

AICPA PEER REVIEW TASK FORCE REPORT RECOMMENDATIONS

Q & A

Who issued this report and why was it commissioned?

This report was issued by the Peer Review Task Force appointed by the AICPA Board of Directors and established in May 2005. The Task Force was asked to recommend changes to the profession's peer review programs in order to advance the Board's and the AICPA Council's desire for greater transparency of peer review results.

Who was on the Task Force?

The Task Force was chaired by Lee Wunschel, a member of the AICPA Board of Directors, and included representation from small, medium and large CPA firms, business & industry, those involved with peer review, some who weren't, state CPA society leadership and state regulators.

Why do the AICPA Board and Council believe that it is necessary to enhance the transparency of the Institute's Peer Review Program at this time?

The Peer Review Program has served the profession well since mandatory peer review was originally approved in 1988. But the world has changed dramatically in the past two decades. Just as the CPA profession has evolved to meet changing needs, the Task Force believes that the peer review system should evolve, too. In today's era of increased accountability, peer review reports need be more usable and transparent. The National Association of State Boards of Accountancy and other users are assertively calling for changes that would achieve transparency. The AICPA Board and Council believe the profession should demonstrate the leadership it has always shown in response to market and regulatory demands and step up to the call for transparency voluntarily and in a manner that helps ensure uniformity for the profession.

What does the Task Force report recommend?

The report offers a number of detailed recommendations to enhance the Institute's Peer Review Program in a more transparent environment:

- Peer review reports should be as concise as possible and written in "plain English." The "grading" terminology should be simplified and the report should be a stand-alone document that discloses the significant matters affecting the type of report issued.
- The current peer review administrative oversight processes should be made more transparent by communicating the objectives, procedures, and results of oversight to the public through annual, and in certain cases biannual, reports issued by the AICPA and the state CPA societies that administer the program.

- To ensure a level playing field for all practitioners, all state boards of accountancy should require peer review as a condition of licensure.
- The AICPA should conduct a comprehensive peer reviewer recruitment campaign to attract new, quality peer reviewers and to educate firms on the benefits of having its owners and staff members involved in performing peer reviews.
- The AICPA should continue its peer review communications efforts to members and users of peer review.
- The AICPA's Peer Review Board should continue to ensure the high quality of peer reviewers, establish additional minimum requirements to be a peer reviewer, and consider requiring additional minimum criteria such as the number of accounting and auditing hours spent by a reviewer in his or her own firm.
- The AICPA should provide a mechanism for members to comply with state board licensing requirements by allowing any AICPA firm to voluntarily post its peer review results in the AICPA's current public file regardless of membership in a specific AICPA section or audit quality center.
- For those firms that have received a second consecutive modified and any adverse peer review report, direct access to those reports should be provided to state boards which license firms to practice.

Did the Task Force consider member feedback in its recommendations?

In evaluating the issues and in making its recommendations, the Task Force considered the responses to an online poll in early 2005 that assessed members' attitudes about greater transparency of peer review results. Over 2,500 members responded to the poll, providing valuable insight into ways to make the peer review process more effective and transparent.

What does the Task Force mean by simplified reporting?

In a time of greater transparency, where peer review reports are more widely read by regulators and users of CPA services, the information in the reports must be both understandable and meaningful. The Task Force believes that the current reporting model should be revised to shorten the report and clarify and simplify the language to articulate clearly the quality of a firm's practice. It also recommended that the "grading" of the report be changed to terms that are more easily understood by users and that the report be a stand-alone document including the disclosure of significant matters that affect the type of report issued.

What is the Task Force recommending related to oversight?

The Task Force recognized that the Peer Review Board and the states administering the program have new oversight procedures. In light of these new procedures, the Task Force recommended that greater transparency of the oversight process be achieved through the publication of three reports: a general annual report issued by the AICPA Peer Review Board on its oversight of all administering entities; an annual report issued by each administering entity on its oversight of its peer review process, including peer reviewers; and individual

biannual reports issued by the AICPA Peer Review Board on oversight visits of individual administering entities.

The Task Force recommends enhanced communications. What does this mean?

The Task Force recommended continued peer review communications to members and users. AICPA communications to members should be focused on describing the details of the peer review program in a way that enhances the understanding of the program and its features. User communications should explain the objectives of peer review, what it is and isn't, how the process works, what the reporting means and the importance of oversight.

The Task Force recommends greater transparency in the reporting model and peer review process. What does this mean?

The Task Force recommended that for those firms that have received a second consecutive modified and any adverse peer review report, direct access to those reports should be provided to state boards which license firms to practice. The Task Force believes a membership vote will be required due to the AICPA's confidentiality covenant with its members. The AICPA Board will bring this recommendation to its March Council meeting for discussion.

The Task Force recommends that all state boards of accountancy be encouraged to require peer review as a condition of licensure. Why? How many do this already?

Currently, thirty-nine states require peer review as a condition of licensure, about half of which require some form of peer review disclosure of the results. Such a provision has long been a feature of the AICPA/NASBA Uniform Accountancy Act. The Task Force continues to support the UAA provision requiring peer review as a condition of licensure and, to ensure a level playing field for all practitioners, recommends that all state boards of accountancy be encouraged to require peer review as a condition of licensure for any member in public practice subject to peer review.

How many states currently administer the AICPA Peer Review Program?

Forty-one state CPA societies now administer the AICPA Peer Review Program and the AICPA Peer Review Board oversees the forty-one administering bodies.

Don't many firms already share their peer review results?

Thousands of AICPA firms currently place the results of their peer reviews in a public file as an enrollment requirement in the Center for Public Company Audit Firms Peer Review Program or as a membership requirement of AICPA Audit Quality Centers and the Private Companies Practice Section. In addition, thousands of firms provide their peer review results to clients as a result of governmental or regulatory requirements.

Last year, a resolution of the AICPA’s Governing Council called for the AICPA to assist members in states that require the submission of peer review documents as a condition of licensure to meet their licensing requirements. Does the report address this issue?

Yes. The Task Force recommended that the AICPA allow any AICPA firm to post its peer review results in the AICPA’s current public file regardless of membership in a specific AICPA section or audit quality center.

The Task Force recommends that the pool of peer reviewers be increased. How will this be done?

The report encourages the AICPA to conduct a recruitment campaign to attract quality peer reviewers. This will include educating firms on the benefits of having their partners and staff members involved in performing peer reviews.

What are the next steps for the report?

Many of the recommendations are being submitted to the Peer Review Board for consideration, analysis and possible execution. The Board decided that if the recommendations are successfully implemented, a broad-based campaign to educate members and users about the significant changes would be warranted. Another recommendation related to sending adverse and second consecutive modified reports to state boards will be brought to March Council for discussion and consideration as a future membership ballot.

Where can I read the full report?

The full report is available at www.aicpa.org/transparency.