



November 6, 2014

AICPA Enhancing Audit Quality Initiative

**Re: Enhancing Audit Quality: Plans and Perspectives for the U.S. CPA Profession**

The Ohio Society of CPAs is pleased to respond to the AICPA discussion paper, *Enhancing Audit Quality: Plans and Perspectives for the U.S. CPA Profession*. OSCPA commends the work of the Enhancing Audit Quality Initiative to position the CPA profession in taking the lead on strengthening audit quality.

We support the AICPA's holistic approach to addressing audit quality by advancing initiatives across professional standards, resources, and practice monitoring efforts. Responses to specific sections of the discussion paper follow:

Competence and Due Care:

OSCPA recommends additional initiatives that are both preventive and remedial for a competence or due care concern.

*Prevention:*

- Peer review standards should include a requirement to complete an annual questionnaire or representation requiring a signature, addressing questions such as:
  - What new engagements were undertaken?
  - Were notice requirements in the program met for additional levels of practice or acceptance of engagements in specialty practice areas?
  - Were state board notification requirements met?
  - Was education obtained in areas relevant to my practice and new engagements undertaken?
- Increase requirements during engagement acceptance and planning for the firm to document:
  - Qualifications to perform the specific audit
  - Communications with the client
  - The client's understanding of the skills, expertise, and manpower needed, and agreement that the firm has such skills, expertise, and manpower; or will be taking the necessary steps to acquire such skills, expertise, and manpower
  - Additional steps or training needed to conduct the audit and the completion thereof
  - Mentoring or outside overview obtained if deemed necessary, particularly for specialized practice areas.

- Require continuing education in establishing and maintaining a system of quality control for CPA firms providing attest services.
- Provide more effective referral services for firms within their professional associations.
- Expand communications to audit committees, board members, bankers, clients and other third party users on items such as how to evaluate and interview auditors, and how to read a peer review report, so that when a decision is made to engage a firm, the board, client or third party relying on those statements is aware to ask for the peer review report.

*Remediation:*

- Explore making the profession’s professional ethics enforcement process more timely.
- Work with state licensing bodies to make violations of professional competence and due care more enforceable.
- Work with regulators on narrowing the still-existing expectation gap regarding the role of the audit.
- Expand communications with regulators regarding whether the audit is the service that most effectively addresses their needs (versus some type of specialized agreed-upon procedures in certain instances.)

OSCPA does not agree with competency testing or requiring membership in quality centers as an appropriate condition of specialized industry client acceptance. Members expressed restraint of trade concerns, and questioned whether this was an appropriate role for a voluntary professional association.

Auditing and Quality Control Standards:

Members expressed that audit quality concerns are an issue of application, acceptance, education and integrity in applying standards, rather than the quality of the current standards. Recommendations in this area include:

- Strengthen engagement reviews to encompass looking at minimal portions of the firm’s quality control system (at least the document.)
- Expand communication and education in the peer review program regarding requirements when a firm accepts a new level of service or an engagement in a new practice area.
- Consider simplifying the requirement for a written quality control document for smaller practices (to have greater discretion applied, avoiding “cut and paste” solutions.)

Required documentation elements should be reduced to:

- Client acceptance criteria
- Engagement quality control review criteria
- Mandatory consultation criteria
- Documentation of monitoring procedures

Guidance, Tools, Learning and Resources:

Members expressed that the tools are excellent, and that again, audit quality concerns were a matter of application, acceptance, education and integrity in obtaining sufficient professional competence for the work undertaken.

Practice Monitoring – Enhancing Quality of Peer Reviewers:

An important success factor in a strong pool of peer reviewers is the quality of the technical review process. OSCPAs recommends that the program structure promote a strong and diverse population of technical reviewers within each administering entity who are responsible for oversight of the peer reviewers. This speeds up the process of identifying and removing problem reviewers.

OSCPAs does not support specialized CPE, competency exams, or membership in audit quality centers for peer reviewers as this does not inherently ensure an adequate response to the root cause of audit quality concerns.

Practice Monitoring – Low-Volume Auditors of High-Risk Engagements:

OSCPAs recommends that the pre- and post-issuance review requirements suggested for firms performing five or fewer audits in a must-select category, should be applied to all peer reviewed firms that fail to conform to applicable professional standards in all material respects.

Additional recommendations in this area include:

- Require an accelerated peer review of must-select engagements when a firm first enters a new practice area.
- Again, give smaller firms quality control tools that are more relevant, to prevent the use of “cut and paste” or “fill-in-the-blank” documents.
- Again, consider mandatory quality control system training.

#### Practice Monitoring – Deepen Review of High-Risk Industries and Areas of Concern:

Members expressed significant concerns about removing the role of professional judgment and situational judgment in conducting risk assessments. OSCP is supportive of increasing communication and education about high and emerging risk areas.

OSCP applauds the efforts of NASBA in strengthening the state regulatory oversight committees.

#### Practice Monitoring – Improve Engagement and Firm Tracking:

OSCP agrees that failure to properly report engagements should result in termination from the program. In addition, recommendations include:

- Require firms to communicate acceptance of specialized industry engagements within a set number of days.
- Increase communication to board members regarding peer review requirements for specialized industries to increase accountability.

#### Practice Monitoring – National Group of Technical Experts:

Members were concerned about the cost versus benefit of this proposal, and questioned whether strengthening the technical reviewer pool and technical review processes may be a more cost-effective solution.

In addition, members were very concerned about the potential for this structure to hinder the timeliness of the process, particularly since the results are needed to meet state regulatory requirements in most jurisdictions. If this solution is adopted, OSCP urges oversight after the fact, rather than prior to review acceptance.

An additional recommendation is to elevate the use of pre-issuance reviews as a corrective action.

#### Practice Monitoring – Making the Peer Review Results More Informative:

OSCP supports the most recent changes to the peer review report that provide transparency and clarity for the user. Members expressed that “pass” and “fail” are concepts well understood, and efforts should instead be focused on educating users to ask for the report.

Additional recommendations include:

- Explore whether other professional standards (SAS, SSARS, SSAE) could require that the peer review report be made available to the client in the proposal and engagement letter process.
- Explore greater transparency of peer review results with state boards of accountancy so they can more effectively regulate their licencees.
- Work with NASBA on recommending accountancy rules that require firm peer review results to be made available to state boards of accountancy.

We appreciate the opportunity to comment on the Enhancing Audit Quality discussion paper. As the AICPA Board deliberates proposals to implement these recommendations, OSCPA urges application of cost/benefit considerations focused on elevating the quality of practice for those who need education and remediation, rather than adding requirements that do not elevate practice for those who are already making the effort to ensure that they are current.

Best Regards,



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