

Peer Review Transparency Update

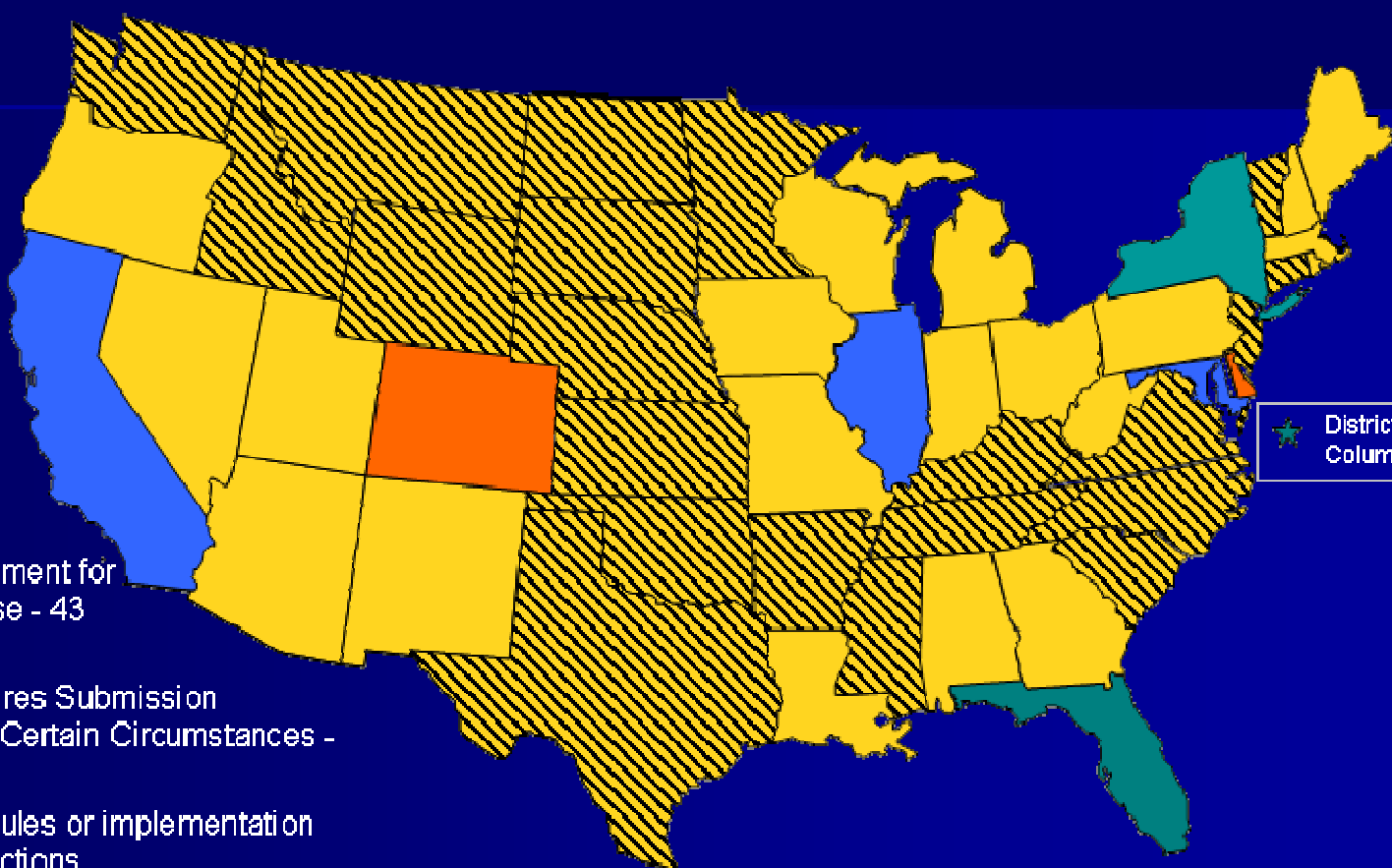
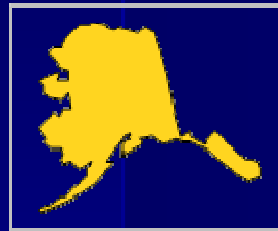
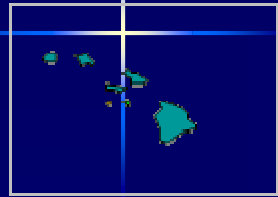
September 2008

Peer Review Overview





- Approximately 33,000 firms are currently subject to peer review
 - 42 individual state CPA societies, groups of state CPA societies or the AICPA serving as administering entities in the 54 licensing jurisdictions.
 - Of 16,000 firms that perform audits, over 10,000 make some aspects of their peer review results available outside their firm.
- All firms that belong to the Governmental Audit Quality Center, Employee Benefit Plan Audit Quality Center, the Private Companies Practice Section or are enrolled in the Center for Public Company Audit Firms Peer Review Program have their peer review results posted on the AICPA public web site.
- Many other firms voluntarily make their reports public - in response to client requests or to demonstrate their commitment to quality.

State Peer Review Status

Updated May 2008



★ District of Columbia

-  Mandatory Requirement for Renewal of a license - 43 jurisdictions
-  Mandatory & Requires Submission of Materials Under Certain Circumstances - 21 jurisdictions
-  Statute enacted – rules or implementation pending – 3 jurisdictions
-  State is working toward mandatory requirement - 4 jurisdictions (includes DC)
-  No requirement - 5 jurisdictions (Colorado, Delaware, Northern Mariana Islands, Puerto Rico, Virgin Islands)

The Environment

- Regulators want greater access to, and involvement with, peer review
 - Currently, 47 out of 54 state boards of accountancy either mandate peer review as a condition of licensure or have announced plans to do so, and about half of those states already require some form of submission of peer review information as a condition for renewal of a license.
- The profession must take the lead on making peer review results more accessible and help to create program uniformity and make the submission of firms' peer review results easier over time.
- AICPA and State CPA Societies are committed to
 - Maintaining uniformity of nationwide program.
 - Preserving the profession's role in peer review.
 - Supporting the profession's public protection mandate.

Search for a Solution

- AICPA and other stakeholders carefully evaluated various options to help members satisfy regulatory requirements and address regulatory calls for increased access and transparency.
- Solicited feedback from stakeholders.
- Used input to develop the best solution.

The New Model - *Facilitated State Board Access*

- Use the current peer review process to allow voluntary firm disclosure of review results to State Boards of Accountancy (BOAs) via a secure web site, available only to authorized state board representatives.
- Process tailored differently for:
 - States that require peer review for renewal of a license or licensure and have no prohibitions on accessing results, and
 - All other states.

New Model – *Facilitated State Board Access*

- During early adoption, only Maryland firms that have their peer reviews administered by the Maryland Association of CPAs and have an accepted peer review after October 13, 2008 will participate in the Facilitated State Board Access program.
 - This includes firms that already allow their peer review results to be posted to the existing public file as a condition of membership in the Governmental Audit Quality Center (GAQC), Employee Benefit Plan Audit Quality Center (EBPAQC) or Private Companies Practice Section (PCPS).
 - Firms enrolled in the CPCAF Peer Review Program will not participate in early adoption of Facilitated State Board Access. However, these firms will participate when full national implementation occurs which is expected in 2009.

New Model - *Facilitated State Board Access*

- The AICPA and state CPA societies are working together to allow this process to become the primary means by which all BOAs obtain peer review results. Over time, this new process will help to make the submission of firms' peer review information easier.
- Until further notice, this new process **WILL NOT** replace the current peer review information submission requirements of the Maryland State Board of Public Accountancy which licenses firms practicing in Maryland. Therefore, firms will need to follow the current Maryland State Board of Public Accountancy submission requirements until notified differently.

The Process: Peer Review Required / No Prohibitions

In Maryland, where:

- Peer review is required for renewal of a license or licensure by the BOA where the firm's main office is located;
- And the BOA is not prohibited by law from access to peer review information:
 - Firms will receive notification with peer review acceptance letters from the Maryland Association of CPAs (the Administering Entity- AE) indicating the intent to post the firm's peer review results to a secure BOA web site that will be available only to authorized state board representatives.
 - If the firm does NOT want its peer review results posted to the secure web site, it must "opt out" - notifying the AE within 30 days that it does not want its peer review results posted.

The Process: Peer Review Required / No Prohibitions

- To opt out, firms must direct the AE in writing within 30 days not to post its results.
- The peer review results will be scanned into a PDF file and uploaded to the secure web site. If the firm opts out, the BOA will not be able to access the file. It is important to note that unless a firm opts out, all applicable documents (resulting from its peer review) will be posted even if it is not a state requirement.
 - Peer review report.
 - Letter of comments and letter of response.
 - Acceptance and completed action letters.
- The firm managing partner and peer review contact will receive an email confirmation of posting and opportunity to expand access to other select BOAs.

The Process: Peer Review Required / No Prohibitions

- Firms that are not members of the AICPA Employee Benefit Plan Audit Quality Center, Governmental Audit Quality Center or Private Companies Practice Section have the opportunity to opt out at any time.
 - To opt out, Maryland firms must notify the Maryland Association of CPAs in writing.
 - Once the notification is received, the Maryland Association of CPAs will remove the posted information.

The Process: Peer Review Required / No Prohibitions

- Only the BOA in the state where the firm's main office is located gets access, unless the firm requests access for additional select BOAs.
- During early adoption, access will be limited only to those BOAs that participated in the pilot phase or that are participating in early adoption.
- During early adoption, Maryland firms will have the opportunity to select additional BOAs for expanded access. However, access will not be granted until the selected state or states are participating in the FSBA program.
 - Firms will be notified by the Maryland Association of CPAs when their selected BOA(s) are participating in the FSBA program. This notification will remind firms of their selection and provide them with the opportunity to change their decision in regard to expanded access.

The Process: Peer Review Required / No Prohibitions

- Even if a firm opts out, public information will be posted to the secure web site available only to authorized state board representatives:
 - Name and address of the main office of the firm.
 - Whether or not the firm is enrolled in the program.
 - Date of acceptance and the period covered by the reviewed firm's most recently accepted peer review, if applicable.
 - If the firm's enrollment in the program was terminated.

The Process: Peer Review with Prohibited Access or No Peer Review

In states where firms:

- Require peer review for renewal of a license or licensure and the BOA is prohibited by law from access (this includes prohibited from access without direct consent from the licensee)
- OR states where peer review is not required for licensure by the BOA where the firm's main office is located:
 - Firms will be informed that they can request the AE to post their peer review results to the secure web site with access given to select BOAs that require peer review and are permitted access to peer review information.
 - To have their results posted, the firm must return the communication to the AE with specific instructions.

Secure Web Site

- Created and hosted by AICPA.
- Only available to authorized individuals at BOAs/ state licensing bodies.
- AEs will post (or remove) peer review results in PDF format.
- Only state licensing BOA will get access to firm results unless firm requests access for additional permitted BOAs.

Benefits of New Process

- Will help to ease compliance for CPA firms over time.
- Brings greater uniformity and order to peer review reporting.
- Enhances confidence in the CPA profession.
- No additional bureaucracy, low cost.

Promotes Uniformity

- Required of all AICPA Peer Review Program Administering Entities.
- Not tied to BOA peer review document submission requirements.
- Provides mechanism for AEs whose BOA does not require peer review.
- Firm can request results be made available to other permitted state boards.

Additional Benefits

- Promotes public protection mandate and commitment to transparency.
- Acknowledges change in business, regulatory and practice environments.
- Consistent with AICPA Board of Director's Peer Review Task Force recommendations.
- Minimal impact on peer reviewer pool.

Broad Support

- Model approved by AICPA Board and Peer Review Board.
- Supported by State Societies.

Pilot Phase

- To ensure a smooth transition and full national implementation, select states pilot tested the program.
- North Carolina, Ohio, Oklahoma, South Dakota, Tennessee and Texas participated in the pilot phase.
- Peer Review participants will continue to be informed throughout the process and prior to full national implementation in their state.

Timing to National Implementation

- The pilot phase occurred from October 2007 to March 2008.
- The Peer Review team met with these state societies and respective BOAs to investigate any programming errors or system improvements and modified the system accordingly.
- In May 2008, states were asked to volunteer for early adoption of the project. DC, KY, MD, MI, VA, WA and WV are participating in early adoption and MN and MT will begin later this year.
- Opportunity exists for all states to early adopt in 2008/2009.
- Full national implementation in 2009 in conjunction with the acceptance of new peer review reports issued under the revised *AICPA Standards for Performing and Reporting on Peer Reviews*.

Additional Resources

- To help provide you with additional details on the process you can access a Q&A at **insert state url**.
- The AICPA also has additional information at <http://www.aicpa.org/Professional+Resources/Peer+Review/>

Questions & Answers

- **Insert Contact Information**