determine if there is evidence of the firm providing any higher levels of service.

The above change, in our estimation, might eliminate about one-third (possibly more) of the 34,000 peer reviews in a three-year period. This would reduce some of the administrative burdens on the new AEs and allow them to focus more resource on system reviews. The streamlining might reduce efforts of the AICPA Peer Review Board in struggling with defining what constitutes a pass with deficiencies or a fail report for such small firms and their non-attest engagements, could create a more helpful environment for small firms, and might satisfy the needs of NASBA and its affiliates.

Committees and RABs -

Based on the Discussion Paper it appears that about 80 Committee and RAB members represent the minimum amount of volunteers necessary. Based on the size of our own existing Committee, the volunteer hours already put in and what we understand from some other AEs, we believe the new AEs will have to actively recruit new Committee members and RAB members willing to donate the minimum hours per month as suggested, and will face challenges in doing so given an aging and shrinking peer reviewer population.

Additional Responsibilities of Staff -

Under the proposed responsibilities presented in the Discussion Paper, it appears that the work required by the TR has been expanded to cover engagement checklists and QC Policies & Procedures. This is a very important step, as currently, this level of detail is missing. While it certainly will require more time by the TR, the additional information will give more basis for understanding work that was done by the Team Captain and may lead to fewer questions and deferrals on the part of the RABs.

However, additional guidelines should be considered that would provide TRs a better understanding as far as what should be accepted from Team Captains, and where to draw the line between technical review and facilitating a review and assisting the Team Captain with his or her responsibilities.

In order to ensure that reviews are submitted to RABs in a manner ready for deliberation, TRs should complete an executive summary for each review. This summary would be reviewed by the Director, and the Director would conduct any further necessary steps if something problematic were noted in the executive summary. The summary would be utilized by the RAB members as a basis for their review.

Question 5: If you disagree with any aspects of the proposed plan, please share alternative suggestions for meeting the quality objectives.

Response: We agree that the existing model needs to change. Our suggestions to potentially enhance the proposal are presented in our responses above.