

Examination of Peer Review: Interim White Paper – November 2005

By The Quality Enhancement Policy Committee

Thomas E. Riley, Chair

The accounting profession's first uniform peer review program was created in 1977 by the American Institute of Certified Public Accountants (AICPA). The program established, for the first time, requirements to make certain all member firms conducting attest functions adhered to a single set of generally accepted auditing standards. The most important requirement – peer review every three years – would monitor adherence to those standards.

At various times during the past 30 years, important, fundamental changes to peer review have occurred because of its growing importance to both the public and the profession. But the peer review process was initially designed as – and remains – an educational and remedial program to prevent recurrences of problems and correct deficiencies in the practice of member firms. It was not created with third parties in mind or intended to supplant the enforcement responsibilities of others. From the beginning, the role of peer review was educational and corrective rather than disciplinary. Members expected, and the program delivered, confidentiality throughout the process. In fact, those working on peer review and ethics in the AICPA and the state societies could not exchange information.

In today's world, however, this kind of opacity no longer seems to be acceptable to everyone. For one thing, some businesses have begun to use peer reviews to assess the work of their accounting firms. In addition, the universe of users that rely on peer reviews has expanded. Peer review has taken on an increased significance to an audience that now extends well beyond CPA firms to regulators, clients, credit grantors, and others, all of whom expect a monitoring system that is effective, public, and a model of integrity.¹ Right or wrong, the public's perception of peer review is not one of a cooperative coaching system among firms, but of a seal of approval for a firm they might consider to engage. Given this evolving professional environment, new reporting requirements, and an atmosphere of enlightened accountability, close scrutiny of the nearly 30-year-old peer review program is not only prudent, it is vital to the betterment of our profession.

Indeed, if the accounting profession does not soon strengthen its peer review process, a governmental body is likely to take over the program. One need look no further for evidence of this than the creation of the Public Company Accounting Oversight Board (PCAOB) by the 107th Congress after the collapse of Enron and subsequent accounting scandals. In regard to public

¹ Bunting, Robert L. "Transparency: The New Peer Review Watchword." *The CPA Journal*, October 2004.

companies, Congress has made it clear that mere adherence to generally accepted auditing standards is no longer enough. CPA firms are now prohibited from preparing or issuing audit reports for U.S. public companies unless and until they register with the PCAOB. The PCAOB has also abandoned the entire premise of peer review, opting instead to conduct inspection of firms through an internal staff of well-paid inspectors.

Several other federal agencies have also adopted peer review as part of their stringent reviews of finances and organizations. The Government Accountability Office (GAO) has mandated that firms that review the usage of most federal funds – including monies given to almost every governmental unit and non-profit in the country – must undergo peer review. And the FDIC now requires firms that review major banking transactions must undergo peer review. The end result: While peer review has been incorporated into many of the nation's audits, there have been no significant changes to the AICPA peer review program.

QEPC Goal and Focus

Since the audit of Enron and the audit of Roslyn's school district² – both of which were performed by peer-reviewed firms that have since gone out of existence – many questions have been raised about the efficacy of the AICPA's current peer review program. In an effort to address some of the common criticisms of the peer review program and determine how it should best be run, the New York State Society of CPAs (the Society) formed the Quality Enhancement Policy Committee (QEPC) in August, 2004. The AICPA has also created a task force to look at the peer review process, which is scheduled to issue a report before the end of the year.

The QEPC's goal in this White Paper is to outline the tenets of an ideal quality review system which will promote consistency of quality throughout the profession, upon which the public can rely. Because of the breadth and depth of the subject, the QEPC chose to deal with one issue at a time and first develop its evaluation and recommended redesign of peer review along conceptual lines that address some common criticisms. Because the preliminary analysis is conceptual in nature, it does not address all the detailed implementation issues, which could alter the committee's recommendations.

It is important to note that the AICPA peer review is a national program, with some specific variations to accommodate differences in the 38³ states⁴ that require it. New York State

² The Roslyn school district was hit by a scandal that saw the school superintendent, the chief business administrator, the district's auditor, and three other employees arrested for allegedly stealing millions of dollars from the district.

³ AICPA State Societies and Regulatory Affairs, August 2005.

does not currently require peer review, although many CPA firms in New York State have chosen voluntarily to participate in the peer review program and others have entered the program because of federal requirements or AICPA membership by-laws. The committee's deliberations focused on how peer review functions in New York State only and on fundamental conceptual issues in addressing improvements in the program in the practice environment of New York.

Summary of Committee Conclusions. The committee first and foremost has concluded that peer reviews should in fact be considered part of a comprehensive quality review process. This means reviews should include elements such as: peer review; ethics; provisions for progressive discipline; educational programming; and self-monitoring. The committee has also concluded that the Society does not have the authority necessary to implement a strengthening of the current peer review program by itself; legislation will be required in New York State to change the current peer review program. In addition, the program should be mandatory, and, to the extent feasible, should be consistent with a national program. Finally, at some point in the future, the committee feels that quality review needs to be extended to all practice areas of the profession. But for now, the committee has focused its attention on attest service, which is the bedrock of the profession.

Findings: Peer Review Background

The QEPC began with an in-depth examination of the AICPA peer review program, which the Society currently administers in New York State as an agent. The committee also studied the Society's Professional Ethics Committee (PEC) and Peer Review Committee (PRC) in order to best determine its own direction and to avoid duplication of efforts.

Participation in the AICPA's peer review program is now a requirement for all AICPA member firms that practice accounting, auditing, or attest under the Statement on Standards for Attestation Engagements (SSAE). The program is directed by the Peer Review Board of the AICPA (PRB), which consists of three task forces: education (for training, alerts, etc.); oversight (oversight of the state administered programs); and standards (setting of all peer review standards). The Society's PRC – which functions as a report acceptance body for the AICPA's peer review program – is made up of about 20 members, all of whom are qualified as peer review team captains. Society staff supports the technical review and administration of the

⁴ Guam, a U.S. licensing jurisdiction, also mandates peer review.

program. The AICPA requires that its database system be used to administer the peer review program.

There is no contract between the AICPA and the Society. Instead, an annual “plan of operation” (by means of a questionnaire) is executed on behalf of the Society. Fees of about \$475,000 are charged by the Society to cover the administrative costs of serving 2,329 firms.⁵

Peer reviews are required once every three years for firms enrolled in the program. The Society’s administrative staff schedules the reviews. The firm to be reviewed selects its peer review team captain (referred to as a TC in the case of a System Review) from an AICPA-approved list of reviewer firms. It also submits a profile on the nature of its practice in order to attempt a proper matching to a TC with the appropriate expertise.

The PRC looks at between 600-700+ reports a year. The committee is divided into three-member review acceptance body task forces (RABs) that determine whether reviews are performed in conformity with peer review standards. In the past few years, there have been between five and seven such three-member groups that have divided the workload proportionately. If a firm’s report is unmodified with repeat findings, modified, or adverse, the RAB may prescribe remedial action for that firm, such as CPE, an accelerated review (i.e., another review sooner than the three year cycle), remedial direction from an outside consultant, or an outside monitor. The review is not considered complete until the mandated follow-up has been completed and accepted by the committee.

If the RAB cannot agree on the findings of a report, it goes to the full PRC committee. If there is still disagreement, the report is forwarded to the AICPA peer review board. Finally, if the report cannot be reconciled by the peer review board, it goes before an AICPA hearing panel. If a report goes to the panel because a firm has been uncooperative (or some other issue where standards are not being met), the panel can recommend expulsion from the peer review program, which by extension would mean expulsion from the AICPA. Expulsion would not occur before some due process before a joint trial board.

The PRC conducts oversight of 12 to 20 reviewers (primarily TCs) selected annually. An oversight task force reviews the work of the TC. Oversights are done both on- and off-site. High-volume TCs, or those with aberrations (e.g., all their reviews are unmodified) are selected. There are many criteria for selecting a review or reviewer for oversight. Starting this year, one third of the TCs must represent to the PRC that their areas of expertise are factual and their CPE is up-to-date.

There are three types of reviews under the current standards:

⁵ As per AS400 – the AICPA’s database system – as of August 2005.

- **Report Review.** This review has no passing or failing grade, and is somewhat like a management letter. Report reviews are done for practices that issue compilations with no disclosures. They are performed off-site and are restricted to the contents of the reports. Recommendations for improvement can be made. If there are no comments, the technical reviewer can accept Report Reviews without the need for further review by the PRC.
- **Engagement Review.** This review encompasses the examination of compilation and review engagements and attest engagements under the SSAEs, not audits. After analysis by the technical reviewer, such reviews move to the PRC, which determines whether to accept the recommendation of an unmodified, modified, or adverse report. An unmodified report may have a letter of comment (LOC), which is a recommendation for improvement (i.e., for an item which is not a material departure from professional standards). The firm must answer the LOC in writing. LOCs are optional for unmodified reports, but are generally required for modified reports. Under 2005 revisions, findings that make the report modified are included in the body of the report. Findings that do not cause a modification of the report are included in the LOC. If an adverse report is issued, all findings are included in the body of the report and no LOC is issued.
- **System Review.** This review is for firms that perform audits or examinations under the SSAEs. It is not engagement driven but rather focused on the firm's system of quality control (QC). Review steps undertaken include staff interviews, examination of library resources and hiring, education practices, and the firms ongoing monitoring of its QC system. In addition, using a risk-based selection process, engagements and their related working papers are reviewed.

The number of completed reviews by review type is as follows: ⁶

	2002	2003	2004⁷
Report Reviews	64	60	60
Engagement Reviews	184	186	159
System Reviews	396	392	303
Total	644	638	522

The results of these reviews are as follows: ⁸

⁶ As per AS400 as of August 2005.

⁷ 2004 data is incomplete and represents information available as of August 2005.

	2002	2003	2004
Unmodified W/O LOC	47%	48%	47%
Unmodified W/LOC	48%	48%	49%
Modified	4%	4%	3%
Adverse	1%	0%	1%

Nationally, approximately 1% of reviews are adverse, 5% are modified, and the balance is unmodified, with about 40% of these having an LOC.⁹ National statistics incorporate 38 states with mandated peer review. New York State does not currently mandate peer review, which may account for any discrepancies between New York State and national figures.

There are, in effect, three types of rejections of peer review reports by the PRC:

- **TYPE 1:** PRC disagrees with the technical reviewer's recommendation to accept or defer a report. A TYPE 1 requires that a report change from unmodified without an LOC to unmodified with an LOC, unmodified to modified, or modified to adverse.
- **TYPE 2:** PRC concludes that the reviewed firm should be subject to additional corrective action, or different follow-up action is more appropriate than the action recommended by the technical reviewer.
- **TYPE 3:** PRC concludes that additional feedback to the TC is necessary.

Although exact statistics are not maintained on each type, an overall review of the most recent years' activity suggests that TYPE 1 decisions are reached most infrequently, and TYPE 2 and TYPE 3 decisions are reached for no more than 5% of reviews.

The AICPA peer review program is not for firms that are registered with and inspected by the Public Company Accounting Oversight Board (PCAOB). These firms are members of the AICPA's Center for Public Company Audit Firms peer review program (Center PRP) and reviews are administered on a national level by the Center PRP committee. 116 firms in New York State are inspected by the PCAOB and the Center PRP. In light of the recently enacted inspection process for public companies by the PCAOB, Center PRP reviews only look at non-public company engagements.

Although the standards of the Center PRP and the Society-administered program are ostensibly the same, all Center PRP reports are available publicly, but reviews of firms that joined the AICPA peer review program after 1988 are not. Many Non-Center PRP firms that voluntarily adopted peer review before 1988, however, have participated in the public file. In

⁸ As per AS400 as of August 2005.

⁹ Ibid.

addition, because administration of the Center PRP is not handled by the Society, the logistics of the two programs differ to some extent. New standards for the Society-administered peer review program – developed to increase transparency – went into effect on January 1st, 2005. The peer review report will now mention if the firm does ERISA, GAO, or work for certain depository institutions. The report will disclose modified or adverse findings, instead of those findings appearing only in the LOC. There are also some changes in the selection method of engagements, including an engagement that is not disclosed to the firm in advance of the review.

Analysis: The Current Peer Review System

The QEPC's analysis of the current peer review system focused on the following issues:

Concentration. Some peer review TCs perform so many reviews that they may not have an adequate practice base to maintain currency in all the facets of an accounting and auditing practice to cover the breadth of practice of the firms they review. Ten peer reviewers account for 40+% of the peer reviews performed in New York State. There are only 117 “active” reviewers, down from 206 five years ago.

Disciplinary authority. The program is set up to be remedial and educational; the reviewed firm is the principal beneficiary. The question of a disciplinary component arises in New York State because all current state legislative proposals include a peer review component that presumes that the public would be the principal beneficiary rather than the reviewed firm. There is effectively no disciplinary component to the program, and the way in which engagements are currently selected undermines the concept of using peer review as a disciplinary tool. The scope of peer reviews is also limited in terms of the amount of testing.

Fee Structure. Administrative fees charged by the state societies are established by formulas tied to the AICPA data system. As a consequence, the size of the accounting and auditing practice itself is not necessarily reflected in the administrative fee. In addition, the fees charged by peer reviewers have raised concerns both from the reviewed firm's over cost control and from peer reviewers about a competitive fee for the work.

Guidance. Although there are extensive checklists and lengthy manuals, many issues arise in the performance and administration of peer review for which no clear guidelines are available. The guidance for reviewers, RABs, and PRC is fragmented into various manuals, and, periodically, practical issues must be resolved through phone discussions between the administrative agent's technical reviewer and AICPA staff. There are currently four separate

peer review manuals – a Peer Review Manual, an Administrative Manual, a RAB Handbook, and an Oversight Handbook – as opposed to one integrated and comprehensive guide.

Reviewer qualifications. The program's standards for qualifications are very broad. In some cases, a two-day course and current experience in accounting and auditing over the past five years is the only requirement for a reviewer. Because peer review is firm-on-firm, the only training ground is within a firm that already performs peer reviews in an area of practice. There is no place for inexperienced professionals to go to get the education necessary to perform the requested work.

Scope of the peer reviewer's role. Many firms in the AICPA peer review program view their peer reviewer as their QC person or QC resource, and look to them for advice on accounting, auditing, and independence issues. This practice creates serious potential conflicts, where the peer reviewers may ultimately review their own advice.

Selection process. Firms undergoing peer review currently choose their reviewer, and some firms could be reviewed by “friendly” firms, an arrangement which could undermine the integrity of the system. Smaller firms in particular view peer review as a barrier to entry into practice, and may look for friends to conduct their peer review. Because peer review rules do not allow reciprocal peer reviews, an alternative arrangement is a triad, where Firm A reviews Firm B, Firm B reviews Firm C, and Firm C reviews Firm A. The firms will agree to review each other at a reduced cost in order to manage peer review costs and still participate in the program.

Improving Peer Review: What Should It Be?

In light of the information gathered, the QEPC chose to focus its efforts on addressing at a conceptual level the attributes of an alternative peer review model instead of following the AICPA peer review model. This conceptual ideal can then be used as foundation on which to build a stronger peer review system.

After extensive deliberation, a presentation by a former chair of the PRC, and a thorough review of a wide range of sources and inputs, the committee narrowed its focus to areas of particular concern and detriments – real or perceived – within the current system. These included:

- The relative lack of an effective disciplinary component to apply after remedial failures (or the inefficacy what currently passes for discipline);
- Concerns surrounding the idea of “who is the reviewer,” such as:
 - reviewer certification;
 - reviewer training;

- reviewer qualifications;
 - the concentration issue;
 - the matching of reviewers with appropriate size and experience to a firm; and
 - the resources available to reviewers.
- The idea of a broader evaluation of the environment of quality within a firm, rather than a checklist-oriented review;
 - The need for more openness and transparency in the program, for the benefit of the profession and the public;
 - The need for some force of regulation to make quality review mandatory;
 - Operational risk management; and
 - Comprehensive program guides.

Based on this analysis, the committee established a set of conceptual ideals for a new quality review program, outlined below. These ideals are meant to serve as a foundation for a restructured quality review system that can monitor and enforce consistency of quality for the benefit of the profession and the public.

Concept: Comprehensive Program Orientation

- **The scope of peer reviews should be clearly focused on quality.** Quality reviews are more extensive than peer reviews, and include internal control reviews, a chief executive's responsibilities relating to quality, etc.
- Peer reviews should be viewed as only one aspect of a comprehensive quality review system. The goal of a quality review should be to ensure that firms are complying with their own continuous, self-imposed systems of quality control.
- The higher the risk, the more extensive the review required.
- Third parties should be able to see the benefit of a quality review.

Quality Review Implementation

Quality reviews will include the following:

1. Review of Six Functional Areas
 - a. Review of Tone at the Top

The primary objective of the review of the firm's "tone at the top" is to assess whether leadership's actions and communications demonstrate a commitment to audit quality and professional standards in connection with the firm's performance of audits, issuance of audit reports, and related matters involving clients.

The subject areas for review and analysis will include, but will not be limited to: the firm's code of conduct for employees; documentation related to the firm's ethics; organizational charts; information concerning reporting relationships; and certain communications from management.

b. Review of Partner Evaluation, Promotion, and Assignment of Responsibility

The objectives of the procedures in this area are to assess the firm's current policies and procedures for evaluating and measuring partner performance, assigning responsibilities to partners and in disciplining partners; and to evaluate whether the design of the measurement and evaluation processes as documented and communicated can be expected to achieve the objectives of promoting audit quality.

c. Review of Independence Policies

The objectives of the procedures in this area include gaining an understanding of certain firm policies and procedures relating to its compliance with independence requirements. Reviewers will focus on independence issues related to the provision of non-audit services to clients and the firm's business ventures, alliances, and arrangements. Reviewers will also inspect the firm's requirements regarding personal holdings of securities, as well as its programs designed to monitor compliance with these policies.

The subject areas for review and analysis will include, but will not be limited to: inspection of the firm's policies, procedural guidance, and training materials pertaining to independence matters and permissible service arrangements with audit and non-audit clients.

d. Review of Client Acceptance and Retention Policies

The primary objectives of the procedures in this area are to evaluate whether the firm's client acceptance and retention policies and procedures reasonably assure that the firm is not associated with clients whose management lacks integrity, that it undertakes only engagements within its professional competence, and that it appropriately considers the risks involved in accepting and retaining clients in the particular circumstances.

The subject areas for review and analysis will include, but will not be limited to: the policies and procedures for acceptance and continuance of audit clients; and a list of all new clients during the previous year.

e. Review of Internal Quality Control Program

The objectives of the procedures in this area are to evaluate the effectiveness of the firm's annual internal QC program in enhancing audit quality, including evaluating the results and the remedial actions taken, and to observe and test the conduct of the internal QC program.

The subject areas for review and analysis will include, but will not be limited to: policies and procedures for the firm's risk and QC review, including the program's goals and objectives and the methods of selecting offices, partners, and engagements to be reviewed; and the results of the previous year's internal QC review.

Review will include examination of a firm's quality control documents for periodic sign off by the firm's leadership responsible for quality assurance matters.

f. Review of Practices for Establishment and Communication of Audit Policies, Procedures and Methodologies, Including Training

The objectives of the procedures in this area are to obtain an understanding of the firm's processes for establishing and communicating audit policies, procedures, and

methodologies, including training, in order to: evaluate whether the design of these processes can be expected to promote audit quality and enhance compliance; evaluate changes in audit policy that the firm has made; and evaluate the content of the firm's training.

The subject areas for review and analysis will include, but will not be limited to: documentation explaining how the firm develops and revises its policies and procedures; excerpts from the firm's policies and procedures manual and other internal guidance; and training materials for training programs conducted for audit professionals. Reviewers will also: interview the firm's risk management leader to determine how the firm incorporates and communicates changes in its audit policies, procedures, and methodologies; evaluate the effectiveness of the design of the processes for monitoring changes that might require additions to or changes in the firm's audit policies, procedures, and methodologies; and evaluate the nature and content of recent additions to, or changes in, selected firm audit policies.¹⁰

2. Review of Selected Audit Engagements

Reviewers will select an appropriate number of audit engagements to review. The reviewed firm will not be allowed an opportunity to limit or influence the selection process, and the engagements to be reviewed will not be identified significantly in advance of review.

Concept: Progressiveness (Education and Discipline)

- **A quality review system should be progressively disciplinary in order to satisfy the needs of today's environment.** A progressive system is one that is both educational and disciplinary. It maintains emphasis on the value of a system that can impart knowledge to firms, but does not lose sight of the fact that there may be some who lack the will to comply with high standards without sanction. The disciplinary aspect comes into play after a firm fails or repeatedly fails to take corrective action. A quality review program without an effective disciplinary component would not be acceptable to the public or public officials.

¹⁰ PCAOB "Report on 2003 Limited Inspection of PricewaterhouseCoopers LLP," August 26, 2004

- The New York State Legislature shall enact legislation which delegates to the Board of Regents, the State Board for Public Accountancy, and the State Education Department the authority to set the standards for quality reviews. New York State's quality review program should be consistent with national standards.
- The State Society has the obligation to handle the educational aspect of the quality review program.
- All state-related disciplinary matters should be referred to the Board of Regents and the State Education Department.
- All Society-related disciplinary matters should be referred to the Society's Ethics Committee.
- Progressive disciplinary action will require a system which has:
 - Some degree of the force of law to enforce the discipline;
 - Public reporting;
 - Comprehensive and easily accessible guidelines for reviewers;
 - A provision for feedback and corrective action by the reviewed firm;
 - A means of referral to a disciplinary body, established by the Board of Regents;
 - Documentation of findings and recommendations;
 - A due process mechanism with realistic timeframes.

Progressiveness Implementation

In a progressive discipline system, the severity of the penalty increases with each infringement of the rules. Progressive discipline establishes a process of clear, timely, consistent, and documented communications with a firm designed to ensure an understanding of expectations, provide an opportunity to correct behavior, improve performance, and assure due process.¹¹ Among the advantages of a progressive discipline system is the fact that reviewers can work with a firm without having to resort to the most severe penalties immediately. Typically, the progression is:

1. **Education** and, depending on the nature of the infraction(s), the possibility of: outside independent supervision; an accelerated review; license suspension or license termination.

¹¹ San Francisco State University Human Resources. "Practice Directive P206: Progressive Discipline Guidelines." <<http://www.sfsu.edu/~hrwww/directives/p206.htm>>. Revised: March 2004.

2. **Education, outside independent supervision, an accelerated review** and, depending on the nature of the infraction(s), the possibility of: license suspension or license termination.
3. **License suspension** and, depending on the nature of the infraction(s), the possibility of license termination.
4. **License termination.**

A progressive discipline system contains the following elements:

- Both the reviewer and the firm know in advance the appropriate discipline for the violation of a specific work rule;
- The degree of discipline is greater for repeated offenses in a given time frame;
- All violations are treated the same unless there are unusual mitigating or aggravating circumstances.

Usually, after a specified time period passes without another infraction, a firm will get a "clean slate." Any later infractions will start the process again with remedial steps. Some infractions are so severe that the first one, two, or even three steps may be skipped.

Concept: Reviewer Pool

- **A pooled team of individuals from different firms should conduct quality reviews.**¹²
This would replace the current firm on firm structure and would allow for an exchange and learning among reviewers and reviewees and be more effective and equitable.
- The assignment of qualified individual reviewers, not firms, out of a pool would obviate the potential conflicts of interest that result from allowing a firm to select its own reviewer.

¹² Some concern has been expressed that employing the pool concept, which limits a firm's ability to select its own reviewer, could be a concept that regulators would have interest in adopting for financial statement audits, resulting in both public and private businesses losing their ability to select their own auditor. The pool concept is only practical for quality review and not financial statement audits. It should not and need not be extended any further. For practical purposes, it is not feasible to expect that some regulatory agency could be created to assign an auditor to every public and private entity in the United States, or that the capital markets would accept that. In fact, Congress backed away from such considerations when it created the PCAOB.

- A pooled team of reviewers would make issues concerning firm on firm reviews or the rotation of reviewers irrelevant, since a new team would be designed for every review.
- Reviewers should be systematically trained, certified, and evaluated.
- Reviewers should be chosen from a state certified list and assigned to firms based on a matching of the specialty of the practice of the reviewed firm and the reviewer's experience, skill set, and area of expertise.
- The selection of quality reviewers should be made by a coordinating council, which would either be selected by the Society or the state.
- The size of the quality review team should be proportionate to the size of the firm being reviewed.
- Minimum levels of knowledge, expertise, experience, and education should be required of reviewers entering the pool.
- Reviewers should be completely independent of the firms they review, in both perception and reality.
- Quality review team members should be adequately compensated
- Reviewers should have access to a comprehensive guide of review standards that provide for an effective, risk-based, and thorough review of the quality of the firm's practice.

Reviewer Pool Implementation

All firms will be incented to place employees on a state-certified list of reviewers. Possible incentives include: lower review fees for firms that place a certain percentage of their employees in the reviewer pool and; the benefit of exposing reviewers to the review process and other firms' best practices. Potential reviewers will submit their resumes and fill out a questionnaire designed to gather information about their experience and areas of expertise so they may be categorized as either specialists or regular reviewers. Resumes and questionnaires will be periodically and randomly reviewed, audited, and tested to ensure they accurately represent reviewer qualifications. Reviewers can then be matched with a firm based on the compatibility of their areas of expertise and the firm's industry specialization.

The number of review team members on a team will be determined by the size of the firm being reviewed. The Society will ensure there are no independence issues between reviewers and the firm to be reviewed. A firm has the right to accept or reject the selected review team for sufficient reason and ask the Society to select another team. The cost of the

review will depend on the type of review the firm requires. The Society will handle the administration of the reviewer pool and bill firms for the program, with the goal of breaking even.

Reviewers will then perform the review, contacting the firm with any questions and deficiencies noted. The Society will then send the report and letter of comments (if necessary), requesting a letter of response.¹³ The Society's administrative duties will include, but not be limited to: selecting and forming reviewer teams; mailing engagement letters; coordinating the exchange of fees, and reimbursing reviewers for certain travel costs.

Concept: Robust Program Structure and Reporting

- **The demands of today's users of quality review will require that the system be public and open.**
- Within the framework of an open system, reviewers shall respect the confidentiality of client records.
- The program should be established with appropriate authority to be able to monitor and foster competency and encourage compliance with the highest standards and reporting of such compliance to the state.
- The program will have an obligation to provide more education on quality control.
- Firms should have the ability to tap into the knowledge base of reviewers (other than those who are performing a firm's review).
- The quality review program should be self-funding.
- The quality review program should serve as a model for legislation.

Moving Forward

The committee unanimously agrees that the quality review system it seeks to implement must be a major step up from the current program, in terms of standards and comprehensiveness. A new review methodology should be used by a pooled team of qualified professionals, provide for progressive discipline, and include an evaluation of the firm's quality control environment as well as a review of engagement performance quality. The New York State Society of CPAs Board of Directors has voted to affirm these conceptual ideals and has directed the committee to address implementation issues, some of which have been formulated above. This Interim White Paper represents a work-in-progress. There are additional

¹³ Missouri State Society of CPAs. "Missouri's Cart Program."
<http://www.mocpa.org/peer_directory.html#cart>.

implementation issues on which the committee has yet to reach consensus, and others which need to be examined and discussed.