



Peer Review Program--Moving Toward Greater Transparency Frequently Asked Questions and Answers

1. Why is the AICPA recommending the profession move to an even greater level of transparency in peer review?

Transparency of information has always been a core principle of our profession as it relates to our clients' financial information. How can we support greater transparency of our clients' information when we are unwilling to support it for our own?

2. What are the benefits to the profession's members?

The regulatory community, our clients, and the public are more inclined to trust a profession that imposes a transparent system upon itself, providing stakeholders with information to make educated decisions. Greater transparency is likely to increase the public's confidence in the profession's core values of competence, integrity and objectivity.

3. What are the benefits of greater transparency to others?

Those organizations that regulate the profession and anyone who uses a CPA firm will benefit by having easier access to a consistent and understandable evaluation of the firm's peer review. Peer review information provides insight into a firm's stated quality standards and how those standards are put into practice in auditing and accounting engagements. These are important criteria in helping users of CPA services to choose a firm.

4. What are the options as it relates to peer review transparency? What are the benefits of each?

The AICPA is focusing on two approaches that would lead to greater transparency. The first provides the public online access to selected peer review information, such as the peer review report, letters of comments and response. The second would allow only state boards of accountancy to access peer review information of firms licensed in their state through a secure, password-protected web interface.

Providing public access allows the profession to proudly promote that our peer review results are available online for anyone to see, including clients and prospective clients. On the other hand, allowing exclusive access to state boards



provides the information to those most interested, while minimizing the potential for abuses.

Because state confidentiality protections vary, some peer review information provided to state boards could be accessed through a Freedom of Information Act request.

5. What documents does the AICPA envision being made public?

The Peer Review Board has yet to determine exactly which documents would be available to state boards or the public under the alternative options. However, it would likely include the:

- Most recently accepted peer review report
- Most recently accepted letter of comments, if applicable
- Most recently accepted letter of response, if applicable
- Letter notifying the firm that the peer review has been accepted - which would also include follow-up actions required to be taken by the reviewed firm as a condition of acceptance.

It would not likely include work papers or any other underlying documents that the Peer Review Board has not approved for inclusion.

6. Why would the AICPA, as a membership organization, impose this requirement on its members? What happened to the commitment of confidentiality in peer review?

The AICPA supports the profession's commitment to the public interest. That commitment requires evolving to meet the needs of the current business environment.

The business environment has changed dramatically since mandatory peer review was approved. Today, regulators and clients are demanding significantly more information about CPA firms, with much greater transparency.

As a trusted profession, we must be willing to disclose the independent assessments of firms that have taken on the public interest responsibility of accounting and auditing functions.

7. What are the risks to practitioners who make their firms' peer reviews public? What are the benefits?

If a peer review report contains negative comments, those comments will be available to a wider audience. Some could argue that litigators or competitors may use this information to the detriment of the firm who received the negative comments. In the history of peer review, however, there is no evidence that



public peer review information has had an adverse litigious or competitive impact. To the contrary, the peer review program has contributed to enhanced performance, with many firms publicizing their results as evidence of their firm's quality. Furthermore, if a firm knows that the results of its peer review will become more widely available, it will likely do everything possible to increase the quality of its practice to ensure a positive review.

Greater disclosure enhances the profession's credibility, because users of CPA's services will know that the profession has nothing to hide. In addition, members who have positive peer review results are likely to be rewarded in the marketplace.

8. Will the peer review program become more punitive, versus remedial, if the profession moves to greater transparency? If not, why not?

It is true that transparency of peer review information could enable regulators, potential clients and the public to penalize firms that receive a peer review report containing negative comments. It will be up to those firms to embrace the important, remedial aspect of peer review, allowing firms to improve based on peer review feedback. In addition, firms that receive negative comments would need to manage the expectations of clients and prospective clients who may have access to this information, sharing their plans for enhancing the quality of their practice.

Moving toward greater transparency will formalize a shift which over the years has seen an expanding number of regulators seeking out peer review information. Today, about half of the state boards that require peer review also require the remittance of certain peer review information as they fulfill their roles in regulating the profession. The GAO also views transparency as important as evidenced by its requirement to provide peer review reports and letters of comments to potential clients.

9. Will a more transparent peer review system lead to a system of "weaker" reviews or even a danger that firms would "shop around" for an "easier" review? Could it also decrease the availability of reviewers?

Twenty five years of experience with public files for PCPS and the SEC Practice Section (now the Center for Public Company Audit Firms) members has shown little evidence to suggest that the quality of reviews has suffered. Nonetheless, the AICPA Peer Review Board is currently pursuing a system of enhanced oversight to help ensure the diligence of peer reviewers. It is also working with peer review administrators to increase the supply of reviewers by exploring a number of options.



10. Will a more transparent peer review system lead to higher costs for members at the AICPA or state society?

Costs for the administration of the program are not likely to increase significantly. Most of the systems and procedures that would be needed are already in place. In any case, the AICPA will work closely with state societies to minimize the financial impact on members.

11. Isn't the AICPA taking a risk by considering this? Won't the AICPA membership react negatively?

Any attempt to “raise the bar” may make some members uncomfortable. However, our profession takes pride in protecting the public interest and providing information that helps the public make informed decisions.

Our profession has a long history of commitment to the public interest. Through the years, the AICPA has taken numerous steps to increase the professional stature of its members, and to their credit, members have responded positively.

12. What does history tell us about whether this is a good or bad thing for the profession?

Most firms currently make some aspects of their peer review public. Many members believe that transparency is consistent with the profession’s core values. They feel that moving to increase transparency is a natural evolution for our profession, which is founded on the public’s trust.

Transparency in peer review is seen by these members as a demonstration of the CPA profession’s recognition of public concerns and a commitment to hold itself to ever higher standards. They believe that greater transparency will increase the public’s confidence in the CPA profession’s core values of competence, integrity and objectivity.