January 21, 2016

Rachelle Drummond  
Senior Technical Manager  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road  
Durham, NC 27707-8110

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

Dear Ms. Drummond:

One of the expressed goals of the Texas Society of Certified Public Accountants (TSCPA) is to speak on behalf of its members when such action is in the best interest of its members and serves the cause of Certified Public Accountants in Texas, as well as the public interest. The TSCPA has established a Peer Review Committee (PRC) to represent those interests on peer review matters. The views expressed herein are written on behalf of the PRC, which has been authorized by the TSCPA Board of Directors to submit comments on matters of interest to the committee membership. The views expressed in this letter have not been approved by the TSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the TSCPA.

There are several proposed changes that we agree will improve transparency and effectiveness of peer review; however, there are other changes where we believe the costs of incurring the additional work exceeds the benefits. Our comments are summarized by the focus areas as described under “Explanation of Proposed Changes” in the exposure draft.

Nonconforming Engagements (System and Engagement Reviews)

Interpretation 67-2 requires the reviewed firm to include a representation in its representation letter confirming it will remediate nonconforming engagements as stated by the firm on its MFC forms, FFC forms, or letter of response, as applicable.

We believe that adding such information to the representation letter does not provide any additional strength to the overall peer review process and will put additional pressure on the reviewer to complete the review in a timely manner. In some instances, there may be a number of complicated decisions and communication with the client and other parties the firm must make before a final decision is reached regarding the remediation on nonconforming engagements. Additional information in either an interpretation or other peer review guidance would be helpful to assist the reviewed firm and reviewer in this area and ensure a timely response.
Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)

Paragraph .39 requires a reviewer to consider the prior FFC forms when planning the peer review to gain an understanding of the reviewed firm's quality control policies and procedures.

We believe in practice that this is being done, but agree with adding the reference to the standards.

Interpretation 39-1 requires the reviewer to evaluate the actions implemented by the reviewed firm to the prior peer review report and FFC forms.

Directing the reviewer to review all responses from the prior peer review and determine if the firm implemented them or alternative procedures and whether the new procedures are effective adds time for the reviewer to perform this look back. Reviewers are expected to consider the results of the prior review particularly in light of possible repeat findings or other continuing similar problems to help address what the corrective action should be. This evaluation of the firm's quality control system is included in the risk assessment and documented in the Summary Review Memorandum (SRM). If the current review does not reveal issues in the areas previously identified, no further work is performed assuming whatever corrective action(s) implemented by the firm was appropriate. Going back and assessing the reviewed firm's responses from a prior review when nothing in this review indicates a problem would add additional time to the review for no real benefit. The interpretation should be dropped and current procedures should be considered sufficient.

Paragraph .44 removes the use of a questionnaire to document the reviewed firm's quality control policies and procedures.

We agree with the removal of the questionnaires and that the firm should have a quality control document.

Paragraph .54 (d) requires the reviewer when conducting compliance tests of engagements to review other evidential material, including evidence since the previous peer review, as appropriate.

This requirement expands testing to include prior periods if an event is not evident in the peer review period, such as a new engagement or a consultation. Many more matters addressed in the reviewed firm's quality control document (QCD) may not be present in the current review and to expect the peer review team to expand scope to prior years could and likely would add significant time to the review for little benefit. The review should be limited to a reading of the QCD (particularly in areas that will not be tested given the lack of anything to test in the peer review period) to determine if the document adequately addresses what the firm would do if the matter was encountered.

The current peer review reporting model opines on a specific period of time and this expanded procedure might be performed outside of the reporting period, thus necessitating consideration of changing the current reporting model.
FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Consideration (System and Engagement Reviews)

Paragraph .91 establishes a closing meeting to allow the reviewer and reviewed firm to discuss preliminary peer review results, including any matters documented on the MFC form(s), findings documented on FFC form(s), deficiencies or significant deficiencies to be included in the peer review report, and the type of report expected to be issued if determinable at this point. A closing meeting is also discussed in paragraphs .92, .115 and Interpretations 17-1 and 91-1.

It is much better to have one date for an exit conference meeting in which the results of the review are discussed with the reviewed firm. Providing for a close meeting and then later an exit conference meeting would extend the peer review process by allowing the firm additional time to respond and making it harder for a reviewer to finish the review. We would recommend removing the requirement for a closing meeting.


Paragraphs 208 (12) (13) (20) and (21) require additional wording for System and Engagement reports by adding references to explanations regarding nonconforming engagements and the review firm’s remediation(s).

We suggest that this wording not be included when the review report rating is a pass. Readers of the peer review reports may be confused as to whether there were any nonconforming engagements identified and if so, why weren’t they mentioned in the report. In peer review reports with a rating of pass with deficiencies or fail, the “if any” and “when applicable” could be dropped.

Appendix B-Considerations and Illustrations of Firm Representations

Paragraph 208 (8) (c) requires a representation regarding the firm’s remediation of nonconforming engagements, if applicable.

Refer to our earlier response to Interpretation 67-2.

Transparency of Review Status

We have no comments regarding the proposed changes to the communications to third parties regarding a firm’s peer review status.

We appreciate the opportunity to provide input into the standards setting process.

Sincerely,

Robert Beam, CPA
Chair, Peer Review Committee