

ADDITIONS TO AGENDA
SOUTH DAKOTA BOARD OF ACCOUNTANCY
BOARD MEETING,
June 15, 2016

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I=Information

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3259	Sara Joy Heilman	6/13/16	Sioux Falls, SD
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3261	Paul Harold Freidel	6/14/16	Rapid City, SD

Proposed Evolution of Peer Review Administration

*A discussion paper seeking input from state CPA
society leaders.*

Released for comment: Feb. 22, 2016
Feedback requested: Aug. 1, 2016

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Introduction

CPAs take pride in their long-standing commitment to excellence. That commitment includes continued vigilance in delivering accounting and auditing services and protecting the public interest.

In the current business environment, the rapid pace of change is driving complexity, and that trend is not likely to abate. Increased complexity presents challenges to practitioners in public accounting as they strive to perform high-quality accounting and auditing engagements for entities not subject to Public Company Accounting Oversight Board (PCAOB) permanent inspection. The public's reliance on these services is based on CPAs' integrity, objectivity and competence. The goal of the AICPA Peer Review Program (Program) is to promote quality in the accounting and auditing services provided by the CPA firms.

With that in mind, in May 2014, the American Institute of CPAs (AICPA) launched its Enhancing Audit Quality (EAQ) initiative. EAQ is a holistic effort to consider auditing of private entities through multiple touch points, especially where quality issues have emerged. The goal is to align the objectives of all audit-related AICPA efforts to improve audit performance.

EAQ is being implemented through a multi-phased approach. The initial phase involves planned and proposed efforts that will begin to improve quality in the near term. The long-term vision focuses on the transformation of the current peer review program into a near real-time practice monitoring process that marries technology with human oversight.

This paper discusses a proposed plan to increase the quality, consistency, efficiency and effectiveness in the administration of peer reviews, while providing for appropriate cost recovery, as one of the long-term changes under the EAQ initiative. The proposal was developed with direct input from more than a dozen state CPA society leaders and is being shared with executive leadership of all state CPA societies for the purpose of obtaining additional feedback before finalizing a formal plan for execution.

In developing the evolution of peer review administering entities (AEs), the following guiding principles were followed:

- Improve quality of CPA firms' accounting and auditing practices
- Maximize opportunities to support firms in their quality efforts
- Provide appropriate cost recovery for administration
- Enable state societies to provide member value and service to firms, by maintaining involvement in the program
- Position state societies for appropriate interchange with federal and state regulators
- Support EAQ initiatives

Each of the state CPA societies and all peer review administering entities (AEs) have been integral to the success of the peer review function, which is enormous in both scope and size across the country. Their commitment to meeting the needs of practitioner members and regulators has been, and continues to be, tremendous. The

need for an evolution of peer review administration as outlined in this discussion paper is the direct result of how peer review has grown and matured over the past 35 years in the marketplace, in the regulatory environment and in the technological environment, and does not diminish the contributions of any state CPA society or AE.

Executive Summary

The AICPA Peer Review Program (Program) has represented the profession's ongoing commitment to enhancing the quality of accounting and auditing services for more than 35 years. It has served the public interest while simultaneously delivering numerous benefits to thousands of CPA firms. The Program is governed by the AICPA Peer Review Board (PRB), which is comprised of public practitioners, state CPA society chief executive officers and a regulatory representative.

Currently, 41 administering entities (AEs), including the National Peer Review Committee (National PRC), administer the Program for public accounting firms within the 50 states, the District of Columbia and the U.S. territories (see Exhibit 1). The AEs also administer peer reviews for public accounting firms enrolled in a state society peer review program (non-AICPA member firms and non-state society member firms). In total, the AEs administer about 34,000 peer reviews over a three-year period.

Effective and consistent peer review administration is critical to help ensure the quality of the accounting and auditing services performed by CPA firms. The AEs vary in the number of peer reviews that they administer, ranging from approximately 100 to as many as 5,250 peer reviews over a three-year period. As a result, they differ in structure, policies, the composition and involvement of employees, use of contractors, Report Acceptance Body (RAB) criteria, and Peer Review Committee (Committee) criteria.

The PRB, at a national level, performs oversight of the AEs and RABs. Past oversight has frequently identified inconsistencies in the effectiveness of peer review administration. Oversight consists of reviewing the procedures conducted by the AEs and RABs to ensure peer reviews are being performed and accepted in accordance with the AICPA's *Standards for Performing and Reporting on Peer Reviews (Standards)*. Oversight has revealed that a significant level of investment (time, money and volunteer and staff commitments) is necessary to maintain the technical and administrative competence required to administer the Program, and to efficiently and effectively incorporate changes in guidance and technology into AE administrative processes.

Other than through technological advances, the administration of peer reviews has remained largely unchanged since the inception of the Program. To help improve overall accounting and auditing quality, enhancements to and greater consistency in peer review administration are required. Accordingly, an evolution of the structure and criteria for AEs is being proposed for input and discussion.

The proposed criteria would decrease the number of AEs to approximately eight to ten in total, each of which would have the capacity to effectively administer at least 1,000 peer reviews per year. Consolidating AEs will provide greater consistency in the Program's administration.

Each AE would be required to have a Director-level professional with primary responsibility for peer review and at least one full-time staff in each of the following roles:

- Administrator
- Technical Reviewer
- Manager

In addition, each AE would have an appropriately structured Committee and RAB(s). The Committee would meet at least quarterly and include 15-20 members who are team captain qualified from the states administered. RABs would be comprised of approximately five members and would meet every two weeks. RAB members would be assigned to the meetings to obtain a cross section of industry experience, including at least one member with experience in any must-select industry included in a review to be presented. A minimum of three RAB members must accept any review. Most meetings could be conducted using technology, rather than in-person.

Feedback on the proposed criteria and structure is requested by August 1, 2016. Once criteria are established, AEs wishing to continue to administer the program will be asked to communicate to the AICPA no later than January 31, 2017 their commitment to and plans for meeting the criteria. The goal is to have the revised structure in place by December 28, 2018. The AICPA is committed to providing resources to all AEs to help ease the transition to becoming an AE of the future, or to transitioning administration responsibilities to another AE.

Evolution of Administering Entities

As designated by the PRB, the Oversight Task Force (OTF) conducts onsite oversight of AEs every other year. The process includes meetings with administrators, technical reviewers, and RAB members to understand their policies and procedures to ensure compliance with the Program.

OTF members and/or AICPA staff conduct RAB observations three times per year per AE to ensure RABs are performing all of their responsibilities. The observations include a review of materials provided to the RAB from a sample of AICPA peer reviews to consider the risk assessment, scope, peer review report, letter of response, management representation letter, corrective actions, implementation plans and other peer review documents before the RAB meeting. During its meeting, RAB members deliberate each review. If, after the deliberation, there are items the observer noted that were not discussed, the observer brings them to the RAB's attention for discussion. Observers also analyze certain administrative procedures to ensure the AE administered the peer review in accordance with Program *Standards*.

An enhanced oversight program of AE administration and RAB activity began in the fall of 2014 as part of the EAQ initiative. This program engages subject-matter experts (SMEs) to oversee peer reviews, primarily focusing on "must-select" engagements. Must-select engagements¹ are industries and practice areas from which at least one

¹ Must-select engagements currently include engagements performed under *Governmental Auditing Standards* (GAS), audits of employee benefit plans, audits performed under the Federal Deposit Insurance Corporation Improvement Act (FDICIA), audits of carrying broker-dealers and examinations of Service Organization Control (SOC) 1 and 2 engagements.

engagement must be selected as part of the peer review, if applicable. The enhanced oversight includes a review of the financial statements and engagement working papers to verify that peer reviewers are identifying all issues in must-select engagements, including whether engagements are properly identified as non-conforming. The oversight increases confidence in the peer review process and identifies areas that need improvement, such as peer reviewer training. Engagements are selected on a random basis to establish a statistically valid quality measure, and additional targeted selections focus on specific areas of concern, such as high-volume reviewers.

The oversight process has captured and highlighted areas of concern for the effectiveness, efficiency and consistency of the Program across AEs, regardless of state society size.

Noted inconsistencies from the oversights and RAB observations include (but are not limited to):

- Finding for Further Consideration forms (FFCs) lack all required elements in the firm's response – meaning, the firm's response does not include how it intends to implement changes to prevent future occurrences of the finding, the person responsible for implementation, the timing of implementation and, if applicable, additional procedures to ensure the finding is not repeated in the future
- The peer reviewer failed to identify the systemic causes of quality issues identified in the FFCs and deficiencies/significant deficiencies in the peer review report were not clearly articulated by the reviewer
- The appropriateness of the firms' taken or planned remediation of engagements not performed in accordance with professional standards was not discussed by the RAB – meaning, an incorrect or ineffective remediation plan could have been undertaken by the reviewed firm, and, if the firm's actions were not appropriate, could have resulted in a significant change to a negative report rating (pass with deficiencies or fail)
- Peer review overdue notices were not sent on a timely basis resulting in peer reviews that were not performed timely and noncooperation procedures delayed or not begun on firms – meaning, quality issues could remain undetected and firms could be violating licensing requirements
- SMEs identified a much higher rate of non-conforming engagements (engagements not performed in accordance with professional standards) than peer reviewers. The 2014 statistically-valid sample revealed a 43% deficiency rate versus a 9% rate detected by the peer reviewers. Targeted selections, which were high-volume reviewers, resulted in a 50% versus 0% rate.

While these items support the need to strengthen the qualifications and support of peer reviewers, which have and will continue to be addressed by various EAQ initiatives, they also support the need for technical reviewers to perform more thorough evaluations of peer reviews and AEs to perform more effective (and possibly more frequent) oversights. In addition, peer reviewers and RAB members should more closely consider the details of a review and contemplate the implications of the information provided, including the determination of whether:

- The firm has complied with professional standards
- The firm's planned remediation (for engagements and its system of quality control) is appropriate
- The firm's corrective actions are an appropriate remediation

- The firm is cooperating and if not, terminating the firm's enrollment, which in turn can jeopardize the firm's license to practice public accountancy

To help improve audit quality and consistency across peer review administration, the following criteria (more fully described below) are proposed for AEs to be most effective and to continue to administer the Program. The criteria are based upon discussions with state society leaders, meetings with AEs and the results of AE and RAB oversight:

- Administration of at least 1,000 peer reviews annually
- Effective AE peer review management, employee and consultant structure, qualifications and responsibilities
- Effective performance of Committee and RABs

Administration of at least 1,000 Peer Reviews Annually

While many lower volume AEs excel at Program administration, oversight data and RAB observations indicate large volume AEs generally operate with greater consistency, achieving administration that is cost effective and efficient. Achieving more consistency in peer review administration is key to improving peer review and enhancing audit quality in the profession.

With deeper resources, the AEs that administer a larger volume of reviews typically administer reviews more quickly, more frequently address reviewer performance issues at the appropriate level, when required, conduct highly deliberative RAB meetings, demonstrate thorough reviews in their RAB conclusions, and overall, receive fewer oversight comments. The yearly cost to administer 1,000 peer reviews annually, based on a team of one Director, six Administrators, one Manager and four full-time equivalent Technical Reviewers would be approximately \$1,015,000 (see Exhibit 2 for assumptions and the section immediately following this one for staffing rationale). As occurs today, AEs of the future will charge administrative fees to enrolled firms to recover all costs associated with Program administration. Larger volume AEs also tend to have more flexibility and expertise to incorporate changes in technology and guidance when changes are required. Additionally, the oversight and communications functions between and among the AICPA and the AEs can be enhanced to create more opportunities to provide members and state society value, and minimize inconsistencies.

Accordingly, we propose the administration of at least 1,000 peer reviews annually by each AE.

Effective Administering Entity Peer Review Management, Employee and Consultant Structure, Qualifications and Responsibilities

AEs that administer a large volume of reviews generally have the most effective and consistent administrative processes. Such AEs have similar structures, including dedicated full-time staff. Staffing specifics vary, however each has *at least* one full-time administrator, manager and technical reviewer who were identified as important aspects to the administration of the peer reviews. Further, these AEs have dedicated management focusing exclusively on peer review and sometimes on other audit quality initiatives; examples include ethics enforcement and staffing technical A&A committees. Also, as peer review continues to evolve, dependency on technology for all steps of the

process, including administration, has increased (and will continue to increase). The ability to adapt and work effectively with changing technology has been considered critical in determining the qualifications necessary to perform these roles.

The proposed structure of an AE would consist of a Director-level professional with primary responsibility for peer review and full time staff should include at least one of each of the following:

- Administrator
- Technical Reviewer
- Manager-level employee

The AE should have additional staff of dedicated technical reviewers or consultants to administer at least 1,000 peer reviews annually. Our estimates indicate 1,000 peer reviews will require 9,000 administrator and 7,100 technical reviewer hours (see Exhibit 2), and the AE should be structured accordingly.

Director

The Director would be responsible for overseeing the operations of the Peer Review Program administration and ensuring quality and consistency. The Director would provide assistance to peer review firms and reviewers, including technical assistance in areas such as accounting, auditing and independence. The Director would be accountable for ensuring that the Committee and RABs act in compliance with the Program and the RAB Handbook. The Administrators, Managers and Technical Reviewers would report to the Director, who would have the authority to assign and reprioritize tasks for these positions. A Director's time would not need to be 100% allocated to peer review, but he/she should have sufficient experience and involvement to maintain an efficient and effective Program. See Exhibit 3 for additional responsibilities and recommended qualifications for this position.

Administrator

The Administrator(s) would be responsible for the scheduling aspects of the Program. The Administrator(s) would:

- Confirm that all enrolled firms schedule their reviews in accordance with AICPA *Standards* and state board requirements
- Maintain information for firms enrolled in the program that do not require peer reviews
- Assist firms to resolve any scheduling errors or issues
- Work with peer reviewers to coordinate the submission of peer review documents to the AE
- Process the submitted review documents to ensure that all required documentation is received
- File review work papers received from peer reviewers and reviewed firms so they are accessible for the Technical Reviewers
- Maintain Facilitated State Board Access records in a timely manner
- Ensure the AE Plan of Administration is submitted annually to the AICPA by the stated deadline

Our estimates indicate six full-time equivalent Administrators would be needed to effectively administer 1,000 peer reviews annually based upon an assumption of 9,000 total hours of Administrator time (see Exhibit 2 for further information on assumptions). See Exhibit 4 for additional responsibilities and recommended qualifications for this position.

Manager

The Manager(s) would be responsible for the operation and maintenance of all administrative functions of the Peer Review Program. The Manager(s) would:

- Develop processes and procedures for the scheduling and processing of reviews, maintain information on the status of reviews and monitor compliance with deadlines
- Coordinate the review of working papers with Technical Reviewers, and coordinate and document activities of the RAB

See Exhibit 5 for additional responsibilities and recommended qualifications for this position.

Technical Reviewer

The Technical Reviewer(s) would be responsible for performing the work paper review before the presentation of a peer review to the RAB. The Technical Reviewer(s) should be capable of performing a full work paper review, which includes a review of all of the engagement checklists and the quality control policies and procedures documents. The Technical Reviewer(s) would:

- Work closely with peer reviewers and public accounting firms to identify and resolve questions and issues prior to RAB presentation
- Assist the RAB member responsible for presenting the review by providing additional detailed information as necessary

Our estimates indicate four full-time equivalent Technical Reviewers would be needed to administer effectively full working paper reviews of 1,000 peer reviews annually based upon an assumption of 7,100 total hours of technical reviewer time (see Exhibit 2 for further information on assumptions). See Exhibit 6 for additional responsibilities and recommended qualifications for this position.

Full-time Administrators and Technical Reviewers may serve in a limited capacity in other areas with prior approval and periodic review by the OTF. Any known additional responsibilities should be provided to the AICPA as part of the AE's proposed plan for continuing as an AE (see discussion below under Administering Entities of the Future).

The AICPA will consider exceptions to the required criteria for AEs, by grandfathering Directors, Administrators, Managers and Technical Reviewers currently engaged in the Program and performing at a high level of quality in their area of expertise. An objective of the final plan is to retain experienced and qualified peer review staff members, and Program technology will enable telecommuting where appropriate.

Effective Performance of Peer Review Committee and Report Acceptance Body

Each AE will be responsible for establishing a Committee and RAB(s) having the collective knowledge and expertise key to the Program's success and the profession's self-regulation. Through assigning and following up on corrective actions, Committee and RAB members help improve audit quality and support firms by holding them accountable. Finally, the Committees and RABs ascertain the right information is included in the system to support improvement and changes to professional standards, as appropriate.

The Committee would include:

- 15-20 members who are team captain qualified
- Members from each of the states administered by the AE

Committee members would ordinarily serve five one-year terms that are dependent upon satisfactory performance with the ability to extend beyond five years for one or more additional one-year terms depending upon the Committee's needs.

The full Committee should meet at least quarterly, in whichever format the AE deems effective (in-person, web-based, telephonic), with at least one in-person meeting per year. The Committee is ultimately responsible for the following:

- Discussing AICPA PRB proposals to the Program and comment, as appropriate
- Discussing and executing changes to the Program *Standards*, interpretations and related guidance issued by the AICPA PRB
- Communicating guidance changes to RAB members who are not on the Committee
- Discussing the AE Plan of Administration, including effectiveness of technical reviews and oversights and approval before submission to the PRB
- Resolving concerns raised during RAB meetings
- Resolving disagreements (or where no resolution can be made, referring unresolved issues to the PRB for final determination)
- Monitoring the status of reviews administered (e.g., overdue scheduling forms, length of time since work papers were received, firms undergoing hearings, etc.)
- Evaluating the qualifications and competencies of technical reviewers on an annual basis
- Performing other tasks as discussed in the RAB Handbook

An Executive Committee may be formed and would be responsible for the tasks previously listed, delegating certain tasks to sub-committees or other groups who then report back to the Executive Committee.

RAB meetings would follow these criteria:

- Organized and hosted by AE on a regular cycle, scheduled, at a minimum, every two weeks (meeting may be canceled if there are not six peer reviews (or a reasonable number) to accept)
- Active participation by approximately five members in each meeting

- A minimum of three RAB members must accept any particular review
- A mix of experience of industries with at least one member who has experience in any must-select industry in which such engagements are included in a review to be presented
- Members presenting or voting on system reviews must be team captain qualified
- Members presenting or voting on engagement reviews must be review captain qualified
- Meetings may be separated between system and engagement reviews based upon qualification of the RAB members
- When conducting conference calls, the number and complexity of reviews should be considered so that the calls are expected to last approximately two hours

A Committee member would chair each RAB meeting. This allows for consistency in RAB decisions and the identification of overarching concerns to be brought back to the Committee for discussion and resolution. It would also aid in increasing the effectiveness of the technical review process and oversight. The RAB Chair would also communicate Committee decisions, changes in guidance and other information during RAB meetings, as necessary.

The AE should maintain a RAB pool large enough to rotate members so that each RAB does not consist of the same individuals. The pool should include an estimated 49 members, which considered the following:

- 59 meetings per year,
- Five RAB members involved in each call and
- Six calls per year per RAB member.

Each RAB member would contribute approximately 50 hours per year. (See Exhibit 2 for assumptions). The RAB member pool should consist of individuals from each of the states administered by the AE. The AE should avoid RABs comprised of all individuals from one particular market especially when that market's reviews are being presented. It is possible and acceptable that a RAB may not have a member from all markets being administered.

For each RAB meeting, the reviews being presented would be assigned to RAB members based on their industry experience, RAB members should commit sufficient time prior to the meeting to familiarize themselves with the details of the reviews they are assigned to present and if necessary, discuss the review with the Technical Reviewer. For reviews the RAB member would not be responsible for presenting, they should *at least* have a general understanding of the results and issues prior to the meeting so a robust discussion can occur and the RAB can reach the right conclusion about the review.

For each review, the RAB would consider whether it was performed in accordance with the *Standards*, interpretations and other related guidance. RAB members should also consider whether Matters for Further Consideration (MFCs), FFCs, reports and letters of response are substantive and prepared in accordance with the *Standards*. The RAB should determine whether the firm's remedial actions for non-conforming engagements and systemic issues are appropriate, and whether any corrective actions or implementation plans are necessary. The RAB should follow up on any corrective

actions or implementation plans to ensure that they are completed to the satisfaction of the RAB.

It is critical to the efficacy of the Program that Committee and RAB members exercise the appropriate degree of skepticism in discharging their responsibilities. Our combined and collaborative ability to continue to administer the Program on behalf of stakeholders - and to satisfy the needs of regulators - requires that Committee members, RAB participants, and AE and AICPA staff be willing to execute on the values of the CPA profession, even when faced with difficult or uncomfortable decisions.

National Peer Review Program

National Peer Review Committee

The National PRC currently meets the proposed criteria, except for administering 1,000 reviews per year. Approximately 700 firms have their peer reviews administered by the National PRC either voluntarily or due to meeting any of the following criteria:

- 1) The firm is required to be registered with and subject to permanent inspection by the PCAOB,
- 2) The firm performs any engagement under PCAOB standards or
- 3) The firm is a provider of Quality Control Materials (QCM) (or affiliated with a provider of QCM) that are used by firms that it peer reviews

Due to the unique nature of the firms administered by the National PRC with special requirements and their need for more rigorous oversight, these firms would continue to be administered by the National PRC to ensure that they will be supported effectively.

New National AE

The AICPA would create an additional national AE that would meet this proposal's criteria to administer peer review for firms that do not meet National PRC criteria, and to provide another option for state societies that choose not to administer the program in their state. As with the current Program, firms may request approval for their reviews to be administered by the AE primarily responsible for their home state or by another newly-approved AE, upon approval by that AE after evaluating the reasons for the request.

Administering Entities of the Future

As occurs today, the AICPA will evaluate and approve AEs administering the program in the future. A commitment to meet the criteria by a certain date, as finally determined after input from stakeholders, would be a prerequisite to such approval, but not be the sole deciding factor. The AICPA would work with the approved AEs on transition, including how the AEs can establish best practices regarding cost and quality issues. The AICPA will provide policy communications through state society committees to ease the transition by outlining the ongoing role of the society. Multiple state societies have outsourced their own peer reviews for many years (See Exhibit 1), with effective and efficient results for members.

The AICPA and the PRB will continue to serve in an oversight role for AEs and will not actively participate in the RAB and Committee meetings.

Currently, peer reviews of non-AICPA member firms are administered by the state societies where their home office is located, and they are not officially part of the Program. The AICPA's *Standards* and related Interpretations are expected to be revised so that non-AICPA member firms and non-state society member firms must be enrolled in the AICPA Program to receive a peer review through an AE.

Feedback on the proposed criteria and structure is requested by August 1, 2016. Once criteria are established, AEs wishing to continue to administer the program will be asked to communicate to the AICPA no later than January 31, 2017 their commitment to and plans for meeting the criteria. The goal is to have the revised structure in place by December 28, 2018. The AICPA is committed to providing resources to all AEs to help ease the transition to becoming an AE of the future, or to transitioning administration responsibilities to another AE.

Transitioning out of Administering Entity Role

If a state society does not plan to administer reviews going forward or chooses not to meet the criteria by the end of 2018, all of the reviews administered by that state society must be transitioned to another AE, either:

1. A newly-approved AE or
2. The new national AE established by the AICPA.

As with the current Program, firms may request approval for their reviews to be administered by the AE primarily responsible for their home state or by another newly-approved AE, upon approval by that AE after evaluating the reasons for the request.

Throughout this transition, there will likely be change management issues for members, peer reviewers, firms and AICPA and state society staff. The AICPA is committed to helping ease transition issues, and will work to find ways to retain the skills and knowledge of participants at all levels of the current AE structure, whenever feasible and appropriate.

Stakeholder Feedback Requested by August 1, 2016

Feedback is integral to the progress of evolving peer review administration. All input will be considered, and it will inform and shape how the AICPA and state CPA societies move forward with this proposal.

Please consider the following questions when commenting on this discussion paper.

- Is the proposed timeline feasible?
 - Is January 31, 2017 sufficient time to make decisions regarding the role your state CPA society will play in peer review in the future?
 - Is December 28, 2018 a feasible timeframe for full transition to the new model assuming appropriate technology is in place?

- Are there other qualifications of Administrators, Technical Reviewers, Directors, RAB members or Committee members that should be included in the required criteria?
- Are there procedures that should be standardized at the Committee vs. the RAB level?
- Are there any additional issues for consideration?
- If you disagree with any aspects of the proposed plan, please share alternative suggestions for meeting the quality objectives.

Comments and responses should be sent to Beth Thoresen, Director – Peer Review Operations, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 or prsupport@aicpa.org and are requested by August 1, 2016.

Thank you in advance for your thoughtful consideration of the issues facing Peer Review administration, and your commitment to enhancing audit quality throughout the CPA profession.

Exhibit 1 – Administering Entities Approved to Administer the AICPA Peer Review Program

Administering Entity	Licensing Jurisdiction
Alabama Society of CPAs	Alabama
Arkansas Society of CPAs	Arkansas
California Society of CPAs	California, Arizona, Alaska
Colorado Society of CPAs	Colorado
Connecticut Society of CPAs	Connecticut
Florida Institute of CPAs	Florida
Georgia Society of CPAs	Georgia
Hawaii Society of CPAs	Hawaii
Idaho Society of CPAs	Idaho
Illinois CPA Society	Illinois, Iowa
Indiana CPA Society	Indiana
Kansas Society of CPAs	Kansas
Kentucky Society of CPAs	Kentucky
Society of Louisiana CPAs	Louisiana
Maryland Association of CPAs	Maryland
Massachusetts Society of CPAs	Massachusetts
Michigan Association of CPAs	Michigan
Minnesota Society of CPAs	Minnesota
Mississippi Society of CPAs	Mississippi
Missouri Society of CPAs	Missouri
Montana Society of CPAs	Montana
National Peer Review Committee	N/A
Nevada Society of CPAs	Nevada, Wyoming, Nebraska, Utah
New England Peer Review, Inc.	Maine, New Hampshire*, Rhode Island, Vermont
New Jersey Society of CPAs	New Jersey
New Mexico Society of CPAs	New Mexico
New York State Society of CPAs	New York
North Carolina Association of CPAs	North Carolina
North Dakota Society of CPAs	North Dakota
The Ohio Society of CPAs	Ohio
Oklahoma Society of CPAs	Oklahoma, South Dakota
Oregon Society of CPAs	Oregon, Guam, Northern Mariana Islands
Pennsylvania Institute of CPAs	Pennsylvania, Delaware, Virgin Islands
Puerto Rico Society of CPAs	Puerto Rico
South Carolina Association of CPAs	South Carolina
Tennessee Society of CPAs	Tennessee
Texas Society of CPAs	Texas
Virginia Society of CPAs	Virginia, District of Columbia
Washington Society of CPAs	Washington
West Virginia Society of CPAs	West Virginia
Wisconsin Institute of CPAs	Wisconsin

*New Hampshire firms will be administered by the Massachusetts Society of CPAs beginning May 1, 2016.

Exhibit 2 – Assumptions in Calculations

The proposed criteria for the new AEs is based on administering 1,000 peer reviews annually, having effective AE employee structure, qualifications and responsibilities, and having an effective Committee and RAB structure as described on pages 5-9. As occurs today, AEs of the future will charge administrative fees to enrolled firms to recover all costs associated with administration of the Program. Assumptions used in calculating the number of technical reviewers and RAB members include:

- For 2012-2014, there were 14,355 engagement reviews and 12,081 system reviews
- All firms with 100 or more professionals are administered by the National PRC. The calculations excluded firms whose peer review was administered by the National PRC
- All firms with more than 10 professionals have a system review.
- For firms with 10 or fewer professionals, 39% are system reviews and 61% are engagement reviews
- The number of firms with more than 10 professionals are spread evenly across the AEs
- Based upon performing 1,000 technical reviews annually, 427 would be system reviews and 573 would be engagement reviews.
- Estimated hours of technical review time per review
 - System reviews – 8 hours
 - Engagement reviews – 2.5 hours
- Technical reviewers to spend an estimated 190 hours per month (excluding time per reviews) on RAB meetings and preparation, follow-up on corrective actions, on-site and off-site oversights and other trainings
- Technical reviewers are able to accept 30% of the engagement reviews (approximately 172 out of 1,000) without presenting to the RAB.
- Of the reviews presented to the RAB per year, 427 would be system reviews and 401 would be engagement reviews
- Of the reviews that require RAB acceptance, 30% are included on the consent agenda (128 would be system reviews and 120 would be engagement reviews).
- System and engagement reviews discussed by the RAB were divided into easy, moderate and difficult reviews for each type of review with different amounts of time allocated to each to estimate that 118 hours of RAB meeting time would be required per year
- RAB Meetings should not extend longer than 2 hours
- Administrators spend on average 9 hours per review administered, assuming a small increase in efficiency provided by self-service background form
- Full-time employee equivalent calculations for the administrators and technical reviewers are based upon 1,800 hours, which would *exclude* vacation, continuing education, etc.

Exhibit 3 – Proposed Peer Review Director Responsibilities and Qualifications

Responsibilities:

- Oversee the technical and operational aspects of the Peer Review Program
- Maintain the quality and consistency of the Peer Review Program
- Ensure the Committee and the RAB(s) act in compliance with the Peer Review Program Manual and RAB Handbook
- Assign and reprioritize tasks for Manager, Administrator and Technical Reviewer
- Provide assistance (technical and general) to firms, peer reviewers and staff
- Assist in the review of CPE materials, monitor CPE courses and, as necessary, write CPE materials for courses
- Ensure the Peer Review Program website is up to date and accurate
- Approve and ensure peer review communications are accurate

Qualifications:

- Bachelor's degree in accounting, finance or related field
- CPA designation and active license
- Minimum of eight years of professional experience in accounting or auditing
- Strong knowledge of accounting, auditing and quality control standards
- Ability to multi-task in a time-sensitive environment
- Excellent verbal and written communication skills
- Strong interpersonal skills with ability to work well with CPAs
- Strong knowledge of the state peer review regulatory requirements in the states it administers and a familiarity with the peer review requirements of other state boards

Exhibit 4 – Proposed Peer Review Administrator Responsibilities and Qualifications

Responsibilities:

- Manage the scheduling aspects of the Peer Review Program ensuring that all enrolled firms schedule their reviews in accordance with standards
- Provide assistance to CPA firms in the preparation and scheduling of their review, the scheduling of the review in the AICPA computer system, the selection and approval of reviewers
- Assist firms to resolve any scheduling errors or issues
- Coordinate with peer reviewers the submission of peer review documents to the AE
- Process submitted documents to ensure completeness of information provided before review by a Technical Reviewer
- Coordinate with Technical Reviewers to provide peer review documents for review
- Assist firms and reviewers by answering questions and providing information about the Peer Review Program
- Help individuals understand the licensing requirements of peer review and enroll firms that are not already enrolled in the Peer Review Program
- Evaluate and process firm change requests through research and discussion with members
- Maintain current knowledge of the Peer Review Program standards and guidance and Administrative Handbook

Qualifications:

- Bachelor's degree in a related field
- Two to three years of work experience in the administration of a compliance or regulatory program
- Ability to support web based applications or other software support technology
- Ability to multi-task in a time-sensitive environment
- Proficiency in Microsoft Word, PowerPoint and Excel
- Ability to work independently and with minimal supervision
- Ability to work non-traditional hours on a flexible basis
- Proficiency in time management, organization and problem solving skills
- Strong interpersonal skills with ability to work well with CPAs
- Knowledge of state board peer review requirements related to the scheduling, completion and state board document submission

Exhibit 5 – Proposed Peer Review Manager Responsibilities and Qualifications

Responsibilities:

- Maintain the day to day operations of the Peer Review Program
- Develop processes and procedures for the scheduling and processing of reviews
- Maintain information on the status of reviews in progress to ensure timely completion
- Document and follow-up on the receipt of review materials, letters of response and remedial action documentation
- Monitor compliance with deadlines for scheduling information, completed reviews, and follow-up information
- Ensure the timely mailing of communications (i.e. request for scheduling, acceptance/deferral letters, follow-up letters, etc.)
- Assist in planning the budget for the Peer Review Program
- Coordinate the performance of technical reviews
- Assist the Report Acceptance Body by preparing meeting materials and answering questions
- Coordinate and document the decisions of the Report Acceptance Body
- Develop and disseminate Peer Review Program information
- Respond to inquiries regarding billing charges incurred during the review process
- Maintain current knowledge of the Peer Review Program standards and guidance and Administrative Handbook
- Assist in the preparation of the Annual Plan of Administration
- Actively participate in conference calls scheduled by the AICPA to receive training and other information

Qualifications:

- Bachelor's degree in related field
- Minimum of three years of experience in the administration of a compliance or regulatory program, or equivalent experience
- Ability to support web-based applications or other software support technology
- Proficiency in Microsoft Word, PowerPoint, and Excel
- Ability to work independently and with minimal supervision
- Ability to multi-task in a time-sensitive environment
- Ability to work non-traditional hours on a flexible basis
- Proficiency in time management, organization, and problem-solving skills
- Excellent written and verbal communication skills
- Strong interpersonal skills with ability to work well with CPAs

Exhibit 6 – Proposed Technical Reviewer Responsibilities and Qualifications

Responsibilities:

- Perform a full working paper review (includes all engagement checklists and quality control policies and procedures documents) before presentation to the Report Acceptance Body
- Work closely with peer reviewer and firms to identify any questions or issues before presenting a review to the Report Acceptance Body
- Provide assistance to the Report Acceptance Body member responsible for presenting the review and provide any additional information as necessary
- Participate in at least one peer review each year, which may include participation in an on-site oversight of a system review
- Maintain current knowledge of Peer Review Program standards and guidance
- Obtain appropriate CPE annually to maintain an appropriate level of accounting and auditing knowledge including necessary CPE needed to review must-select engagements
- Acquire and maintain an in-depth knowledge of the technical aspects of the Peer Review Program

Qualifications:

- Bachelor's degree in accounting, finance or related field
- CPA designation and active license
- Minimum of five years of current public accounting experience, including preferred experience with Government and/or ERISA engagements
- Strong knowledge of accounting, auditing and quality control standards
- Ability to multi-task in a time-sensitive environment
- Proficiency in Microsoft Word, PowerPoint, and Excel
- Ability to work independently and with minimal supervision
- Ability to work non-traditional hours on a flexible basis
- Proficiency in time management, organization and problem-solving skills
- Strong interpersonal skills with ability to work well with CPAs



Peer Review Program



**AICPA BOARD OF EXAMINERS (BOE)
MEETING HIGHLIGHTS
May 19 – 20, 2016**

Participants

BOE Members: Barry Berkowitz, Allan Cohen, Michael Daggett (Chair), Jeanne Dee, Bucky Glover, Jeff Hoops, Shelly Holzman, Kristine Hull, Roberta Newhouse, Gina Pruitt, Mark Shermis, Ola Smith, Amy Sutherland, Dan Sweetwood, Tom Winkler

AICPA Staff: Michael Decker (Staff Liaison), Noel Albertson, Taryn Bauer, Mark Brooks, Kevin Henson, Rich Gallagher, Joe Maslott, John Mattar, Carl Mayes, Erin McCormack, Alfonso Olaiz, Joanne Scafidi, Robin Stackhouse, Arleen Thomas, Joel White

NASBA ERB Volunteer: Doug Warren

NASBA-AICPA-Prometric Enterprise Project Manager: Bill Emmer

Roberta Newhouse, Chair of the State Board Committee (SBC), reported on the prior day's meeting, where much of the meeting was spent reviewing the announcement of, and preparing for the launch of, the next version of the CPA Examination ("Exam") and resulting communications to candidates and State Boards. It was good to hear that no negative feedback was received regarding the launch communications. The SBC was concerned that perhaps not all jurisdictions were prepared to handle the changing testing schedule dates and strongly suggested that the AICPA reach out to NASBA to ensure all of the states were prepared. Since the BOE meeting, we learned that one state referred to the CSOs / SSOs (Content Specification Outlines / Skills Specification Outlines) in their rules or legislation, which must be changed to refer to the test blueprints.

It was also strongly suggested that the Examinations Team continue its State Board, State Society, and various educator conference presentations and also to present at the upcoming NASBA State Board Regional and Annual Meeting conferences.

The SBC remains interested in the CPA pipeline to the profession, NASBA and AICPA research in to current candidate behavior, and enhancing the candidate experience to support the pipeline. The SBC acknowledged that gaining an understanding of the candidates' behavior and specific decision making process would require surveying or interviewing the candidates and suggested working with a few states for their candidate data to get the project initiative underway.

Mark Shermis, Chair of the Psychometric Oversight Committee (POC), reported on the POC's unanimous approval of the design of the next version of the Exam. The POC was also supportive of the proposed 10-week score hold timeframe required at Exam launch for the AICPA staff to work with consultants and the BOE to set the cut scores for the updated Exam. This is a critical time requiring the utmost accuracy, and while the POC acknowledged the candidate impact, the POC stressed the need to perform standard setting using a full quarter's data.

Significant discussions continue to be held with the POC and AICPA staff regarding the design of the candidate score report for the next Exam. Research between the AICPA staff and a few POC members into a new score report is underway.

Amy Sutherland, Chair of the Content Committee (CC), reported that the CC and its section subcommittees, in collaboration with the AICPA staff, are on schedule for development of the next Exam. The current volunteer subcommittee members are investing close to 200 hours annually as the new content is being developed. Staff continues to innovate and work on nimble and flexible processes with the support of the volunteers.

In addition to the effort to build and launch the next Exam, work is progressing on updates to the annual blueprint policy, the practice analysis policy, and ensuring consistency across the four sections.

BOE Sponsor Group: Financial Oversight Group (FOG)

BOE members Barry Berkowitz and Shelly Holzman, and Michael Decker presented an overview of the budget in the FOG Report. The FOG reviewed budgeting for all of the technology and Practice Analysis projects planned through 2018, all of which fall within the scope of the domestic contract, and with an eye toward tri-party contract renewal and the break-even in 2024.

Due to increased volume already being seen in 2016 and some operational cost efficiencies at the AICPA, the break-even surplus will still be reduced, but will be reduced less than budgeted. Given the potential for increased Examinations staff and funding enhanced research, there is an opportunity to increase expenditures.

Joseph Maslott, Senior Manager of Content Development, and Robin Stackhouse, Director of Exam Development and Production, shared with the BOE that the required development of additional MCQs (multiple choice questions) and TBSs (task-based simulations) at the various skill levels required for the launch of the April 2017 release of the Exam were on track. The content, production, and psychometric teams are working together to ensure the items have been through appropriate quality reviews and in some cases, feasibility or field testing to verify timing data (how long a candidate spends on the item).

Noel Albertson, AICPA Director of Project and Technology Delivery, shared with the BOE the success of the 16Q1 NextGen (new driver) software release into the production Prometric network with a drop in the software error retest rate and the candidate restart rate. Mr. Albertson also reported that we remain on-schedule and on-budget for the release of the new DRS (document review simulation) and new web-based test delivery driver in the Prometric network in 2018. Included in the 2018 release will be an entirely new candidate user experience (UX) for which we continue to received positive feedback.

John Mattar, AICPA Director of Psychometrics, shared with the BOE the psychometric efforts in operational readiness for the next version of the Exam and in ongoing research for future versions. Operational readiness includes updated automated test assembly,

completing inventory analysis, pretesting items, setting the new passing scores, and future updates to the score reporting. Ongoing research includes professional skepticism, automated essay scoring for content accuracy (joint research with CPA Canada), and audit data analytics and leveraging Excel.

Alfonso Olaiz, AICPA Manager of Strategy, updated the BOE on the AICPA's research into major market trends and a macro view of the accounting profession, and how employer demands are changing. Other discussions included the increasing level of regulations, the shifting of the world's economy to the east (Asia), technologies disrupting individual CPAs and CPA firms, and the growth of professional services in firms not hiring CPAs.

Joanne Fiore, AICPA Vice President of Professional Media, Pathways, and Inclusion and Michael Decker, AICPA Vice President of Examinations, updated the BOE on the AICPA's research and efforts to strengthen the CPA pipeline. Areas of greater emphasis include increasing the CPA presence on campus with State Society ambassadors and university student ambassadors, and partnerships with the Review Course Providers (RCPs). Dr. Yvonne Hinson has been hired from Wake Forest and she is leading the AICPA academic champion program.

The *This Way To CPA* and *Start Here Go Places* websites have also been updated and membership is increasing.

The following pipeline metrics were also discussed:

Updated Candidate Performance / Drop Out (not taking a section in the past 18 months) statistics

- Approximately 10,000 candidates annually drop out before passing a single section
- Approximately 68% of all candidates that ultimately drop out (of the 43% above), drop out before passing a single section
 - Of these candidates, the majority of the candidates are poor performers:
 - 75% score less than an average of 65 on any sections taken
 - 15% score between 65 and 70 on any sections taken
 - 10% score between 70 and below 75 on any sections taken

Consistent from 2006 – 2014, approximately

- 120 candidates drop out every year after passing all 4 unique sections
- 975 candidates drop out every year after passing 3 unique sections
- 1,100 candidates drop out every year after passing 2 unique sections
- 2,500 candidates drop out every year after passing 1 section

The next step is to seek approval to survey these candidates to find out why they dropped out.

Erin McCormack, AICPA Director of Innovation, and Mark Brooks, Senior Manager of Innovation, led the BOE in a discussion on how the accounting profession is changing, what knowledge and skills will be required of a newly licensed CPA in 2020 – 2025, and how and when will the Exam have to adapt to continue its relevancy and protection of the

public interest. This discussion was timely as the BOE and AICPA staff update the BOE Strategic Plan and some Examinations staff start to plan for the “Next Next Version” of the Exam.

From the recent Practice Analysis, we heard that future version of the Exam must increase its assessment of professional skepticism, situational judgment, evaluation skills beyond the Audit section, audit data analytics, and potentially content integration across multiple sections.

Erin and Mark fostered a discussion on the impact of technology, increased regulation, and the increasing demands and expectation of the millennials in the candidate pipeline, raising questions such as: “How has technology impacted the work of a newly licensed CPA?” “How will blockchain technology impact auditing?” “Where will technology automate the work of a newly licensed CPA?” And finally, “What will the newly licensed CPA’s work look like then?”

AICPA staff and the BOE will complete an updated Strategic Plan in 2016 – 2017.

Carl Mayes, AICPA Senior Manager of Special Projects, Public Practice and Global Alliance, updated the BOE on the CAQ’s (Center for Audit Quality) quality enhancing initiatives.

Doug Warren, Chair of the Examination Review Board (ERB), updated the BOE on the successful year the AICPA had with the ERB and the speed and ease with which the AICPA works with the ERB.

Michael Decker, AICPA Vice President of Examinations, introduced a brief plan to update the BOE Strategic Plan including the use of a PESTLE (political, environmental, social, technological, legal, and environmental) and SWOT (strengths, weaknesses, opportunities, and threats) analysis, focusing on changes and disruptors in the accounting profession, with psychometrics and test standards, in licensure and regulation, and with millennial candidate expectations.