

June 12, 2015

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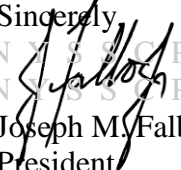
By e-mail: prsupport@aicpa.org

Re: Concept Paper: Evolving the CPA Profession's Peer Review Program for the Future

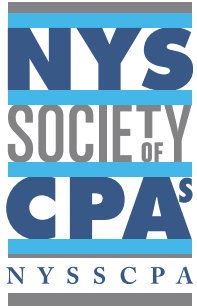
Dear Ms. Coffey:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned concept paper.

Members of the NYSSCPA's Accounting and Auditing Oversight and Peer Review Committees deliberated the proposed concept paper and prepared the attached comments. If you would like additional discussion with us, please contact Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Joseph M. Falbo, Jr.
President

Attachment



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

**COMMENTS ON
THE AICPA CONCEPT PAPER ON EVOLVING THE CPA PROFESSION'S PEER
REVIEW PROGRAM FOR THE FUTURE**

June 12, 2015

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New York State Society of Certified Public Accountants

Comments on

AICPA Concept Paper Evolving the CPA Profession's Peer Review Program for the Future

General Comments

We welcome the opportunity to respond to the AICPA's request for comments on the Concept Paper, *Evolving the CPA Profession's Peer Review Program for the Future*.

We are supportive of the efforts of the AICPA to strengthen the quality of audits and other engagements performed by practitioners and recognize that the proposed plan to strengthen the Peer Review process is only one element of the AICPA's *6-Point Plan to Improve Audits*. The NYSSCPA is committed to advancing quality and provides numerous opportunities for practitioners to enhance their skills and the quality of the services they perform through participation on more than 60 statewide committees, attendance at continuing professional education conferences administered by the Foundation for Accounting Education (FAE), operation of technical hotlines to assist practitioners with professional issues, and other technical resources.

While we share the AICPA's commitment to excellence and believe certain changes are needed to improve the effectiveness of the Peer Review Program, we have concerns about certain of the changes being proposed. The more significant of our concerns include the following: (1) smaller firms may have resource constraints in obtaining the technology needed to support the proposed monitoring approach, (2) engagement quality indicators and the range of those indicators may vary by size of firm, type of industry, and type and nature of entity for which a service is being provided, making it difficult to provide a singular quality benchmark, and (3) increased transparency to outside stakeholders through the external seal may not provide meaningful incremental information to users beyond that currently communicated today.

Our responses to the stakeholder feedback questions, which elaborate on our views expressed above, are set out below.

Stakeholder Feedback Questions

What engagement quality indicators would you find useful from an internal firm perspective?

A typical firm profile of a peer reviewed firm in New York State is a two to three owner - managed firm that performs tax services with five to six professionals, including the owners. In this type of firm and other smaller firms, the audit partners are typically fully engaged in the work performed and knowledgeable about any performance metrics that could impact quality. In such circumstances, it would be hard to imagine that the use of a dashboard, which provides a

snapshot of the firm's engagement activities compared to performance metrics, would provide firm owners with insight into the performance of the engagement of which they were not already aware.

However, we recognize that the use of engagement quality indicators to monitor engagement performance in a larger firm environment may prove useful in managing performance when the number of engagements exceeds a certain threshold. Engagement quality indicators that may be helpful in this regard include timing of planning sign-off, partner workload, staff utilization, timing of engagement reviews and compliance with documentation completion date requirements. While such metrics may be helpful in providing an indication of *possible* engagement risk areas, we believe that measurement of engagement quality is more complex than compliance with established quantitative benchmarks. For example, any monitoring tool would need to recognize the interrelationship between benchmarks that can be quantitatively measured and those that are more difficult to capture quantitatively but nonetheless essential to engagement quality. Such qualitative indicators include the appropriate use of professional judgment, the appropriate assessment of risks when performing an audit or review, the depth of knowledge of the engagement team and other similar qualitative indicators.

What would you like to know about your firm's practice in order to self-monitor and manage quality?

We believe the provisions within Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control*, when appropriately implemented, provide sufficient and appropriate information for a firm to self-monitor and manage quality. In particular, SQCS No. 8, paragraph 52, requires a firm to establish a monitoring process designed to provide reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This requirement is supported by application guidance that provides, among other topics, guidance on matters to consider as part of a firm's ongoing consideration and evaluation of the system of quality control, in addition to monitoring procedures that may be used to assess various aspects of a firm's compliance with its quality control system policies and procedures.

What risks do you see in developing a more real-time system?

The more significant risks to the development of a real-time practice monitoring system that we can foresee relate to three main areas: cost to implement, a focus on metrics fostering a "check the box" mentality, and confidentiality concerns.

Cost to implement

As noted earlier, a typical peer reviewed firm in New York State is characterized as a smaller firm, with a single location. Given their smaller size, such firms may document portions of their work within paper files or with simple off-line spreadsheets or similar documentation software. The cost to acquire the appropriate software and integrate the work done into a technology driven tool may place an undue financial burden on such firms. Any transition to a real-time system would need to recognize that a one-size fits all approach is not the optimal solution and should be scalable to the technological sophistication and size of a firm.

Focus on metrics fostering a ‘check the box’ mentality

We are concerned that the development of standardized performance metrics will not adequately incorporate the differences in the way various types of engagements are performed and result in a “check the box” mentality to the detriment of audit quality. For example, if a metric was developed for a specific type of engagement behavior, such as minimum levels of continuing professional education or supervision and review, the system may recognize that a metric was met based on the inputs by the firm, but the quality of the inputs would not be susceptible to measurement and may inappropriately suggest a firm was meeting a certain quality standard when that was not the case. Additionally, supervision and review occurs throughout an engagement by different levels of professionals based on the particular characteristics of an engagement. If the system measured only supervision and review performed by the partner in the situation where an experienced senior manager provided extensive on-the-job training to staff, the partner supervision metric may not provide an accurate depiction of engagement quality.

Confidentiality concerns

The proposal included with the Concept Paper explains that the practice monitoring program is expected to incorporate five activities:

1. Continuous analytical evaluation of engagement performance
2. Human review when system-identified concerns are raised
3. Involvement of external monitors when necessary
4. Periodic inspection of system integrity
5. Oversight of the system’s operating effectiveness¹

While we support changes to the current peer review system to enhance the quality of engagements a firm performs, we are concerned that the continuous analytical evaluation of engagement performance, depending on its extent and nature, may go beyond understanding solely the quality aspects of how a firm performs engagements. We suggest that as the practice monitoring process develops, issues of confidentiality are considered and addressed. Furthermore, we are concerned that digital metadata evidence about how engagement teams dealt with “red flags” raised by a real time dashboard could increase litigation risk.

Who should ‘monitor’ or perform the review?

- **A reviewer engaged by the firm (similar to the current program)**
- **A peer selected and assigned or recommended by the Concept’s system (best match based on certain criteria)**
- **An inspector selected or assigned by an independent body**
- **A combination of peer(s) and inspectors, based on firm profile or risk factor**
- **Some other means (please elaborate)**

Overall, we believe that the structure of the current program whereby the peer reviewer is engaged by the firm has sufficient safeguards to ensure the integrity of the program. However, we can see the merit in having a peer reviewer selected and assigned or recommended by the Concept’s system based on objective and measurable criteria. The selection and assignment of a

¹ AICPA Concept Paper, Evolving the CPA Profession’s Peer Review Program for the Future, page 5.

reviewer by the Concept's system would, in some measure, enhance the objectivity of a peer reviewer and the integrity of the peer review system.

In addition to changes in the way peer reviewers are selected, we believe that additional changes are needed to enhance the peer review system. For instance, we note that peer reviews are performed for engagements completed during the last year of a three year peer review cycle. To ensure that engagements performed during the three year cycle are performed consistently throughout the period, we recommend selecting some engagements on a surprise basis, which would occur soon after the 45 day lock-down period, from each of the three years.

We understand that the AICPA has recently undertaken steps to effect changes to peer reviewer training requirements. We had questioned whether eight hours of training every three years was sufficient and whether there was adequate testing to demonstrate competency of the concepts presented during training, so we are supportive of the AICPA's efforts to institute minimum annual training requirements, progressive competency testing and training requirements for reviewers of certain "must select" engagements. We would also be supportive of consideration of whether the addition of on-the-job training would be helpful in improving reviewer performance. We recognize that requiring potential peer reviewers to pass an exam and implementation of more stringent annual requirements may reduce the pool of peer reviewers and therefore suggest that additional initiatives should be taken by the AICPA to promote the peer review role and increase the number of qualified peer reviewers.

How should the firm rating display via an external/public Seal?

- **The same as the current Program's reporting model (Pass, Pass With Deficiencies or Fail)**
- **A numerical scale (100, 92, 88, 75, etc.)**
- **A lettering system (A, B, C, D, F)**
- **Some other means (please elaborate)**

We believe the current Program's reporting model is appropriate. However, we believe that the rating system is not universally understood by stakeholders and suggest the development of a communication program to inform users about the meaning of the different ratings.

Considering the technological and manual processes you have in place today, how would you envision your firm's data being extracted and how would the system assist you in enhancing the quality and effectiveness of your audits?

We have no comment on this question as it relates specifically to the processes in place at a firm.

What existing or known technologies would be helpful in considering or developing the Concept?

We do not have direct knowledge about the types of technologies that might be helpful in considering or developing the proposed Concept.