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Mr. Brad Coffey
Peer Review Board
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Re: Exposure Draft, *Proposed Changes to AICPA Standards for Performing and Reporting on Peer Reviews – Clarification of AICPA Standards for Performing and Reporting on Peer Reviews*

RSM US LLP appreciates the opportunity to offer our comments in response to the Exposure Draft, *Proposed Changes to AICPA Standards for Performing and Reporting on Peer Reviews – Clarification of AICPA Standards for Performing and Reporting on Peer Reviews* (the Exposure Draft). RSM US LLP is a leading provider of audit, tax and consulting services focused on the middle market. We have nearly 13,000 people located in 84 cities in the United States and five locations in Canada.

A commitment to the highest standards of audit quality requires a dedication to continuous improvement. Given that the objective of the peer review program is to promote and enhance quality in accounting and auditing services, we appreciate that the Peer Review Board is engaged in ongoing efforts to improve audit quality by enhancing the clarity and usefulness of the standards for performing and reporting on peer reviews. We note that many firms establish their internal inspection protocol and policies based on the peer review standards. Therefore, the Board's efforts in establishing clear, cohesive peer review standards affect audit quality monitoring directly and indirectly.

We applaud the Peer Review Board's efforts to clarify the peer review standards and thereby make them easier to read, understand and apply. We agree with the Board's proposed conventions of (a) organizing the PR-C sections by user and review type; (b) providing relevant definitions for all clarified PR-C sections in the first section, which is applicable to all users; and (c) separating requirements from application and other explanatory material.

We believe the proposed changes to the peer review standards will improve audit quality. Like audit quality improvement, enhancing standards for this profession is an iterative process. We believe the implementation of the Auditing Standards Board's requirements in its recently proposed statements on quality management standards will require further evaluation of the peer review standards for congruency with those requirements. For example, the proposed changes to the peer review standards include illustrative report examples in Exhibit B of Section 210 that will require evaluation of the terminology used (e.g., *quality control* compared to *quality management*) as well as substantive considerations (e.g., how the form of report and the reviewer's evaluation is impacted by the required annual assessment of the firm's system of quality management, including the differentiation between deficiencies identified by the peer review and those identified by the firm). We also believe the peer review standards should be further evaluated to consider whether Section 220 and (or) Section 320 should include procedures related to the requirement for the firm to have a system of quality management that is operating and assessed annually.

In this letter, we address the requests for comment in the Exposure Draft.

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Removal of the Requirement for the Majority of Procedures in a System Review to Be Performed at the Reviewed Firm’s Office

1. *Please provide your views on the changes described. In addition, please provide your views about the advantages and disadvantages of performing some or all system review procedures remotely.*

We agree with the removal of the requirement for the majority of procedures in a system review to be performed at the reviewed firm’s office. We agree that the reviewer should determine whether onsite procedures are necessary based on the risk assessment the peer reviewer performs in preparation for the peer review. We believe that, with appropriate planning, communication and use of technology, this risk-based approach will provide both inspectors and firms flexibility, efficiency, cost-saving opportunities and the ability to involve more individuals in the peer review process.

Change to the Requirements for Onsite Office Visits in System Reviews

2. *Please provide your views on the changes described. In addition, please provide your views on the advantages and disadvantages of visiting one or more offices of the reviewed firm.*

We agree with the change to the requirements for onsite office visits in system reviews. We agree that the peer reviewer should be required to consider whether visiting one or more offices of the firm is necessary when determining the appropriate procedures to be performed as part of the peer reviewer’s risk assessment. We believe that, with appropriate planning, communication and use of technology, this risk-based approach will provide both inspectors and firms flexibility, efficiency, cost-saving opportunities and the ability to involve more individuals in the peer review process.

Removal of the Requirement for Surprise Engagements in System Reviews

3. *Please provide your views on the changes described. In addition, please provide your views on specific peer review risks that may warrant selecting a surprise engagement.*

Given the many recent improvements to firms’ electronic systems of records and technology, the risk of firms modifying their engagement files after inspection selections have been made is greatly reduced. In addition, most systems of record typically include an audit trail, which would allow the peer reviewer to identify situations where files were modified subsequent to selection. We therefore believe that the controls utilized by most firms’ engagement software can allow the peer reviewer, in its discretion, to deem it unnecessary in a system review to provide an engagement selection to the firm upon arrival at the reviewed firm’s office (i.e., surprise engagements). We support the removal of this requirement, together with the board’s proposal to require the reviewer to determine whether a surprise engagement is necessary as part of the peer reviewer’s risk assessment procedures. For example, a reviewer may be more likely to select a surprise engagement if (a) engagement documentation is in paper form; (b) there are known problems with file lockdown; or (c) a firm’s electronic system did not provide information about archiving dates and (or) an audit trail that would allow the reviewer to determine whether subsequent changes were made.

Removal of the Term “Significant Deficiency” in Engagement Reviews

4. *Please provide your views on the changes described.*

We agree with the removal of the term “significant deficiencies” from the context of an engagement review. In the context of an engagement review, we agree that we should retain the description as “pass” or “fail.”

In the context of a system review, we suggest the Peer Review Board evaluate the discrepancies between the following two definitions and then consider whether further guidance or standards changes are needed to enhance the understandability and consistency of these terms:

Per paragraph .11 of PR-C Section 100, *Concepts Common to All Peer Reviews*:

Deficiency (system reviews). One or more matters that the reviewer has concluded could create a situation in which the reviewed firm would not have reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in one or more important respects. Deficiencies should be documented in a peer review report with a rating of *pass with deficiencies*.

Per paragraph 17. of the proposed Statement on Quality Management Standards, *A Firm's System of Quality Management*:

Deficiency in the firm's system of quality management (referred to as *deficiency in this proposed SQMS*). This exists when (Ref: par. A10 and A169–A170)

- a quality objective required to achieve the objective of the system of quality management is not established;
- a quality risk, or combination of quality risks, is not identified or properly assessed; (Ref: par. A11)
- a response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the responses are not properly designed, implemented, or operating effectively; or
- an other aspect of the system of quality management is absent, or not properly designed, implemented, or operating effectively, such that a requirement of this proposed SQMS has not been addressed. (Ref: par. A12–A13)

Removal of the Requirement That Peer Review Documents for Single Audit Engagements Be Included in Materials for RAB Meetings

5. Please provide your views on the changes described.

We agree with the removal of the requirement that the engagement profile and supplemental peer review checklist for single audit engagements be included in materials for meetings of the report acceptance body (RAB). However, we believe the RAB should have the ability to request, at its discretion, the inclusion of the engagement profile and supplemental peer review checklist for single audit engagements in materials for its meetings.

Issues for Consideration, Written Comments, or Suggestions

6. Are the requirements in the proposed peer review standards clear and understandable?

We believe the requirements in the proposed peer review standards generally are clear and understandable.

7. *Is the application and other explanatory material helpful to support the application of the requirements?*

We believe the application and other explanatory material generally is helpful to support the application of the requirements.

8. *Are the definitions easy to understand and apply? In addition, please provide your views about whether the master glossary is helpful to all users of the standards (refer to PR-C section 100).*

We believe the master glossary is helpful to all users of the standards. We believe the definitions provided in PR-C section 100 generally are easy to understand and apply. However, please see our comment in question 9. regarding the definition of “commencement date.”

9. *Do the requirements for commencing peer reviews appropriately reflect considerations for both system and engagement reviews? Do you think an engagement letter should be required for all peer reviews?*

We believe the requirements for commencing peer reviews appropriately reflect considerations for both system and engagement reviews. We believe, however, that the term “commencement date” should be revised so as to include consideration of an engagement letter, which should be obtained before peer review planning commences. We believe it would be helpful to clarify whether the engagement letter date affects the commencement date.

We believe a signed engagement letter should be required for all peer reviews, as it is important for there to be a clear understanding between the reviewed firm and the reviewing firm about their professional responsibilities and the terms and conditions of the peer review. As such, we believe paragraph .A2 of PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms*, should be moved from the “Application and Other Explanatory Material,” to become a requirement where appropriate in the standards and should be restated to read as follows (proposed addition is in bold font and proposed deletion is struck through):

The terms and conditions of the peer review ~~may~~ **should** be summarized in an engagement letter between the reviewed firm and the reviewing firm.

10. *Is the application and other explanatory material appropriate and understandable regarding committee members who are not team captain-qualified but practicing with a firm that has received a non-pass peer review report rating (refer to paragraphs .17-.19 of PR-C section 400)?*

We believe that, when a committee member is not team captain-qualified but is practicing with a firm that has a non-pass rating in its most recent peer review report, it is appropriate for the administering entity to consult with AICPA staff and establish safeguards to address the roles of such a committee member. We believe the related application and other explanatory material is appropriate and understandable.

Effective Date

11. *Please provide your views on the proposed effective date. If you are not in support of the proposed date, please provide reasons for your response. In addition, what are your views on the types of training and resources that would be helpful for stakeholders to begin using the proposed standards?*

We believe it is appropriate for the standard to be effective for peer reviews commencing on or after May 1, 2022. However, we believe consideration should be given to providing implementation guidance, including clarity regarding the word “commencing.” We note that the glossary defines

“commencement date,” but it is unclear whether that is the same as “commencing.” For example, if an engagement letter was signed on March 15, 2022, and the reviewer begins the review of engagements on May 15, 2022, it is unclear whether the peer review should be performed in accordance with the proposed standards or the extant standards.

We appreciate this opportunity to provide feedback on the Exposure Draft and would be pleased to respond to any questions the Board or the AICPA staff may have about our comments. Please direct any questions regarding this letter to Jamie Klenieski, Audit Quality and Risk Leader, at 215.648.3014.

Sincerely,

RSM US LLP

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