

January 22, 2016

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

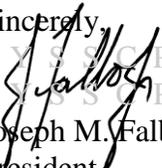
By e-mail: [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)

**Re: Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review**

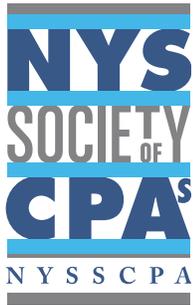
Dear Ms. Drummond:

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 exposure draft.

The NYSSCPA's Peer Review Committee deliberated the proposed changes 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,  
  
Joseph M. Falbo, Jr.  
President

Attachment



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

**COMMENTS ON**

**PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND  
REPORTING ON PEER REVIEWS, IMPROVING TRANSPARENCY AND  
EFFECTIVENESS OF PEER REVIEW**

**January 22, 2016**

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Raymond M. Nowicki  
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# **New York State Society of Certified Public Accountants**

## **Comments on**

### **Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review**

#### **General Comments**

We welcome the opportunity to respond to the AICPA's request for comments on its exposure draft of Proposed Changes to the AICPA Standards for Performing and Reporting on Peer Reviews, Improving Transparency and Effectiveness of Peer Review (the Exposure Draft).

#### **Specific Comments**

Presented below are our specific comments on three of the sections within the Explanation of Proposed Changes in the Exposure Draft.

#### **Nonconforming Engagements (System and Engagement Reviews)**

On page 8, regarding peer reviewer and firm responsibilities when there are nonconforming engagements under the heading *Key Changes Proposed*, while we are supportive of changes that facilitate efforts toward improved audit quality, we believe that consideration be given to ensure that changes achieve the desired improvements judiciously. For example, the time and effort required to remediate non-conforming engagements is frequently substantial and can have a detrimental effect on client relationships. Guidance issued in a recent general alert by the Peer Review Board (the Board) (May 2015 Peer Review Program Manual, section 3200, page 3211, last paragraph, last sentence) requires a reviewer to evaluate whether a firm's failure to recall and reissue reports is indicative of a leadership deficiency. Some may view this instruction to reviewers as using the peer review reporting process in a manner that interferes with the reviewed firm's relationship with the subject client.

Certain regulators such as GAO and DOL have either required or expect firms to remediate non conforming engagements and do not limit such remediation to the current reporting period. Some instances may require significant levels of increased documentation going back six years, under the rules proposed by these regulators. If peer reviewers are to evaluate the sufficiency of a plan of remediation, the periods of required remediation should be evaluated and specific guidance issued by the Board as to what constitutes sufficient remediation and the periods for which such remediation is required. If the Board concludes such guidance is not appropriate, then we suggest the Board should make it clear that the sufficiency of the remediation plan is a matter of professional judgment.

Further, if the Board determines that remediation is a matter for the professional judgment of the peer reviewer, then the Board should provide guidance for the peer reviewer on how to document the decision to not require remediation for the current engagement or prior years' engagements. We also suggest that the Team Captain be required to document his communication to the reviewed firm of the possibility or likelihood of sanctions by the regulatory body. We also believe the current guidance in Interpretation 67-1 (penultimate paragraph) is inadequate as it is permissive ("...The administering entity can require..." the reviewed firm to document its reasons for not remediating the non conforming engagement as a condition of final acceptance of the peer review). We believe the Board should amend the interpretation and use the word "must" so that the firm is required to document its reasoning in a signed statement issued on the firm's letterhead and become a required document to be submitted to the administering entity as part of the document package for the review.

### **Enhanced Peer Review of the Firm's System of Quality Control (System Reviews)**

We believe that the recommendation contained in the last bullet on page 9 of the Exposure Draft, that a reviewer "go out of period" to review compliance with a firm's policy regarding new client acceptance, would create a number of technical issues.

Under existing Statements on Quality Control Standards (SQCS), the policy and procedures for client acceptance and client continuance are included in the third element of quality control and, with some exceptions, apply both to new clients (acceptance) and existing clients (continuance). We believe that compliance with such policies as they pertain to new clients can be achieved by testing the reviewed firm's documented procedures for a few continuing client engagements.

If a reviewer does "go out of period" to test new client acceptance procedures and such compliance testing (or system design) is observed to depart in a material manner from SQCS No. 8, then a question arises as to the appropriate 12 month period to be cited regarding the reported deficiency (significant deficiency). In addition, if such policies were deficient, then uncertainty exists as to whether the reviewer should select one or more new engagements in the period prior to the peer review period for review or otherwise close the loop on a deficient design or compliance with the third element of quality control.

Further, a distinction can be made between "going out of period" to test the client acceptance element versus the engagement performance element for a must select engagement for which the current year engagement will not be finished prior to the due date of the peer review. The majority of procedures for new client acceptance can be tested by reference to existing client continuance procedures for the current period. However unlike the acceptance element, the audit, accounting and independence issues present in must select engagements cannot be tested without reverting to the prior 12 month period engagement if a peer review period engagement is not available to the reviewer. Accordingly, we believe the exception for must select engagements is not a precedent for promulgating a similar exception for the client continuance element of quality control.

On page 10 of the Exposure Draft, the first bullet under *Key future Complimentary and Conforming Guidance to be Proposed*, we believe the removal of PRP Sec 4300 and 4400 and

offering a new tool is a helpful concept. However, the Board should amend the Standards to require a single comprehensive quality control document for all firms. At present, Standards requires only “documentation of the quality control system” as opposed to mandating a “quality control document.”

### **FFC and Report Guidance Descriptions, Firm Responses, and Related Reviewer Considerations (System and Engagement Reviews)**

On page 12, the fourth bullet under the heading “For System Reviews,” we believe that repealing the provision requiring the review captain to make recommendations to the reviewed firm regarding undetected departures will not substantively change the dynamic between the reviewed firm and the review captain. Our experience has been that for most reviews of small non complex accounting and auditing practices, the firm is unable to develop an action plan without a significant contribution from the review captain. In many of those cases, we believe the review captain will still be the primary source of such remediation steps.

The principal effect of the change would, therefore, be to diminish the value of the peer review in the eyes of the reviewed firm and perhaps result in disagreements between the firm and reviewer given the transfer of responsibility and possible inference by the reviewed firm that it is equally qualified as its reviewer to assess the underlying causes and make practical and effective recommendations.

On page 13, under the heading “For System and Engagement Reviews” we believe the Board should reconsider the efficacy of adding a closing meeting to discuss peer review preliminary results and then discuss the firm's plans for remediation of the systemic cause underlying the undetected systemic departures. We recommend the closing meeting be optional. It will likely be appropriate only for firms with larger and more complex practices and systemic design and compliance. Many peer reviews administered by state society administering entities are of a smaller and less complex nature.

We also believe that whether the Standards retain an exit conference only provision, or migrate to an interim closing conference and subsequent exit conference upon completion of the review, there are other issues associated with the exit conference provisions that require the Board's consideration. With respect to documentation of all “No” answers from engagement checklists and non engagement questionnaires for which the reviewer concludes an MFC is not required as an exit conference matter, we have the following observations:

- Review Acceptance Bodies (RABs) - as a general rule, RABs accept the reviewer's judgment as supported in the Summary Review Memorandum (SRM) exit conference narrative unless they have reasonable cause to believe the reviewer used the wrong criteria to conclude a Matter for Further Consideration (MFC) is unnecessary. To make the RAB determinations more efficient, we believe the SRM exit conference item explanation should be expanded to expressly require reviewers to provide reasons as to why the matters were not documented on an MFC form.

- If the RAB still believes the No answer may have warranted an MFC, then the RAB could either: a) request the team captain to furnish additional explanations or, b) prescribe an engagement or full scope oversight to assess the No answer and its implications to the type of report issued, need for an MFC and engagement classification.