June 13, 2017

Beth Thoresen, Director – Peer Review Operations
AICPA Peer Review Program
220 Leigh Farm Road
Durham, NC 27707
E-mail: prsupport@aicpa.org
Re: 2017 Discussion Paper: Proposed Evolution of Peer Review Administration

Dear Ms. Thoresen,

The Peer Review Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed changes to peer review administration included in the 2017 discussion paper, Proposed Evolution of Peer Review Administration. The PICPA is a professional association of more than 22,000 members working to improve the CPA profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms.

We support the overall concept of assessing the performance of administering entities (AEs) through specific benchmarks that are qualitative, objective, and measurable. However, we have a number of comments, which are included below, regarding the specific benchmarks in the discussion paper.

General Comments

The committee agrees with the overall objective of improving audit quality by increasing the consistency, efficiency, and effectiveness of the administration of the AICPA Peer Review Program. However, the committee does not believe that there is a clear relationship between the proposed benchmarks and audit quality or high-performing program administration. Focusing on improving the timeliness of issuing certain letters, for example, may not necessarily improve the overall functioning of the program.

The committee recommends categorizing metrics based on broad policy objectives to support the connection between the benchmarks and the overall peer review and audit quality objectives (e.g., ensuring peer reviews are performed timely, a rigorous oversight program, high-performing RAB, etc.). Where possible, the committee requests that benchmarks be objective and measurable (e.g., overdue letter #1 sent within 5 days, etc.). Additionally, the committee does not believe that high quality is achieved by aiming for a lower threshold than 100 percent of the
program requirements, and thus recommends that the benchmarks be stated based on the administrative requirements and that an operating margin be permitted where appropriate (e.g., correspondence sent within the required timeframe within a 10 percent margin of error).

PRIMA capabilities - The committee notes that the proposed benchmarks appear to be based on administrative issues commonly identified through recent administrative oversights and geared to the PRISM operating environment. The committee believes that the proposed benchmarks should be developed based on the final operating environment under PRIMA. Furthermore, the committee believes that focusing on specific administrative issues stemming from recent oversight results is too narrowly focused, and recommends developing benchmarks based on the broader premise of how to achieve high quality.

Collaborative Monitoring - The proposed benchmark model would require AEs “to meet specific benchmarks, diligently monitored by the AICPA.” While the committee supports full transparency and diligent monitoring, it believes that self-monitoring is an important component for achieving consistency and quality. The committee therefore requests that the results and relevant metrics for any benchmarks used to assess the quality of the AE be made continuously available to AE staff. This transparency should enable the AE to course correct or communicate potential issues before problems emerge. For example, the proposed benchmark to send required communications within the required time frame is reasonable. However, the PICPA has never had access to metrics measuring the timeliness of the required communications.

Specific Comments

For items noted with an *, the committee generally agrees with these requirements and has no comments for the proposed benchmarks, except that it requests specific and reasonable deadlines for response times (e.g., OTF requests) and clear measurement criteria (e.g., how to measure whether RAB members have read the materials).

Administrator Benchmarks:

Current Requirements
- Enter committee decision for reviews when acceptance has been delayed or deferred, and send letters within two weeks of RAB meetings – It is unclear why this proposed benchmark only covers committee decision letters for delayed or deferred reviews.
- Submit complete annual POA by due date, including completion of all requirements – The committee supports a change to the due date for completion of the submission of the POA, including the completion of all requirements to April 30 to give the committee sufficient time to complete the required number of oversights.
• Select appropriate reviews for oversight based on written criteria in the policies and procedures, which considers risks associated with both the reviewer and the firm – The committee does not believe that administrators should be responsible for compliance with the peer review oversight requirements. However, administrators can be accountable for the administrative oversight, which is not listed as a benchmark.

• Ensure the minimum number of oversights and the related criteria are met and performed throughout the year – Same comment as on oversights above.

• Send overdue letters and other communications when appropriate as required by guidance
  o We expect that the timeliness of communications will be an important part of the administrative benchmarks. Since the timing of each type of correspondence is clearly delineated, the committee requests that the benchmarks be clearly communicated and measured for each correspondence. For example, each letter could be listed in a grid with the specific required timing listed for each letter. A report or computer dashboard should then continuously monitor the due dates for these specific letters and the actual date sent.
  o The committee notes that in some instances the due dates delineated in the letters do not agree with the required timing for certain follow-up letters (e.g., BGINFO letters). The administrative manual states that BGINFO letters should be sent every 30 days (this is when the letter cues up in PRISM). However, BGINFO2 and BGINFO3 state that the information should be received in 15 days. The committee requests that the AICPA ensure that the requirements are consistent with the correspondence and are not more rigorous than what PRIMA is capable of processing.

• Make appropriate decisions on exceptions (e.g., extensions, team members, off-site reviews, etc.) and maintain support for exceptions *

• Perform the reviewer résumé verification process timely and in accordance with the oversight handbook – Current requirements specify that the résumé verification process is to be performed by a technical reviewer. Since much of the process is administrative in nature, the committee agrees that this should be included as an administrative function. However, it is unclear whether the inclusion of this benchmark in the proposed administrative benchmarks means that administrators will play a role in this process going forward.

• Follow the documentation retention criteria policy established within Interpretation 25 – The committee’s understanding is that this will be automated by PRIMA.

**Implied Requirements**

• Comply with confidentiality requirements of the program and the boards for the states the AE administers; this includes:
  o Establish internal confidentiality procedures
o Communicate the policies and procedures to all parties involved in the peer review administration process
o Observe that the policies and procedures are followed - The committee agrees that confidentiality is a fundamental requirement of the peer review program. Aside from establishing and communicating policies and possibly obtaining annual confirmation from AE personnel acknowledging the confidentiality requirements, it is not clear how the AE is supposed to “observe that the policies and procedures are followed.” The committee requests clarification of this proposed benchmark.

- Complete administration checklist and record working papers received (within four business days of receipt) – While the committee supports promptly logging in working papers received, it believes that four business days is onerous and does not take into consideration vacations and peak processing times (e.g., year-end).
- Respond timely to requests from the OTF or AICPA staff – The committee agrees with this objective, but requests specific and reasonable deadlines for response times.
- Fully implement recommendations from RAB observations in a timely manner upon receipt of the report *
- Fully implement recommendations from RAB observations such that no comments are repeated in subsequent observations *
- Provide RAB materials electronically to RAB members one week in advance of RAB meetings *

New Requirements
- Weekly investigate reviews for which review team composition can’t be approved – The committee believes that weekly is unrealistic and suggests biweekly follow-up.
- Record committee decisions timely in PRIMA after RAB meetings for reviews that are accepted, which will result in documents being uploaded to FSBA *
- Address the familiarity threat for committee and RAB composition within the POA *

Technical Reviewer Benchmarks:

Current Requirements
- Perform the technical review timely and in accordance with the RAB handbook requirements (including applying appropriate levels of objectivity and skepticism) *
- Recommend reviews or engagements for oversight when appropriate *

Implied Requirements
- Limit reviews with open items and missing relevant information from being included in the RAB package unless RAB consultation necessary (overall over time, an AE should have less than 10 percent of its reviews delayed or deferred to another meeting) –
The committee agrees that technical reviewers should strive to complete all technical review points prior to submitting a peer review to the RAB. The committee notes that there are legitimate reasons for deferring a review that are beyond the control of the technical reviewer. The proposed benchmark, however, provides a disincentive to the RAB to defer or delay acceptance of a review despite legitimate concerns regarding the completion of the review. This type of benchmark is contrary to the objective of improving peer review and audit quality.

Many reviewers are reluctant to make changes suggested by a technical reviewer in the absence of a definitive RAB decision due to the potential for the RAB to disagree with the technical reviewer, or due to potential inefficiencies that could result if the RAB requires changes in addition to the technical reviewer’s suggestions. In other cases, a RAB’s judgment is needed to assess the sufficiency of a peer reviewer’s response to a technical reviewer’s comments. It’s important to note that technical reviewers are not in a position to force peer reviewers to make changes, but simply to provide guidance.

As an example, a peer reviewer selects only a 401(k) audit for a system review of a firm that performs DB, ESOP, and H&W plans, and does not include EBP-specific risks in its risk assessment. The technical reviewer requests that the team captain reconsider the scope of the selections and the risk assessment. The team captain responds by noting that no findings were identified in connection with the other engagements reviewed, and the firm obtains EBP-specific audit CPE. The technical reviewer cannot instruct the peer reviewer to expand scope. However, the RAB may conclude that it would be inappropriate to accept this review without team captain follow-up. In this case, the benchmark seems to suggest that deferring this review is contrary to ensuring a high-quality peer review. The committee disagrees with this outcome.

The committee suggests that a distinction be made between follow-up points due to technical reviewer oversight and points that the committee feels that the peer reviewer did not sufficiently address.

In other situations, a review may be ready for RAB review with the exception of one small administrative point (e.g., changing the date on the representation letter). The committee has found it to be more efficient to have the RAB accept the review subject to the administrative item being addressed, as this method results in the faster processing time for reviews. However, the committee believes that these situations should be kept to a minimum.

- Fully implement recommendations from RAB observations in a timely manner upon receipt of the report *
- Fully implement recommendations from RAB observations such that no comments are repeated in subsequent observations *
• Be familiar with guidance issued by the PRB and the board licensure laws for the states in which the AEs administer peer reviews – While the committee agrees that this is a prerequisite for the technical reviewer, it is not clear how this benchmark will be measured.

• Propose due date for corrective actions or implementation plans after discussing feasibility with the firm in advance of RAB meeting to be included in the RAB materials – The committee finds this requirement to be untenable, as the technical reviewer is not in a position to communicate a RAB’s tentative decisions to a firm. As encouraged by the AICPA Peer Review Board, RABs frequently make decisions that are independent and objective from the technical reviewer’s influence, and it is important to ensure that a conclusion be reached as to any corrective actions before communicating with the firm. The committee also notes that preliminary communications from the technical reviewer could lead to confusion if the final RAB decision differs from what the technical review has tentatively communicated. The committee also notes that this additional technical reviewer communication could increase technical review time. The committee recommends consideration of an additional peer reviewer requirement to consider the appropriate timing of any proposed corrective actions. This information can be included on the SRM for the RAB’s consideration.

• Respond timely to requests from the OTF or AICPA staff

New Requirements *

• Prepare reviewer feedback forms and letters in advance of RAB meeting to be included in the RAB materials *

• Obtain must-select training to perform technical reviews of peer reviews that have engagements from must-select industries *

• Be present during RAB meetings in which his/her reviews are presented to answer RAB member questions to avoid deferrals or delays – The committee finds this to be potentially onerous if there are multiple technical reviewers and biweekly RABs. Instead a lead technical reviewer should be present on the call who is familiar with the RAB materials being submitted to the RAB. Other technical reviewers could be available to join the call on an as-needed basis.

• Be CPAs – The committee agrees that technical reviews should be performed by CPAs. However, we believe that résumé verification procedures can be performed by the administrative staff with CPA oversight, direction, and review. For example, the initial request for information from the peer reviewers and follow-up for specific documentation and late submissions can be performed by an administrator with the reviewer selection and final review of the documentation performed by the technical reviewer.

• Thoroughly prepare peer reviews for RAB meetings to minimize the number of reviews that are deferred or delayed accepted subject to missing information – See the discussion above regarding deferred or delayed reviews.
Committee/RAB Benchmarks:

Current Requirements

- Assign corrective actions and implementation plans in the appropriate situations with due dates that are feasible and will benefit the firm – The committee notes that the due dates for certain corrective actions, especially pre- and post-issuance reviews, depend upon a myriad of client and firm circumstances that the RAB is not always privy to. Furthermore, client situations evolve, resulting in delays that are beyond the ability of the AE to control. The committee believes that the peer reviewer is in the best position to work with the firm to determine a reasonable proposal for timing of corrective actions and implement plans through discussion with the firm. See further discussion of similar proposed benchmark above.
- Conduct RAB meetings with sufficient frequency to meet 120-day rule for timeliness of presentation of reviews (60-day rule for engagement reviews with certain criteria) *
- Structure each meeting’s RAB member composition to include members with relevant industry experience (regarding must-select engagements) *
- Ensure each review has a quorum of RAB members to vote on it in accordance with the RAB handbook *
- Be familiar with guidance issued by the PRB *
- Meet qualifications as established in the RAB handbook *
- Read materials prior to the RAB meeting and come prepared to discuss agenda items *
- Discuss peer reviews and do not overly rely on the technical reviewer (including applying appropriate levels of objectivity and skepticism) *
- Issue timely the appropriate level of reviewer feedback that the situation dictates *
- Shepherd reviews through the completion process timely, including generally not waiving or extending corrective actions and implementation plans (exception – hardships) *
- Perform oversight on firms and reviewers timely in accordance with the oversight handbook and each AE’s own written policies and procedures *
- Annually evaluate qualifications and competencies of technical reviewer(s) *
- Perform administrative oversight in accordance with the oversight handbook *
Implied Requirements

- Establish RAB meeting length so that the entire meeting is productive; the length is appropriate to adequately discuss each peer review given its complexity (suggestion: conference calls should not be scheduled for more than two hours)*
- Fully implement recommendations from RAB observations in a timely manner upon receipt of the report*
- Fully implement recommendations from RAB observations such that no comments are repeated in subsequent observations*
- Respond timely to requests from the OTF or AICPA staff*

New Requirements

- Schedule RAB meetings no later than two weeks in advance*
- Establish a written RAB rotation policy regarding RAB composition within the POA*
- Ensure an oversight plan is approved by the committee and is in place by a required date*
- Present pertinent facts on each review (not on the consent agenda) prior to discussion and voting – The committee finds this requirement to be too vague to measure, and requests more specificity if it is retained as a benchmark.
- All RAB members will formally attest to having read all materials prior to a RAB meeting, and will maintain objectivity and a professionally skeptical attitude when considering reviews presented for acceptance – The committee does not agree with a requirement that would include a significant additional amount of administrative work, such as a requirement to submit an attestation for each RAB meeting. The committee would, however, support an annual requirement to sign such an attestation.

Thank you for the opportunity to provide our comments on the Proposed Evolution of Peer Review Administration discussion paper. Feel free to contact Allison Henry, the PICPA peer review committee staff liaison, at (215) 972-6187 with any questions regarding our comments. Sincerely,

James K. Pasquarette, CPA
Chair, PICPA Peer Review Committee