



To: Tommye E. Barie, CPA, Chair, AICPA Board of Directors
Barry C. Melancon, CPA, CGMA, President and CEO, AICPA

From: Cindy Brown, CPA, CEBS, Chair, NCACPA Board of Directors

Re: Enhancing Audit Quality

Date: November 7, 2014

On behalf of the NCACPA Board of Directors, I am pleased to forward comments pertaining to the "Enhancing Audit Quality" discussion paper. Our Board of Directors met on October 30, 2014 and devoted a portion of our agenda to our response to the discussion paper. Feedback from our Accounting & Attestation Committee and Young CPA Cabinet are incorporated into this memorandum. Our Peer Review Committee was encouraged to submit their letter separately.

Through attest and assurance services, our profession serves the public's trust, but we will lose that sacred trust if we do not respond quickly and effectively to issues before us. It is our hope we all can push for real change to enhance audit quality and reinforce the profession's goal of maintaining excellence in an increasingly complex business environment. Success is not an option.

Audit Quality

- We applaud efforts to raise audit quality across all sectors. Business is more complex than it has ever been and CPAs are an important component to its success. All CPAs must strive to improve the quality of their work, adhere to professional standards, and serve the public. There should be a penalty associated with not conforming to established standards.
- Client acceptance standards should include requirements for engagements when the auditor has less experience in a high-risk, specialized industry.
- For firms taking on an audit of a high-risk industry for the first time, we suggest a pre-issuance review be required before the audit can be released to the client.
- If our profession's highest risk area can be described as the low-volume auditors of high-risk engagements who cannot focus adequate time to learn the subject matter and apply the concepts in an ever-changing regulatory environment, then we need to directly address this issue.

Peer Review

- Expectation gaps exist, as the Peer Review program was created for different purposes than our regulators expect. We acknowledge the evolution and recognize that users of our services have different expectations.
- A key problem is how audit fees are structured in competitive bidding environments, which may be contributing to the quality problems.
- We question whether firms should select the firm to peer review them or have it assigned.
- One of the greatest challenges facing this program, even before the potential for increased regulation, is finding qualified peer reviewers to fill the pool.
- How do we make our Peer Review program attractive to younger members, such that they will become reviewers and committee members going forward?
- Clarify the report classifications. "Pass with deficiencies" is difficult to understand. Perhaps a pass/fail system would be more helpful.
- Peer Reviews should be more focused on guidance and help to the firm than punitive.

Education and Training

- Increase focus on peer reviewer and auditor competency through use of techniques recommended by the Future of Learning Task Force.
- Do we have statistics on the types of issues being found and the numbers to determine how pervasive the problems might be? This information should be incorporated into focused CPE.
- Utilize simulations in CPE training to illustrate audit deficiencies and how to avoid same.
- Aligning the Uniform CPA Examination with real-world practice for new CPAs and increasing adherence to the Code of Professional Conduct by all CPAs are crucial to our progress.

This profession will have to deal with potentially troubling media coverage in 2015 when the US Department of Labor releases its latest ERISA study of 2011 Employee Benefit Plan audits. It's important the profession is seen as being proactive in improving quality. The discussion paper does a good job of explaining near-term changes the AICPA has already begun to implement. Strengthening peer review processes, revisiting professional standards, creating additional guidance, enhancing the Uniform CPA Examination, and reinforcing professional ethics are essential to our collective success.

On the longer-term horizon, we have concerns about the future implementation of a proposal expanding the use of technology, but will wait until the Exposure Draft for the "Practice Monitoring of the Future" is released.

Thank you for the work being done on behalf of this profession and for providing an opportunity to comment on these proposals. We look forward to receiving a summary of the comments received on the EAQ Discussion Paper. Our Board continues to support efforts to improve our Peer Review program and audit quality, which was echoed in a board-approved resolution submitted in the fall of 2013. We remain ready to assist in improving the Peer Review program, as well as audit quality. Please call on us. Thank you.

cc: NCACPA Board of Directors
Melisa Galasso, CPA, Chair, Accounting & Attestation Committee
Scott Hughes, CPA, Chair, Peer Review Committee
Zach Levin, CPA, Chair, Young CPA Cabinet
NCACPA Management