June 15, 2015

Tommye E. Barie, CPA
Chair, AICPA Board of Directors
220 Leigh Farm Road
Durham, NC 27707
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Re: Evolving the CPA Profession’s Peer Review Program for the Future Concept Paper

Dear Ms. Barie,

The Peer Review, Accounting and Auditing Procedures, and Employee Benefit Plan committees (the committees) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide input to the AICPA’s Evolving the CPA Profession’s Peer Review Program for the Future concept paper. The PICPA is a professional association of more than 22,000 members working to improve the 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 committees are composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

General Comments

The committees are supportive of the AICPA’s commitment to practice quality, and appreciate its efforts to be responsive to current practice and regulatory challenges. However, the committees have a number of concerns regarding various aspects of the proposed concept, which are outlined below.

The primary concern relates to the overall cost of the proposed system and its relevance in the small practice environment. For a small practice, it doesn’t seem reasonable to use a complex system that ties in human resource, time reporting, and learning management systems, along with engagement-specific metrics. In the small practice environment, many of these systems are manual, so populating the proposed system could require significant, costly, non-value-added data entry. As a result, many firms have the impression from this proposal that the AICPA is attempting to push the small practice out of business. The committees recommend that the concepts be voluntary until such time when the technology is developed to automate the extraction of the information from commonly used systems. Even at that time, an opt-out process should be created for those firms who would like to remain independent of the envisioned practice monitoring system.

The next issue relates to the human review when system-identified concerns are raised. The concept paper indicates that the human review and involvement elements would incorporate AICPA-engaged monitors. This is not an acceptable requirement. Making AICPA-engaged monitors a service option, possibly through the AICPA’s Center for Plain English Accounting would be fine, but, the committees do not...
support requiring AICPA monitors. These monitors would, in effect, become embedded into the firm’s quality control system, which is not an appropriate role for a member service organization. The additional step of having the AICPA follow up when the firm fails to take appropriate actions to address a given risk or issue is similarly unpalatable. The committees recommend that this step be performed by an independent quality control professional, either within or external to the firm. The process would then be evaluated for effectiveness through the normal monitoring and inspection process.

Specific Comments

The committees’ specific comments to the questions outlined in the concept paper are as follows.

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

The committees support the creation of a voluntary self-monitoring tool that would enable firms to better assess their quality control elements globally, at the firm level, and at the specific engagement level.

The committees also believe improvements to quality could result from having specific audit quality metrics available prior to the release of an engagement. While engagement-specific quality control considerations are currently a required part of an audit, the absence of specific data and measurements results in a check-the-box mentality. Quantifying quality control considerations with specific data would provide a clearer picture of the engagement team’s overall compliance with the quality control standards. Furthermore, for larger firms, accumulating quality control indicators in a monitoring database, with drill-down capability for increasing granularity, could help firms to pinpoint potential trouble spots prior to the release of an engagement.

Additionally, many engagement-level quality control elements that frequently result in deficient engagements – such as, lack of technical expertise, insufficient staffing training or time, and inadequate supervision – are not considered in the engagement quality control review (EQCR) process. For example, while the engagement quality control reviewer may evaluate the financial statement presentation and the documentation for certain technical items, the information regarding staff time, the timing of the work, the amount of supervisory time, the information regarding the industry specific training, etc., is not formally considered in the EQCR process. Including review of key quality control metrics in an EQCR could provide a more comprehensive basis for evaluating the overall engagement quality. The information could be used to early identify engagements that are at risk of a deficiency, which could then be more closely scrutinized for compliance with standards prior to the release of the engagement.

The committees recommend leveraging certain quality control indicators included in the International Auditing and Assurance Standards Board’s Framework for Audit Quality, and suggest focusing, at first, on the engagement quality control elements that are most easily measured. For example, staff and supervisory hours are quantifiable, whereas partners and staff making reasonable judgments is a more qualitative consideration. The qualitative factors lend themselves to a check-box mentality, which is counterproductive. Other useful quality control indicators that are easily
measured include overall staff training, industry-specific training, years of experience, years on the engagement, availability and use of technical experts, number of hours and timing, and amount and timing of supervision.

The committee agrees that tying specific quality control elements to the engagement and client-specific data would help provide a comprehensive picture of the overall engagement quality. Factors such as the following could then be rolled up into an overall client risk profile and matched against related competencies, staffing, training, timing considerations, etc.:

**Client Specific Items Affecting Engagement Quality**

- Years on the job
- Regulatory perspective
- Availability and time spent with management, the finance division, those charged with governance
- Number and nature of risk areas identified
- Number of fraud risk factors identified
- Number of journal entries proposed and waived
- The quality of the client’s books and records
- The quality of the client's internal control system

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

   The answer to this question varies among firms, depending on the size of the practice and engagement composition. Many of the practitioners involved in the small-firm environment do not need additional information to self-monitor. The committees, however, believe additional training on audit documentation, with specific examples, would help improve audit quality.

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

   Monitoring structure – The proposed structure of having the AICPA become hired professionals who serve as firm monitors results in the AICPA becoming an integral part of the firm’s quality control system. This proposed structure undermines the independence and integrity of the peer review program itself, as it would be a conflict for the AICPA to administer a peer review program of its own quality control system. Furthermore, if all firms are a part of the AICPA’s quality control system, would firms then be considered to be part of a network as defined in the ethics code, and therefore be required to apply the independence guidance across the entire network of firms? Additionally, how would liability insurance be affected by the creation of such a large network of firms?

   Litigation exposure – While it could be helpful to track certain audit quality indicators and embed them into the overall consideration of an engagement’s quality, the committees are mindful that data
capture is imperfect and that red flags could be raised unnecessarily. It is unrealistic, for instance, to expect additional hours from practitioners to perform administrative tasks, such as time entry, when the profession is strapped for time and quality resources. For example, a partner may meet with a client as a part of planning, on a given risk issue, etc., but may not document the time spent with the client each time a meeting is held or phone call is made. While any resulting flag may be cleared through discussions with the engagement or quality control partner, it is unclear whether the number of flags may pose additional legal exposure. The committees urge the AICPA to be cautious of adding risks and administrative burdens on practitioners. Instead, the AICPA should first pursue areas that can be automated.

Regulatory risk – If AICPA-hired monitors become an integral part of firms’ quality control systems, will the AICPA’s quality control system be subject to regulatory oversight? The resulting ramifications of this potential risk are numerous and should be considered.

4. 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)

The committees support allowing the firms to have the autonomy to hire the professionals involved in their quality control systems. Firms are currently required to have processes in place to ensure compliance with ethical requirements. As the monitors they hire are an integral part of the quality control practice and risk management systems, firms must have processes in place to ensure that the monitors are also in compliance with ethical requirements. If monitors are assigned to an engagement, it is unclear how a firm will ensure that the monitor is independent of its clients. It is also unclear how a firm will have to modify its insurance policies to incorporate these additional professionals. Separately, the committees question the degree to which AICPA monitors would dismiss a practitioner’s application of professional judgment. Given the role of the AICPA in setting standards, the monitoring role appears to be a conflict, and seems to take on a regulatory role. Therefore the committees do not support the assignment of monitors to firms, but do support making these practitioner resources available, potentially through the AICPA Center for Plain English Accounting.

5. 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)
The committees do not support any mandatory public ratings display. The committees recall that an AICPA membership ballot in favor of peer review was approved contingent upon the results remaining confidential. The committees note that many firms already voluntarily make their results public and others are required by regulations to make their results available. However, the committees do not support an additional AICPA requirement that the results be publicly available.

6. 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?

As noted above, the committees foresee a significant and costly data entry process, to populate the proposed database. The committees believe that these costs are non-value-added and would be difficult to recoup from clients in the competitive business landscape. Furthermore, the committees cannot conceive of any potential benefits in quality that would outweigh these costs.

7. What existing or known technologies would be helpful in considering or developing the concept?

The committees are not aware of any technologies that would facilitate the achievement of the proposed concepts.

Thank you for the opportunity to provide our comments on the Enhancing Audit Quality initiative. Feel free to contact us, Mitch McKenney at (412) 856-7880, Lisa Ritter at (717) 232-1230, or Mark Metzler at (215) 441-4600, or the PICPA staff liaison Allison Henry at (215) 972-6187 with any questions regarding our comments.

Sincerely,

Mitchell K. McKenney – Chair, PICPA Peer Review Committee

Lisa A. Ritter, CPA, CFE – Chair, PICPA Accounting and Auditing Procedures Committee

Mark G. Metzler, CPA – Chair, PICPA Employee Benefit Plan Committee