



June XX, 2017

Beth Thoresen
Director - Peer Review Operations
AICPA Peer Review Program
220 Leigh Farm Road
Durham, North Carolina 27707-8110

Dear Ms. Thoresen:

The North Carolina Association of CPAs (NCACPA) is pleased to offer our comments regarding the revised Proposed Evolution of Peer Review Administration discussion paper released for comment January 4, 2017. This response represents the NCACPA Board of Directors with input from the NCACPA Peer Review Committee and NCACPA staff.

The NCACPA and its members offer our appreciation to the AICPA Peer Review Board and AICPA staff for their continued efforts to improve the AICPA Peer Review Program (Program). Since its inception, we believe the Program has served the profession and the public well. We continue to support changes we feel enhance Program effectiveness.

In regard to the revised discussion paper, we offer the following comments:

Proposed Benchmark Model

While North Carolina believes the administration in our state has operated very effectively over the years, we agree that benchmarking of AE performance will be helpful towards achieving consistency from state to state and for the Program as a whole.

Staffing

While we understand and agree that the AE should have a CPA on staff to oversee the administration of the Program, we have concerns as it relates to the proposed guidance in the position paper. The discussion paper refers to the assigned CPA being actively engaged and knowledgeable of the Peer Review Standards sufficient to identify and correct inadequate performance of an administrator or technical reviewer.

Matters for Consideration

- 1) Having sufficient knowledge of the Program to enable a CPA to function in that capacity would logically require someone that has recently performed peer reviews, technical reviews, and has significant knowledge of the Program as a whole. Our further inquiry on the experience of the CPA in this role indicates it is currently anticipated the CPA would not need to be qualified to perform audits, be enrolled in the peer review program, or have any prior peer review experience. While we feel that certain job requirements could be obtained through on-the-job training/experience and peer review related CPE, should the requirement to have an experienced CPA on staff be maintained in the revised rules, strong consideration should be

given to the CPA having recent experience performing peer reviews, technical reviews, and engagements under Professional Standards.

- 2) Further clarification is needed regarding the specific role/responsibilities of this CPA as well as the technical background and training (both initial and ongoing) anticipated for this position.
- 3) Additionally, the discussion paper states AICPA's revisions are to be complete by August 31, 2017 and AEs will be functioning under the new model by May 1, 2018; thus allowing a nine month implementation. We recommend at least a twelve month implementation window for an AE to facilitate a more successful evolution in this area.
- 4) While not specifically addressed within the position paper, we must consider the proposals set forth, especially around staffing, that directly impact the financial stability and sustainability of an AE. The potential concerns as identified in the current environment include:
 - a. Significant financial challenges for any AE without a CPA currently involved in its peer review administration.
 - b. The overall declining trend in enrolled firms due to the (i) discontinued performance of engagements subject to peer review, (ii) implementation of AR-C Section 70, and (iii) ability for firms to move between AEs as a part of "price shopping."
 - c. The recognition of an increased number and level of required training, which are additional costs of doing business.

Technical Reviewer Requirements

The argument has been made that other states using one or two full time technical reviewers results in greater consistency. Since the inception of the Program, North Carolina has not employed full-time technical reviewers.

Matters for Consideration

- 1) A full time technical reviewer who is not performing engagements subject to the Standards is not considered a "peer."
- 2) We are concerned whether the full time technical reviewer structure places too much authority for the acceptance of reviews in that position over the Review Acceptance Body (RAB).
- 3) The discussion paper indicates the administrator will make all peer review work papers available to the technical reviewers. Additional clarification is needed regarding what constitutes "all" work papers ("all" completed by the peer reviewer vs. "all" submitted to the AE).

Benchmark Violations

The NCACPA is in agreement that benchmarks are necessary to measure performance and that violations would require remediation and transparency to stakeholders. While we are in general agreement with the types of violations that are referenced and understand those violations that are considered egregious and non-egregious are subject to modification, we have the following comments/concerns:

Matters for Consideration

- 1) There is a reference to technical reviewers and Committee/RAB members not applying an appropriate level of objectivity and skepticism (familiarity threat). North Carolina currently has a policy of RAB rotation every three months which reduces the threat that any one RAB member could dominate any decision on a review. Given the policies and procedures presented in the discussion paper and our current practices, we feel the familiarity threat is not an issue in North Carolina.

Additional clarification is needed about how the "familiarity threat" would be identified/measured. Also, examples of where the "familiarity threat" has represented a problem in the administration/approval of reviews would help us continue to develop additional strategies to further guard against the familiarity threat.

- 2) There is reference to a RAB consistently deferring or delaying over 10% of reviews representing an egregious benchmark violation. In North Carolina, it is not uncommon for more than 10% of reviews to be carried over by the RAB for clarification/revision before acceptance. This is partly due to the limited authority given to our technical reviewers to make significant changes to peer review results and reports without RAB input.

We have concern that a limit of 10% on deferred/delayed reviews could cause problems for RABs and AEs in completing their work. North Carolina feels that our structure of multiple technical reviewers with limited authority has served to place significant decisions on the results of a peer review in the hands of a RAB that contains true peers with many years of current professional experience and judgement. We feel this structure has worked well and believe a 10% threshold would drive behavior and an unfavorable result.

- 3) We recommend that AICPA consider establishing a formal exception approval process, where AEs with no deficiencies in their program are able to operate with a different structure that is documented and approved by the AICPA. While this may create diversity in practice amongst AEs, an exception process would also allow successful Programs to continue to operate within certain guidelines and requirements.

State Board Oversight

The NCACPA will defer to the North Carolina State Board of CPA Examiners to provide comment in this area.

In closing, the NCACPA Board of Directors is pleased to have input on the continual improvement of the Peer Review Program. While we recognize that evolution of peer review administration is part of the AICPA's Enhancing Audit Quality (EAQ) initiative, it is important to remember that audit quality must begin with the firms performing the work. The Peer Review Program was originally intended to be, and we believe it should remain, a program to monitor the quality of a firm's accounting and auditing practice and provide a resource for improvement.

We thank you for the opportunity to offer our comments and would be glad to discuss them in more detail at any time.

Sincerely,

Sharon H. Bryson, M.Ed.
NCACPA Chief Executive Officer

Mark P. Sotichuck II, CPA, CGMA
NCACPA Chief Operating Officer

cc: NCACPA Board of Directors
NCACPA Peer Review Committee
Mary C. Kelly, NCACPA Peer Review Coordinator