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1993

## Comment letters on Performing and Reporting on Off-Site Quality Reviews

American Institute of Certified Public Accountants. Quality Review Executive Committee

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## EXPOSURE DRAFT

### PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

#### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: JOSEPH A. PULEO, COUNCIL

Comments: I am strongly opposed to two amendments

1) Reporting to Professional Ethics  
Division, and

2) Define substandard engagements

1) Reports to Professional Ethics violate the covenant made with the members. Quality Review was merchandized as a remedial, not a punitive program. The emphasis was self-improvement and education. You'll shift to investigation and possible punishment.

Most members view the Institute as a large, impersonal organization, controlled by the Big Six. (I understand those views are wrong, but that's still what most members think.) Most members don't trust the Institute. You give them more ammunition.

2) Substandard engagements opens a can of worms. With all respect I don't want the QR Committee involved in this part of the standards setting process. We have too many groups setting too many standards. I don't want any more.

Also, I'm concerned about liability

#### Instructions for Response Form

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Comments (continued): *problems of the members. This is one  
fleck of a pejorative term. Finally, it's not  
clear to me that definition of the term is needed  
or helpful. You haven't made the case that a  
definition is needed. If a definition is needed  
this one doesn't seem to me to be the best one.  
(Too vague, too subject to individual judgment).*

Return responses to:  
AICPA  
Janet Luallen, Senior Technical Manager  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

# EXPOSURE DRAFT

JUL 01 1993

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## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Daniel L. Gotthilf, CPA - 6 Farmingville Rd., Ridgefield, CT 06877

Comments:

Refer to the Unqualified Report on an off-site review, Pg. 13. In the second paragraph, 4th. line, after the word "or," omit "if applicable, with an other comprehensive basis of accounting". This is not necessary unless there is an OCBOA report. Otherwise, leave it out, as it is superfluous if no such reports were issued.

In the third paragraph, second line, after ... "caused me to believe that the..", omit "compilation and review", so it simply reads "to believe that the reports submitted..". Paragraph one has already define the scope as either including audits or not. If there were no audits submitted, it is not necessary to enhance that statement in the last paragraph by referring to compilations and reviews. That would be explicit from the first paragraph. To include it again weakens the conclusion and somehow implies that a practice without audits is an inferior practice to one with audits.

Pg. 16 - You illustrate the guidelines for an off-site LOC. Point No.3 states that not significant departures should also be included in the LOC. Then on Pg. 17 you gave an illustration which includes two bullets for qualified report matters and matters that did not result in a qualified or adverse report. The sample letter should have some examples of the actual preferred wording for the latter. Few reports are qualified or adverse, but almost every report has insignificant departures which will be included in the letter. Surely this is worth some specific guidance. Pages 18 and 19 only give guidance on matters to be included where a qualified or adverse report was issued. It does not give guidance where an unqualified report was issued. Why not include some examples. The ones given on Pg. 19, points 5 and 6, apparantly, are only to be used when a qualified or adverse report has been issued.

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JUL 0. JL  
JUL 06 1993 (3)

# EXPOSURE DRAFT

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Glenn A. Roberts/Hoover & Roberts, Inc.

Comments: The term "unqualified" should not be used to refer to the "best" opinion issued under the quality review program.

While accountants are accustomed to interpreting "unqualified" as meaning "no significant problems have been found", the general public is not.

As a result, when we proudly tell our bankers, attorneys, and clients that our quality review resulted in an "unqualified" opinion, their reaction is, "You mean you're not qualified to be an accountant?!"

This does not instill public confidence (which is, I believe, one purpose of the program).

I would suggest also that a "qualified" opinion is misleading, in the opposite direction.

Could we not find terms that better convey to our public what the results of quality review are? "Unmodified" and "modified" would be an improvement; "positive" and "negative" would be more definitive (as in positive and negative assurance).

*Glenn A. Roberts*

CUT ALONG LINE

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**STANDARD FORM FOR AN UNMODIFIED UNQUALIFIED REPORT ON AN OFF-SITE QUALITY REVIEW**

[AICPA, state society, firm, or other letterhead, as applicable]

August 31, 19XX

To the Partners  
Able, Baker & Co.  
or  
To John B. Able, CPA

"another" ?

We (I) have performed an off-site quality review with respect to the accounting practice of [Name of Firm] for the year ended June 30, 19XX, in accordance with standards established by the American Institute of Certified Public Accountants. [Name of Firm] has represented to us (me) that it performed no audits [(or compilations) (or reviews)]\* of historical or prospective financial statements during the year ended June 30, 19XX.

An off-site quality review consists only of reading selected financial statements† and the accountant's compilation or review report thereon, together with certain information and representations provided by the firm, for the purpose of considering whether the financial statements appear to be in conformity with generally accepted accounting principles or, if applicable, with an other comprehensive basis of accounting, and whether the accountant's report appears to conform with the requirements of professional standards. An off-site quality review does not provide the reviewer with a basis for expressing any assurance as to the firm's quality control policies and procedures for its accounting practice, and we (I) express no opinion or any form of assurance on them.

In connection with our (my) off-site quality review, nothing came to our (my) attention that caused us (me) to believe that the compilation and review [(compilation) (review)]‡ reports submitted for review by [Name of Firm] and issued in the conduct of its accounting practice during the year ended June 30, 19XX, did not conform with the requirements of professional standards in all material respects.

John Brown, Reviewer§  
[or Name of Reviewing Firm]

\* To be included, as appropriate

† While the Standards refer to "financial information" rather than financial statements, the term "financial statements" has been used in off-site reports since the term is better understood by readers of these reports.

‡ To be included, as appropriate

§ The description Reviewer, not Team Captain, should be used in reports on off-site quality reviews.

# EXPOSURE DRAFT

JUL 12 1993  
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## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: DAVID J. DAVEN, PARTNER, DAVEN & COMPANY  
P.O. BOX 165, BETHALTO IL 62010

Comments: 418 (377-2111)

REQUIRING A LETTER OF COMMENT (LOC) FOR ANY  
TYPE OF OFF-SITE QUALITY REVIEW IS  
DUPLICATIVE, WASTEFUL AND SIMPLY NOT  
COST EFFECTIVE. ANYTHING THAT CAN BE  
SAID IN AN LOC CAN BE JUST AS WELL SAID  
IN THE Q.R. REPORT. I HAVE PERFORMED  
ABOUT 30 REVIEWS AND I FAIL TO SEE HOW  
CREATION OF AN LOC CAN BE ANY MORE HELP-  
FUL TO THE REVIEWED FIRM OR TO THE  
ENTITY ADMINISTERING THE REVIEW THAN THE  
Q.R. REPORT ITSELF. IF THE PURPOSE OF  
THE QUALITY REVIEW PROGRAM IS TO MAINTAIN  
PROFESSIONAL STANDARDS, THE INTRODUCTION OF  
STILL ANOTHER DOCUMENT, THE LOC, IS  
ABSOLUTELY NOT THE WAY TO DO IT.

*David J. Daven, CPA*

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# EXPOSURE DRAFT

JUL 20 1993  
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## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Douglas J. Davis, C.P.A.

Comments: It would appear that the letter of comments regarding an off-site quality review is totally redundant. It should be noted that there is an illustration of a type of finding with regard to the off-site quality review report in Appendix I. However, the sample letter of comments format does not give an example of any findings. Based on the illustration in Appendix I, I would repeat the exact same findings that were noted in the report. I would therefore, recommend either changing the wording of the report and eliminating the findings within that report or not issue a letter of comments.

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**PERRY, PARKER & POWELL**  
A PROFESSIONAL ACCOUNTING CORPORATION  
1505 ROYAL AVENUE  
MONROE, LOUISIANA 71201  
TELEPHONE 323-1411  
FAX 323-4023

EX. 20336 (7)

Rowland H. Perry, C.P.A.  
Ronney D. Thomas, C.P.A. (Dec.)  
Connie J. Powell, C.P.A.  
Roger C. Parker, C.P.A.

July 12, 1993

- Accounting and Auditing
- H.U.D. Audits
- Non-Profit Organizations
- Business and Financial Planning
- Tax Preparation & Planning
- Individual & Partnership
- Corporate & Real Estate

—  
Susan B. Maxwell, C.P.A.

Janet Luallen, Senior Technical Manager  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

RE: Performing and Reporting on Off-Site Quality Reviews

Dear Ms. Luallen:

I have two comments:

The first is about Page 5, Item 17. While I agree the team captain should be currently active in public accounting, I think the team captain or administering organization should have the option to use a reviewer who may not be currently in public practice (i.e. A CPA who may not be currently active in public accounting, but who has been within the last five years and the administering organization feels this person would be needed to complete the quality review). At all times the team captain would be responsible for the work of this reviewer. The team captain would use someone not currently in public accounting only in unusual circumstances, and would need to obtain approval from the administering organization.

My second comment is on Page 7, Item 5.XX. I think it would be helpful to us reviewers to have examples of illegal acts which the quality review program is not designed for, but would be reported to the ethics division.

Cordially,

*Rowland H. Perry, CPA*  
Rowland H. Perry  
Certified Public Accountant

RHP/kah

JUL 21 1993

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ABRAHAM D. AKRESH  
CERTIFIED PUBLIC ACCOUNTANT  
9209 GATEWATER TERRACE  
POTOMAC, MD 20854

301-762-0341

July 16, 1993

Ms. Janet Luallen  
Senior Technical Manager  
Quality Review Division  
AICPA  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

Dear Ms. Luallen:

I am opposed to several of the changes proposed in the exposure draft "Performing and Reporting on Off-site Quality Reviews".

I believe it is not appropriate to allow associations of CPA Firms to carry out off site reviews for their members. You also should reconsider your policy for on-site reviews. The firms in the association are closely related economically. Their letterhead advertises membership in the association. The firms usually use the same forms and checklists; they often have the same audit methodology and similar systems of quality control. The firms refer work to each other and have an economic interest in the success of the association and of each other. To an outsider, perhaps to a regulator and certainly to one not knowledgeable about the AICPA's rules, the relationship is similar to the offices of a national firm. The perception is that a firm reviewing another firm in the association does not have the appearance of independence and will not be objective.

I also believe it is not necessary to require all persons performing quality reviews (or peer reviews) to be currently active in the practice of public accounting. What should be required is knowledge of professional standards. People other than those presently in public accounting have that knowledge. These persons include academics, those with experience as regulators, those with experience on the staff of the AICPA or state CPA societies, CPAs recently retired from public accounting, those who recently were with a firm that passed a peer review and others.

JUL 21 1980

AICPA

Page 2

The Exposure Draft requirement does not allow a practitioner to have a practice built solely on quality and peer review and similar activities without some reviews, compilations or audits. Requiring a small token practice emphasizes form over substance. You should emphasize understanding of professional standards rather than the current practice of public accountancy. For those not in public practice, you could use an objective test to help you control the quality of reviewers.

Sincerely,



Abraham D. Akresh  
CPA



# EXPOSURE DRAFT

JUL 21 1993

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## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Douglas R. Holm, CPA                      Holm & Hestand CPAs, P.C.

Comments: The proposed amendments require that all reviewers participating in off-site quality reviews complete a training course that meets the requirements established by the AICPA Quality Review Executive Committee. The proposed amendments are expected to become effective April 1, 1994.

Since the comments on the exposure draft are due September 15, 1993 the amendments will probably not be issued until late 1993. Most CPE classes are given between May and December. How do you expect all off-site reviewers to have their training courses completed by April 1, 1994? You are going to have to allow for a reasonable period of time after April 1, 1994 for these reviewers to have completed their courses and still be able to perform off-site reviews without interruption.

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# EXPOSURE DRAFT

JUL 28 1993

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## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: FRANCES A WARD, AICPA

Comments: <sup>o</sup> THE TERM "SUBSTANDARD ENGAGEMENT"  
IS ANOTHER NON DEFINITION - DEFINITION  
BY YOUR OWN ADMISSION "IS NOT FOUND IN  
AUTHORITATIVE ACCOUNTING... LITERATURE"  
I DON'T THINK THIS IS NECESSARY.

<sup>o</sup> ONE ITEM NOT ADDRESSED - IF A FIRM  
ONLY PERFORMS COMPILATIONS WHY MUST  
PARAGRAPH TWO REFER TO COMPILATIONS  
~~AND~~ OR REVIEWS.

<sup>o</sup> WILL SOMEONE ON SABATICAL OR LEAVE OF  
ABSENCE BE PRECLUDED FROM REVIEWS  
VIA 5 YEARS RECENT EXPERIENCE -  
WHAT DOES THAT MEAN (RECENT?)

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CUT ALONG LINE

**EXPOSURE DRAFT****PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING  
AND REPORTING ON QUALITY REVIEWS****PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS**

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: John C. Flatowicz, CPA, with Briggs &amp; Veselka Co., Bellaire, Texas

Comments: #1: In Appendix G, item 2b, regarding "Circumstances Calling for an Adverse Report," it mentions that the response of the reviewed firm (to the departures noted) could impact whether you issue an adverse report or not in an off-site quality review (i.e., the firm could provide answers or information that indicates that the departures noted are isolated errors).

This appears to officially expand the scope of an off-site quality review. Under present standards for performing an off-site quality review, we are required to review the reports and financial statements that the firm selects based upon our selection criteria. Therefore, the firm has had the opportunity, theoretically, to submit their best reports and financial statements. So if we find problems in the reports selected, there is no expansion of scope required as these are theoretically representative of their best work. Granted, in some cases, problems we find could be isolated, but more than likely not.

I believe that we should not be required to look at other reports or other information that the firm provides in deciding whether or not to issue an adverse report or not for the following reasons:

- a. The firm could "alter" reports or print new reports once they learn from the reviewer what's wrong with their present reports (and since we do not visit their offices during an off-site quality review, we would not know if it was an actual report that was issued or not).
- b. By asking more questions and being provided more information, the off-site review becomes more like an on-site review (i.e., what caused the specific reports we selected to have problems and others they had did not). We are

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Comments (continued): #1 (Continued)

now going to have to figure out if it's a systems' problem, an isolated incident or oversight, etc. I can see possible problems developing because we are, per present standards, supposed to just look at the selected reports per our criteria and now this exposure draft has expanded the scope of the off-site quality review to include asking other questions of the firm's practice and reviewing more than the initially selected engagements to determine if the problems noted are isolated incidents or not.

Comment #2: I believe that the reviewed firm's letter of response in an off-site review lets one know exactly what the problems were. I do not feel a letter of comments is necessary. (However, it would allow a more systemic description of the problems noted and related recommendations.) I am not strongly opposed to the letter of comments, but am not totally convinced that it is necessary.

Return responses to:

AICPA  
Janet Luallen, Senior Technical Manager  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

JUL 28 1993

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# EXPOSURE DRAFT

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Maryland Association of Certified Public Accountants-Quality Review Committee

Comments: Appendix G #2b: "Circumstances Calling For an Adverse Report"

The proposed amendment indicates that, "the firm may be able to provide information that indicates the departures noted are isolated errors." Some members question how you determine or verify in an off-site quality review that the errors are in fact isolated. Additionally, it was questioned why isolated errors would be considered if this type of report focuses on specific engagement deficiencies noted.

CUT ALONG LINE

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# EXPOSURE DRAFT

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: WALTER T. COPPINGER AICPA Council (TX)

Comments:

① Perhaps review teams should include a reviewer\* not in public practice who is a "user" of financial statements and the compilation and review reports.

\* AICPA member (CPA), MIAI.

② note spelling error in Appendix H, attached & marked.

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CUT ALONG LINE

TO- STEVEN SACKS, MSC DIVISION, AICPA

FROM- BYRON CHERKAS, CPA, MSC EXECUTIVE COMMITTEE MEMBER

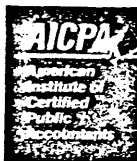
SUBJECT- COMMENTS ON EXPOSURE DRAFTS

You have forwarded a few exposure drafts for our comments. I have studied them and only have suggestions for two of them.

PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING.....QUALITY REVIEWS

Item 5 describes how the Quality Review Executive Committee may obtain information that a member has committed an illegal act and may then refer same to the Ethics Division.

In my opinion the amendment should make it clear that such evidence must be very substantial (not just a possibility) before taking this serious step.



TO: Janet Luller DATE: 7/13/93  
FROM: Steven E. Sacks  
PHONE: (201) 938-3501

- For Your Information
- For Your Signature
- For Your Approval & Return
- For Your Action/Review/Comments
- Speak To Me Re Attached
- Please Answer - Copy To Me
- Prepare Reply - My Signature
- As Requested - Your Letter \_\_\_\_\_

*I received comments on the exposure draft on off-site Quality Reviews from one of the members of the MSC Executive Committee.*



# **AICPA Quality Review Program**

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**American Institute of  
Certified Public Accountants**

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July 19, 1993

Ms. Janet Luallen  
Senior Technical Manager  
Quality Review Division  
American Institute of  
Certified Public Accountants  
Harborside Financial Center  
201 Plaza Three  
Jersey City, New Jersey 07311-3881

Dear Ms. Luallen:

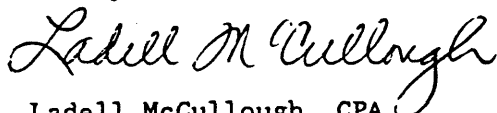
At a meeting on July 17, 1993, the Tennessee Society of CPA's, Quality Review Committee considered the proposed amendments to the Standards for Performing and Reporting on Quality Reviews, dated June 15, 1993.

The TSCPA Quality Review Committee unanimously agreed that the proposed changes, except for paragraph 2.21, page 6, should be adopted. Except for paragraph 2.21, the Committee feels the changes will enhance, clarify and strengthen the AICPA Quality Review Program. The Committee commends the Quality Review Executive Committee for its work, dedication and effort to strengthening the Quality Review Program. The Committee is especially appreciative of the guidance concerning substandard engagements contained in Appendix B of the exposure draft.

With respect to paragraph 2.21, the Committee feels it should be eliminated, and that the qualifications for performing off-site reviews should be the same as those for performing on-site reviews. As paragraph 2.21 is currently written, it appears that a reviewer could be assigned/selected to perform an off-site review of a firm that has a substantial review and compilation practice, but the reviewer is from a firm that received an unqualified off-site review report on a practice that consists only of compilations without disclosures. While the Committee realizes that a reviewer must meet other parameters for qualification, the Committee feels such a situation is probable, and questions whether the reviewer would be qualified in this circumstance. The Committee believes that a single set of standards, those adopted for team captains performing on-site reviews, will simplify and reduce any questions regarding a reviewers qualifications for performing reviews.

If you should have any questions, please do not hesitate to contact us.

Sincerely,



E. Ladell McCullough, CPA  
Chairman

*Administered in Tennessee by the*

---

**Tennessee Society of  
Certified Public Accountants**  
200 Powell Place, Suite 120, Box 596  
Brentwood, TN 37024-0596  
(615) 377-3825  
FAX: (615) 377-3904  
1-800-762-0272 (outside Nashville)

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AUG. 02 1993

AUG. 02 1993

# EXPOSURE DRAFT

AUG. 02 1993

16

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation:

Comments: I ESPECIALLY LIKE THE COMMITTEE'S ATTEMPT AT DEFINING A SUBSTANDARD ENGAGEMENT BUT WAS SOMEWHAT DISAPPOINTED TO FIND LITTLE GUIDANCE AS TO WHAT TO DO WITH THESE PROBLEMS WHEN THEY ARE FOUND. THE COMMITTEE'S WORK IN IDENTIFYING THOSE ITEMS THAT SHOULD BE CONSIDERED IN DECIDING ON THE TYPE OF REPORT TO ISSUE, WAS, I THINK, VERY WELL WRITTEN AND WAS CLEAR TO ME. HOWEVER, IT SEEMS TO ME THAT THESE AMENDMENTS SHOULD ALSO INCLUDE SOME MINIMUM REQUIREMENT FOR THE ISSUANCE OF A LETTER OF COMMENTS IN THOSE SITUATIONS WHERE A SUBSTANDARD ENGAGEMENT IS ENCOUNTERED. WHILE PERFORMING MORE THAN 100 REVIEWS SINCE 1980, I HAVE NEVER ENCOUNTERED A SITUATION WHERE AT LEAST A LETTER OF COMMENTS WASN'T REQUIRED UPON IDENTIFYING A SUBSTANDARD ENGAGEMENT. HOWEVER, USING THE CURRENT LITERATURE FOR GUIDANCE, IT APPEARS THAT IT WOULD BE POSSIBLE TO HAVE A SUBSTANDARD ENGAGEMENT LOCATED DURING A REVIEW WITH THE FIRM RECEIVING AN UNQUALIFIED REPORT WITH NO LETTER OF COMMENTS.

#### Instructions for Response Form

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Comments (continued): WHILE THIS SITUATION MAY SEEM  
REMOTE IT APPEARS TO ME THAT IT SHOULD  
BE DEALT WITH HERE BY CLEARLY STATING  
THAT IN THOSE INSTANCES WHERE A SUBSTANDARD  
ENGAGEMENT IS IDENTIFIED BUT THE REVIEWER  
HAS CONCLUDED THAT AN UNQUALIFIED REPORT  
IS IN ORDER, THE REVIEWER SHOULD INCLUDE  
REFERENCE TO THE SUBSTANDARD ENGAGEMENT  
INCLUDING ITS DISPOSITION IN HIS OR HER  
LETTER OF COMMENTS

THANK YOU FOR YOUR CONSIDERATION

Creed Spann

Return responses to:

AICPA

Janet Luallen, Senior Technical Manager

Quality Review Division

Harborside Financial Center

201 Plaza Three

Jersey City, NJ 07311-3881

CREED SPANN

SPANN & ASSOCIATES

P. O. Box 5470

PINE BLUFF, ARKANSAS 71611

# EXPOSURE DRAFT

AUG. 02 1993

17

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Thomas F. Reilly, Holland & Reilly, CPAs

Comments: 1. I totally concur with the transition to issue letters of comment, rather than putting abbreviated comments in the report itself. This should provide for a clearer understanding of the comments transmitted and the recommendations that go with them.

2. Appendix B, item 2 addresses Substandard Engagements. Although the guidance is helpful, consideration should be given to expanding this section. Does this guidance mean to infer that these are the only reasons for a substandard engagement? If not, this section needs to be clarified to so state. If there are other reasons for substandard engagements, they should also be included to make this section as comprehensive as possible. The definition of a substandard engagement has been a difficult one to define and has probably caused as much discussion between the Quality Reviewer and the Acceptance Team as any other issue.

#### Instructions for Response Form

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# EXPOSURE DRAFT

JUN 08 1993

18

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation:

John Wilson  
Wilson Co. OPA's, P.O. Box 2, Somerset Ky 42502

Comments:

FEE pressure for reviewers is as great as the pressure from regular A+A clients (NATIONAL STDS @ \$75-\$85/hr) This rate is substantially lower than the rate of ~~most~~ most individuals who are qualified to be reviewers. It seems that rather than ~~fortify~~ the 5 year experience requirement for all reviewers, it would be more beneficial to allow team captains to "leverage" themselves by using staff with 2, 3, or 4 years experience. Their work would, of course, be closely supervised.

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DANIEL G. KYLE, PH.D., CPA  
LEGISLATIVE AUDITOR

OFFICE OF  
LEGISLATIVE AUDITOR  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

AUG 18 1993  
19  
1600 NORTH THIRD STREET  
P.O. BOX 94397  
TEL (504) 339-3800  
FAX (504) 339-3870

August 9, 1993

Ms. Janet Luallen, Senior Technical Manager  
Quality Review Division  
AICPA  
Harborside Financial Center  
201 Plaza Three  
Jersey City, New Jersey 07311-3881

Dear Ms. Luallen:

I have reviewed the institute's exposure draft *Proposed Amendments to Standards for Performing and Reporting on Quality Reviews - Performing and Reporting on Off-Site Quality Reviews*, and provide the following comments.

*Paragraphs .18 and .21 (page 6).* The addition of the words "of recent" to the experience requirement for on-site and off-site reviewers raises several questions. First, what exactly does recent mean? Some may interpret recent to mean occurring at a time immediately prior to the present while others may interpret recent to mean several years ago. Second, if a reviewer meets the experience requirement and thereafter limits his public accounting practice to participating in quality reviews, does this individual have to periodically conduct compilations, reviews, or audits to meet the requirement of recent? I think that, at a minimum, a footnote should be included to (1) specifically define recent, and (2) provide that reviewers who have at least five years of experience in the practice of public accounting and who participate solely in quality reviews and who maintain those accounting and auditing skills through continuing professional education will meet the recent experience requirement.

*Paragraph .21 b. (page 6).* I agree that off-site reviewers should be associated with a firm that has received, within the three previous years, an unqualified report on its system of quality control. Paragraph .21 b. appears to be the same thing as paragraph .21 a.; why "muddy the water?" I suggest that you delete paragraph .21 b. The only time an adverse or qualified report is issued is when there are significant departures from professional standards. If there are no significant departures from professional standards, an unqualified report is issued.

*Number 4 (page 7).* I disagree that no reference should be made to the letter of comments in an unqualified report. I think that the reader of the unqualified report should be made aware if a letter of comments was issued. The decision by the reviewer to issue an unqualified or qualified report many times is based on professional judgment as to whether departures from professional standards are *significant*.

Ms. Janet Luallen  
August 9, 1993  
Page 2

... 4 3 1993

*Paragraph .76 Appendix B (page 8, number 2.)*. The discussion of substandard engagements does not address situations where there may be a combination of minor deviations that are so prevalent that a significant departure from professional standards is justified. I think that the discussion on substandard engagements should include that professional judgment must be exercised in determining whether the combination of minor deviations result in an unqualified report or a qualified report.

I commend the institute for including that the performance of procedures must be sufficiently documented in the working papers.

*Examples of Matters That Might Be Included in Letters of Comments on Off-Site Quality Reviews (page 18)*. I suggest that the specific professional standard be referenced and included in the finding.

I appreciate the opportunity to comment on the exposure draft. I hope the foregoing comments and suggestions are beneficial to the committee's deliberations.

Sincerely,



Daniel G. Kyle, CPA  
Legislative Auditor

DGK/GLM/db

AICPA



August 11, 1993

Janet Luallen  
Senior Technical Manager  
Quality Review Division - AICPA  
Harborside Financial Center  
201 Plaza Three  
Jersey City, New Jersey 07311-3881

20

# HOLT SCHULTZ & CHAIPEL

CERTIFIED PUBLIC ACCOUNTANTS

AUG. 18 1993

Re: Exposure Draft -  
"Proposed Amendments to Standards for Performing  
and Reporting on Quality Reviews"  
"Performing and Reporting on Off-Site Quality Reviews"

Dear Ms. Luallen:

My comments regarding the above-referenced exposure draft pertain to the new requirement for writing a separate letter of comments (LOC) for deficiencies that would currently be mentioned in the body of the report itself. Because of the limited nature of an off-site review, and the fact that the reviewer lacks the required knowledge to comment on any other matters, the only types of deficiencies that would be commented on are disclosure deficiencies.

The "cure" for these deficiencies would be to complete a financial disclosure checklist in each case. If there is a requirement for a separate LOC, the explanation for the error would be to state what disclosure is missing and recommend that a checklist be prepared to avoid the error in the future. Effectively, the very same paragraph could be used for each error in the LOC. Therefore requiring the preparation of separate correspondence that would be redundant.

While I realize peer reviews require a separate LOC, I disagree that the quality review standard should be changed to agree with the peer review requirements. In fact, I believe the peer review requirements should be changed to agree with the quality review procedures in the hopes of making those programs more efficient.

Thank you for your attention to my comments. If you wish to discuss this any further please call me at your convenience.

Very truly yours,

  
Clifford Chaipel

CC/jpg

4575 VIA ROYALE, SUITE 110  
FORT MYERS, FLORIDA 33919  
(813) 939-5333  
FAX (813) 939-4682



# EXPOSURE DRAFT

AUG. 18 1993

21

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation:

Cheryl Hubbard CPA WY Transportation Dept  
Internal Audit

Comments:

2.17 & 2.21 - You are eliminating all CPAs in government, private industry and internal auditing from any participation in QR, thus limiting the pool of quality reviewers. There must be many members of State Societies not in public practice. If a person is qualified and a CPA, they should not be excluded.

2.64 & 476-1 - Line 9 - Should review team captain be changed to reviewer as previously edited for consistency?

#### Instructions for Response Form

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# EXPOSURE DRAFT

AUG 20 1993

22

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation:

Comments: 5. I don't believe the Quality Review

Executive Committee should report any matters  
to the ethics committee.

As a member of Council, AICPA "sold"  
this program as "educational" rather than "punitive".  
Many of our members still fear the program.  
They have been willing to pay it under  
the conditions they voted for it. To  
change those conditions this early in the  
game is ill advised. It will result in  
even more members resigning and the "bad  
apples" will still go free.

When the AICPA is successful in  
getting Quality Reviews mandatory in all  
states, the escape hatches will have been  
closed and this kind of a proposal  
would have merit.

Michael Weinschel  
Council Member - Conn.

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have been identified in the summary that accompanies this exposure draft.  
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# EXPOSURE DRAFT

AUG 30 1993

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Douglas L. Blensly, Delbert M. Goehner Accty. Corp

Comments: Paragraph 4 (page 6) The addition of a letter of comments on off-site reviews makes sense--I do both Quality and Peer reviews and now I won't have to figure out which one I am doing--in addition I feel that recommendations are useful to the firms.

\* Paragraph 5 (page 7) this one needs more clarification--  
\* I have encountered situations which are technical violations  
\* of State Accountancy Board rules and regulations, illegal acts,  
\* but would be reluctant to disclose those to anyone other  
\* than the firm--this is after all a confidential relationship.

The section on substandard engagements seems to be a good addition.

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AUG. 27 1993  
24

## EXPOSURE DRAFT

### PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

#### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Eugene F. Svatek, CPA  
Walthall & Drake, CPAs  
1621 Euclid Avenue - Suite 1300  
Cleveland, Ohio 44115-2182

Our firm performs On-site and Off-site quality reviews

#### Comments:

Page 6, Paragraph 2. Part .18 "...must have at least five years of recent experience..."

I think the reference to "at least five years of recent experience" is too broad and vague. It in fact makes the standard too judgmental and subject to second guessing as to what is recent. It just sounds to me that we are relaxing the standard instead of properly quantifying them to strengthen and add credibility to the program. If the phrase "of recent" every becomes an issue it will be just like defining materiality which every CPA defines differently. You need to quantify this area. What is wrong with 5 out of 10 or 3 out of 5 or some other arbitrary measure that is at least identifiable.

Page 6, Paragraph 4. Part .XX "A letter of comments is required to be issued in connection with an off-site quality review..."

First I would like to say that the quality review process, in general, is working well and is much more effective than CPE. Try to keep in mind the levels of service and responsibility between audits, reviews and compilations. That will help to understand and explain the very reason for On-site and Off-site reviews. There is no reason to lift the level of reporting and layers of bureaucracy for Off-site reviews to that of On-site reviews. You need to consider the nature and relevance of compilations and reviews and the purpose and expected results of the Off-site review process. Based on the material actually reviewed on an Off-site review, a qualified report or modified report with a properly written explanatory paragraph is more than adequate. The need for a letter of comments, in the manner in which they are done for an On-site review, is pure over kill when you put into proper perspective the size and type of non-compliance that is found by an Off-site review. Many times the departures from professional standards that are noted are cosmetic in nature and not related to the system of quality control because it's not a part of Off-site reviews.

AUG 12 1993

Page 8, Appendix B and Page 11, Appendix G. Re: use of the terms qualified, unqualified and adverse.

While these terms are GAAS terms and are readily known and accepted in normal accountants' reports, they certainly cause a great deal of confusion and difficulty in the real world of quality reviews. Most, if not all, people don't like to think there is anything wrong with their work - that's kind of human nature. It becomes difficult for someone who is doing a good job (i.e. qualified to do the work) to understand that they are getting an "unqualified" (sounds like they are not qualified to do the work) report. It's just as difficult to tell someone who is not performing up to standards (i.e. unqualified to do the work) that they are getting a qualified ( sounds like they can do the work) report.

While some consistency is good, in this case it appears to be causing more confusion than it's worth. You may wish to reconsider the nomenclature of the reports used in the quality review process.

Page 8, Appendix B and Page 11, Appendix G. Re: quantifying substandard engagements for On-site reviews and qualified reports for Off-site reviews.

It just seems to me that this is an area that needs a more rigid definition and qualification of what constitutes substandard engagements and qualified reports. Is it "one or more" ? Which is it? You are leaving too much to chance by leaving each reviewer, team captain, and technical reviewer trying to independently determine what type of report to issue. So that everyone is judged equally, the standards have to be definitive. How many noncompliance items does it take? Is it different in every state? Is a first review offense less damaging than the same offense three years later? It just appears to me that we need to tighten up the guidance in the form of quantitative and qualitative factors or we will be shooting ourselves in the foot by opening ourselves up to the criticism that we can not set the minimum guidelines to evaluate ourselves on.

The views, opinions and comments expressed in this response to the exposure draft are those of Eugene F. Svatek and are not necessarily the views, opinions and comments of Walthall & Drake, CPAs, its ownership, management or employees.

Thank you for the opportunity to respond to this draft.

Sincerely,



Eugene F. Svatek, CPA

August 12, 1993

# EXPOSURE DRAFT

SEP. 02 1993

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

25

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: PAUL C. YOUNG, QUALITY CONTROL DIRECTOR, F. S. TUDMAN & CO., CPAs

#### Comments:

I am restricting my comments to amendment cited in paragraph 5, which reads, as follows:

5. This amendment allows the AICPA Quality Review Executive Committee to report certain matters to the AICPA Professional Ethics Division for investigation and disposition.

If information comes to the AICPA Quality Review Executive Committee's attention that causes it to question whether an individual owner or employee of the firm has committed an illegal act which the quality review program is not designed to address, the AICPA Quality Review Executive Committee may take actions leading to the reporting of the matter to the AICPA Professional Ethics Division for investigation and disposition.

#### COMMENTS:

The intent of quality review program was to provide beneficial comment and assist the reviewed firm, rather than evaluate an illegal act.

It appears that an illegal act would be outside the scope of the review team member, since he or she is not an attorney trained in matters of law.

It, also, appears that member firms AICPA Division for CPA Firms, PCPS, SECPS, may seek withdrawal from membership status, attributable to exposure regarding internal issues, rather than self-policing those owners or employees.

The principal issue appears to be that if an illegal act is an apparent question in the minds of the AICPA Quality Review Executive Committee members, or one serving in the capacity of a review team member, whether the scope of quality review program should be expanded to include such an issue. And, if so, should such question be subject to ethical investigation and disposition.

It seems that most practitioners have been aware that a failure to adhere to ethical standards will result in an imposition by regulators. It seems that the recent sensitivity attributable to several audit failures has only served to heighten individual practitioners awareness of those adversarial consequences and created an atmosphere toward self-regulation; therefore, to over-react by superimposing a regulatory state is not going to enhance membership and voluntary self-regulation on the whole. Certainly, the outcome of preceding violations has been well-publicized and further serves to enhance self-regulation, absent need for quality review scope expansion.

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SEP 03 1993

# EXPOSURE DRAFT

26

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: STEPHEN D. BURCHAM, CPA 1400 COMMERCE AVENUE HUNTINGTON, WV 25701

Comments: It is my belief that the quality review program should require that all team members of both CART and firm-on-firm reviews be approved by the administering entity. Since all reviewers (except specialists) are required to complete appropriate training courses in order to perform a review, administering entity approval would ensure properly trained reviewers assigned to all reviews and reduce the possibility of substandard performance in quality review engagements.

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SEP 03 1993

August 23, 1993



California  
Society  
Certified  
Public  
Accountants

Quality Review Executive Committee  
American Institute of Certified Public Accountants  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

Re: *Comments on Proposed Amendments To Standards For Performing and Reporting On Quality Reviews*

Ladies/Gentlemen:

The Quality Review Committee of the California Society of Certified Public Accountants (QR Committee) has discussed the exposure draft of the *Proposed Amendments To Standards For Performing And Reporting On Quality Reviews* and has developed certain comments.

The QR Committee has been designated as the appropriate group to respond to quality review issues on behalf of the California Society of CPAs. The current committee is composed 21 members which represent each of the 14 chapters of the state society and represent sizes of practice units ranging from sole practitioners to large local firms.

The following comments are the findings of the QR Committee's deliberations on the AICPA exposure draft.

Reviewer Qualifications - exposure draft ¶2

The revised description of the qualifications for a reviewer (revision of QR standards ¶17) states that a prospective reviewer "must be currently active in public practice at the supervisory level" as an owner of the firm or as "a manager or person with equivalent supervisory experience." The latter part of the description is vague as to whether or not this includes individuals who contract with a firm on a per diem basis to perform supervisory functions, but who are otherwise not enrolled in a practice monitoring program. Is this QREC's intent?

SEP 03 1993

Likewise, the proposed amendment to QR standards ¶21 raises a question as to when a reviewer is "associated" with the firm enrolled in a practice monitoring program for purposes of qualifying as an off-site reviewer. The following example illustrates the point.

#### Illustration

An individual in public practice performs no accounting or auditing engagements and as a result is not subject to a practice monitoring review. However, this individual performs limited supervisory audit functions, on a per diem basis, for another firm that is enrolled in a practice monitoring program. Under the proposed definition, this individual qualifies "as a person with equivalent supervisory responsibilities" and would meet the qualifications for serving as a reviewer. If this arrangement is interpreted as an "associated with a firm," then the person would also qualify as an off-site reviewer.

#### Preparation of a Letter of Comments in an Off-Site Review - exposure draft ¶4:

We strongly agree with the amendment to require the issuance of a letter of comments in an off-site review. Based on comments received from firms, this approach would be a preferable method for reporting matters that are not considered to be significant departures from professional standards. The current practice of placing these matters within the report creates an impression of significance that is not intended, since similar matters do not appear in the report for on-site reviews. The proposed change would also create parity in the style of reporting for quality reviews and PCPS peer reviews. Based on discussion with reviewers this change would not add any significant time to the engagement and would improve communication to the firm.

#### Reporting of Illegal Acts - exposure draft ¶ 5:

Statement on Auditing Standards No. 54, *Illegal Acts By Clients*, defines illegal acts (for purposes of the SAS) as violations of laws or governmental regulations. The proposed amendment does not define illegal acts for quality review purposes. Since the term is already defined in the auditing literature, practitioners may presume that the definition is the same. We understand that the intent may be to cover obvious illegal acts such as embezzlement of client funds. However, other conditions, such as violations of regulations of state boards of accountancy, could be drawn into the definition. The amendment is not clear as to how broad the intent is. While a comprehensive listing of examples may not be appropriate, clarification of the term is needed to avoid confusion. If the term "illegal acts" is not meant to be used in the same context as stated in SAS 54, then a distinction

should be made. One suggestion might be to reference applicable sections in the ethics literature, for example, "acts discreditable."

Editorial Change - exposure draft ¶6 (Appendix B):

The first sentence of paragraph 1 of Appendix B should read "A *qualified* report should be issued . . ." The existing sentence refers to a *modified* report.

Substandard Engagements - exposure draft ¶6 (Appendix B)

We believe that the amendment is a useful one and recommend its adoption. While we acknowledge that the term "substandard engagement" is not defined in authoritative accounting or auditing literature, the amendment does provide useful guidance that follows current practice when evaluating engagements for quality review purposes.

We also noted that the examples listed under paragraph 2.a. of the appendix relate to auditing issues with no specific examples given for the omission of significant SSARS procedures. For instance, SSARS 7 will require the accountant to obtain a written representation from management. Failure to perform this procedure would preclude the accountant from issuing a review report. If conditions like this are encompassed by the reporting matters in paragraph 2.c., then no additional examples would be needed.

Additional Comments - Engagement Selection Guidelines:

The current *Quality Review Program Manual*, §7200.10, outlines the criteria for selecting engagements for off-site quality reviews. That section states that one report on a complete set of financial statements should be selected for each owner of the firm. However, a minimum of two such engagements must be selected. This threshold, when applied to certain small firms, is excessive.

**Illustration**

A sole practitioner performs two compilation engagements involving the preparation of a full set of financial statements. In addition, the firm performs four compilation engagements that omit substantially all disclosures. Using current guidelines, the reviewer would select both "full disclosure" financial statements and one of the "non-disclosure" compilations. In another case, a practitioner's full disclosure engagements are limited to quarterly reports prepared for the same client. Under present guidelines, two would be selected for review. In

each case, the sample seems too high for the circumstances. In our opinion, limiting the engagement selection to one full disclosure engagement plus one "non-disclosure" engagement would have provided an adequate basis for expressing the negative assurance contemplated by the quality review report.

#### Recommendation for Amending Engagement Selection Guidelines

We believe that a lower threshold should be established for firms with the following characteristics:

- Only one owner of the firm conducts financial statement engagements.
- The number of "full disclosure" engagements conducted is small.

The engagement selection criteria for off-site reviews of firms with these attributes should be amended to permit the selection of only one (instead of two) full disclosure financial statements. The requirement to select a financial statement that omits substantially all disclosures should remain unchanged.

While admittedly arbitrary, the magnitude of the threshold for limiting the selection of full disclosure engagements needs to be decided. We have not determined a practical threshold. However, a threshold greater than 10 would not seem appropriate because the scope of the review would drop below ten percent which is a percentage used commonly as a guide in the selection process for other practice monitoring reviews.

We believe this engagement selection approach would relieve some of the burden that a quality review places on the smallest firms without sacrificing the information or educational benefit that the firm receives. We further believe that this change would not significantly affect the character (unqualified, qualified, etc.) of the quality review reports issued, based on our observations of reports prepared using the existing guidelines.

Sincerely,



John Bellitto, Chair  
Quality Review Committee  
California Society of CPAs

COMMENTS OF THE QUALITY REVIEW OVERSIGHT COMMITTEE OF THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS ON THE PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

---

The Quality Review Oversight Committee (the Committee) is in general agreement with the proposed changes.

It has, however, suggestions for further revision or specific changes to the proposed amendments as follows:

1. Paragraph 18 on pages five and six sets forth the requirements for team captains and team members. In the Committee's opinion all team members, as is required for team captains, should be associated with a firm that has received an unqualified report on its system of quality control within the previous three years.
2. The last sentence in paragraph 18 beginning--"A team captain... and ending with "problems encountered by the reviewed firms."--should be deleted because it is usually not possible to know what problems will be encountered before a review begins. It is of dubious value to require the team captain to have personal experience with problems that cannot possibly be anticipated.
3. Paragraph 5 on page seven allows the AICPA QREC to refer firms that it questions may have committed an illegal act to the AICPA Professional Ethics Division. The Committee suggests that the standards give specific guidance to the Team Captain that discovers or becomes aware of the illegal act. Specifically, who should the Team Captain notify, what information should be provided, and what procedures should the state oversight Committee follow.
4. On off-site reviews the reviewer gives negative assurance for unqualified and qualified reports. For adverse reports, the reviewer expresses an opinion. "In my opinion the firm did not have reasonable assurance of conforming with professional standards in the conduct of its accounting practice during the year..." In the Committee's opinion it is not consistent with the negative assurance concept to express an opinion. The Committee takes note of Interpretation 7 of SSARS No. 1, which states an accountant cannot modify a compilation or review report to indicate the financial statements are not fairly presented in conformity with GAAP or OCBOA. This points out the fact that an adverse report on an off-site review is not consistent with negative assurance reporting.

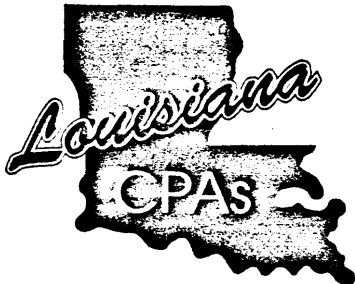
Suggestions of other wording is as follows:

"The results of the review raise serious question about the firm's ability to conform with professional standards. Until the firm has taken corrective action, third parties are advised to exercise care in using the firm's reports."

or less extreme

"Because of the significance of the matters described in the preceding paragraph, the firm's ability to conform with professional standards during the year ended June 30, 19XX, is questionable."

5. The examples of significant departures from professional standards should be revised to present situations that are more typical of actual findings from off-site reviews. Examples would be inappropriate depreciation methods--GAAP versus tax, no allowance for doubtful accounts, and lack of significant related party disclosures.
6. The suggested letter of response should eliminate reference to specific practice aids, similar to the guidance in writing a letter of comments on an on-site review. It also would be helpful if it dealt with some of the significant findings given in the examples of letters of comment.
7. Administratively, the Committee is concerned about the extent of detail submitted on off-site reviews. Specifically the submission of engagement check lists should not be required--the MFCs and the Team Captain checklist are sufficient.
8. The Committee believes the AICPA suggested pricing for off-site reviews should be revised to recognize the additional effort in preparing a letter of comments.
9. Item 3. on page 9 gives the impression that the items listed thereunder are the exclusive reasons for considering an engagement to be substandard. Accordingly it should be revised as follows:
  3. *An engagement generally is not deemed to be substandard when, for example,-*



September 13, 1993

29

SEP. 15 1992

Janet Luallen, Senior Technical Manager  
Quality Review Division  
AICPA, Harborside Financial Center  
210 Plaza Three  
Jersey City, NJ 07311-3881

Dear Janet:

On behalf of the Society of Louisiana CPAs, we are responding to the Quality Review Committee's exposure draft related to performing off-site quality reviews and other related matters.

A task force of our Quality Review Committee reviewed the exposure draft in detail and has the following comments.

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Steven A. Skarda

**Executive Director**

Barry C. Melancon

Letter of Comments for Off-site Reviews:

Our committee agrees with the necessity to have a separate letter of comments for off-site reviews. We suggest that the final standards maintain that approach. However, we have some significant concerns regarding the format of the off-site letter of comments and the resulting revised off-site report.

We believe that the letter of comments should be more of a bullet item type approach. It should contain the findings noted in the off-site review, but note those findings in simple language that communicates the technical problem. The creation of the requirement to include recommendations for each finding is burdensome, speculative, and potentially costly.

The nature of an off-site review will make it difficult to determine what recommendations to make. Is CPE the answer? Should the recommendation be based on supervision, etc? We believe the reviewer will have limited facts and, therefore, must guess at the recommendation to complete the new requirements

Additionally, there was some concern that the changes to the off-site report would make those reports similar to on-site in appearance causing confusion to some readers when these reports are voluntarily made public by firms.

Continuing Education Requirement for Off-site Reviewers:

We concur with the additional education requirement to be a qualified off-site reviewer.

**Society of Louisiana  
Certified Public Accountants**

2400 Veterans Blvd., Suite 500  
Kenner, LA 70062-4739  
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(504) 469-7930 (Fax)



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Substandard Engagements:

We have several concerns regarding the definitions and commentary about substandard engagements. First, if the approach remains as presently drafted, additional language should be added to clearly state that this is not an absolute definition but merely guidance leaving judgement in the process.

Under the proposed definition regarding an on-site substandard, the example should include disclosure deficiencies which cause the financial statements to be misleading. This is appropriate in the present proposed wording since included under non-substandard is the concept of disclosure deficiencies which did not cause the financial statements to be misleading.

In addition, there is concern that whatever definition is imposed it should apply to both on-site and off-site. Along those lines, the profession should be comfortable with the final wording because that definition will likely be used against CPAs in civil proceedings.

One suggestion might be to approach substandard simply by stating that a substandard engagement is any engagement that did not comply with the standards. Once a determination of non-compliance was developed then the issue of significance, as required under off-site reviews, would have to be addressed. This is an area where simplification can occur.

Dates:

We would also like to encourage QREC to resolve an administrative problem that presently exists in the standards. Presently, reports included in on-site engagements are selected based on the client year end. Reports selected for off-site engagements are selected based on the report date. Since an on-site quality review report covers the system of quality of control for the year, it would appear appropriate that reports actually issued in that year should be reviewed regardless of the client year end.

We believe that the present system of having two different determining fact patterns based on the type of quality review being performed is an unnecessary complication. This profession argues for simplification of the tax code and for a reduction of standards overload. This is an easy area to make things just a little bit easier.

We appreciate the opportunity to express our views and look forward to an on-going positive relationship with the Quality Review Executive Committee.

Sincerely,

SOCIETY OF LOUISIANA CPAs



Barry C. Melancon, CPA  
Executive Director

September 14, 1993

Ms. Janet Luallen  
Senior Technical Manager  
Quality Review Division  
American Institute of Certified Public Accountants  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

**Re: Exposure Draft on Proposed Amendments to Standards for  
Performing and Reporting on Quality Reviews**

Dear Ms. Luallen:

The Quality Review Board of the Colorado Society of Certified Public Accountants has reviewed the above referenced exposure draft and submits the following comments.

**General**

The Quality Review Board supports the amendments and believes that the change in reporting deficiencies on off-site reviews in a letter of comments is a significant improvement in the program. Also defining "substandard engagements" will eliminate many of the current disputes between firms and reviewers.

**Suggested Changes**

The Quality Review Board suggests the following:

**Reviewers Experience**

We believe that the term "recent" is subject to interpretation and should be narrowed. An example of the need for a more specific definition might be when a reviewer had 10 years of A&A experience, but went to private for 3 years, and within the last year returned to public as a partner. We believe that the guidance should be changed to read ...should have at least five years of experience, two of which must be immediately preceding the acceptance of the Quality Review engagement.

Team Captains Unqualified Report

We believe that the three year period referred to in paragraph .18 (suggested change No. 2.18) should be expanded to include a reference to "as defined in the administrative manual". It is our concern that due to the time some reviews are being performed plus approved extensions may not be completed in a three year period.

Referral to Professional Ethics

(Suggested change No. 5.XX) We believe that the words "or detect" should be inserted after the words "to address" in the third line of this change.

Substandard Engagements

The wording of paragraph 2 in Appendix B should make it clearer that minor documentation issues, especially on Government engagements, should not result in rating an engagement as substandard.

We suggest that the word "selected" be inserted in paragraph 1B on line 2 between the words "include a" and "review".

Standard form for an unqualified report on an off-site quality review

We believe that the illustration in paragraph .83 should be revised. The first paragraph of the report should be changed to insert the words "or compilations", "or reviews" after the words "performed no audits". This comment applies to both the qualified report and the adverse report.

Illustration of Response by a Reviewed Firm to a Letter of Comments (Appendix K )

We believe that an additional sentence should be added to the sample that would state that we (I) will emphasize these items in our next inspection.

We believe that the reviewed firm should be required to send a copy of its letter of response to the reviewer.

We believe that a separate example of a response should be added for modified and adverse reports. (Paragraph .85) The sample response to a qualified or adverse report should

Response to Performing and Reporting on Off-Site Quality Reviews  
Colorado Society of CPAs

include comments such as (1) emphasis on the next inspection (2) agreement to take additional CPE in the areas found deficient, (3) agreement to have concurring reviewer when adverse report is received.

Other comments

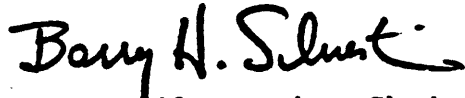
We noted the use of the words "on-site" at the top of page 6 in the Exposure draft, whereas the amendments are to apply only to "off-sites". The document should be reviewed for other inconsistent references to "on-site" reviews.

Items That Should be Added to the Amendments

The guidance for selection of engagements should be expanded to focus on the selection of GAAP versus OCBOA statements. The reviewed firm should be required to indicate on its profile information the basis of the statements. The reviewer should be instructed to select some of each type, rather than just to select two/three engagements.

The cost of a Quality Review for firm's with three or fewer compilation engagements is presently considered to be inequitable. QREC should consider another level of review for these practitioners. One suggestion would be to limit their review to one engagement of the highest level of service provided.

Sincerely yours,



Barry H. Silvestain, Chairman  
Colorado Society of CPAs Quality Review Board

**AICPA Quality  
Review Program**

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American Institute of  
Certified Public Accountants

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Administered in Indiana by the

SEP 08 1993

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**Indiana CPA Society**  
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P.O. Box 40069  
Indianapolis, IN 46240-0069  
(317) 726-5000  
FAX (317) 726-5005

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August 27, 1993

31

Janet Luallen  
Senior Technical Manager  
AICPA  
Harborside Financial Center  
201 Plaza III  
Jersey City, NJ 07311-3881

Dear Ms. Luallen:

The Quality Review Committee of the Indiana CPA Society has reviewed the exposure draft "Proposed Amendments to Standards for Performing and Reporting on Quality Reviews" dated June 15, 1993. In general we feel that the changes are positive and will enhance the Quality Review program.

General Comments:

We feel it is important to have more consistency between the PCPS and Quality Review programs, as well as consistency between an on-site and off-site review. The requirement for an LOC for an off-site and changing terms to qualified from modified help add to this consistency.

There is a need for guidance on a substandard engagement; perhaps the AICPA could have expanded this section even more.

We are glad to see that the QREC is allowed to report certain matters to the ethics division.

We also think that the requirement for reviewers to have five years of recent public accounting experience and attend a training course is excellent. However, we feel that there is a need to address the issue if the reviewer is independent and objective in performing the review, similar to independence standards as it relates to an audit or conflict of interest issues as it relates to a RAB Quality Review Committee member. For example, we do not feel it is appropriate for a reviewer to do the review of a business associate or a personal friend.

The change in allowing an association of CPA firms to carry out off-site reviews will have no great impact as far as we can tell.

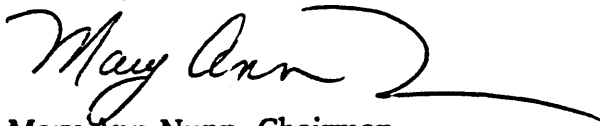
Janet Luallen/Letter  
Page 2  
August 27, 1993

SPECIFIC COMMENTS:

1. .76 Appendix B, page 8  
Should the terminology used in this appendix be consistent with the Amendment to paragraph 64? Paragraph 64 as amended now refers to "unqualified" and "qualified" reports rather than "unmodified" and "modified" reports. However, when discussing limitation on scope of review, the terms "modified" and "modifying" are used rather than the amended terms of "qualified" and "qualifying".
  
2. .82 Appendix H, page 13  
Is the footnote "+" referring to "financial information" no longer applicable since the standards are now amended under paragraph 21 (page 6) to refer to "financial statements"?
  
3. .83 Appendix I, page 14  
It would be more easily understood if this appendix was separated into two different appendixes - one for qualified report for significant departures for an off-site quality review and a second appendix for adverse report for an off-site quality review. Also, on both of these illustrations, should it be indicated to include, as appropriate, "[ (or compilations) (or reviews) ]" after ". . . that it performed no audits . . ." as Appendix H illustrates?

These comments are submitted by the Quality Review Committee of the Indiana CPA Society. However, the comments have no official status and do not represent either the approval or the disapproval of the Exposure Drafts by the Society or its Board of Directors.

Sincerely,



Mary Ann Nunn, Chairman  
Quality Review Committee

cc: Lloyd Wallis, Board Liaison

RAY, BUMGARNER, KINGSHILL, & ASSOC., P.A.

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SEP 08 1993

32

WILLIAM S. RAY, JR., CPA  
MARK A. BUMGARNER, CPA  
BRUCE A. KINGSHILL, CPA

WAYNESVILLE  
(704) 452-4734  
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(704) 586-6926

September 3, 1993

AICPA Quality Review Executive Committee  
American Institute of CPA's  
Quality Review Division  
Harborside Financial Center  
201 Plaza III  
Jersey City, New Jersey 07311-3881

Dear Committee Members:

I have served on the North Carolina Quality Review Executive Committee for the past two years. One of the problems that we have encountered is the expertise of the reviewers. We have to rely on the resume that the reviewer submits to the AICPA data bank. There is no present verification of the reviewer's state experience.

I recommend that the exposure draft be specific as to the wording of "recent" and "experience" as stated on page six of the draft. I suggest that the experience be within the last five years for areas, other than high risk areas as defined by the AICPA's Professional Standards. The reviewers in the high risk areas should have had experience within the last three years. The reviewer's resume should be subject to random and periodic verification by QREC.

I strongly disagree with the exposure drafts allowance of reporting certain matters found in the reviews to the AICPA Professional Ethics Division. The quality review program was presented to the membership as a program that was both educational and remedial and confidential. I believe if the above amendment is included in the final amendment of the standards, this would be altering drastically the original concept of the program. This would continue the perceived notion of small practices, like mine, that the AICPA is not looking after our needs and that the quality review program would be acting like a regulatory and punitive body. Thank you for considering these comments.

Sincerely yours,

*Bruce A. Kingshill*

Bruce A. Kingshill, CPA



September 9, 1993

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Ms. Janet Luallen, Senior Technical Manager  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

Dear Ms. Luallen:

The following comments are related to the exposure draft on proposed amendments to Performing and Reporting on Quality Reviews. These are the combined comments of the Quality Review Committee of the Texas Society of CPAs.

Page 5 #1. Paragraph 50 of the Standards also prohibits association of firms from organizing off-site reviews, therefore, it should be amended.

Page 7 #5. There are several questions and comments the committee has in reference to this new provision in the standards.

- a. What kind of matters are being considered that would require QREC to turn firms over to ethics?
- b. How is QREC going to learn of situations arising in states where the states are administering the program?
- c. There is concern that this policy would be detrimental to the frankness in which firms would respond to questions? Consequently, this could have a detrimental effect on the program.

Page 11 #b. The last example noted, "or a review or compilation report that refers to conformity with generally accepted accounting principles when the financial statements have been prepared on an other comprehensive basis of accounting" is inaccurate. A compilation report does not refer to conformity with GAAP but rather should report that the statements do not conform with GAAP.

Page 12 #b. In the context of circumstances calling for an adverse report, is it appropriate to indicate that the reviewer can expand scope in an effort to eliminate the adverse report?

Page 14 In the scope paragraph for the two example reports reflected on this page, there is no parenthetical reference to no reviews or compilations as there is on page 13. Reviewers will miss that disclosure when using these examples to draft their reports if it is not included.



Ms. Janet Luallen  
September 9, 1993  
Page 2

Page 18

The findings are not stated in a systemic manner. There is a great deal of concern that this example letter will cause digression in systemic comments on the on-site letter of comment. We understand that the reviewer is not reviewing the system of quality control, however, there should be discussion as to what the firm is doing to prevent the problem and then describe the system in the finding.

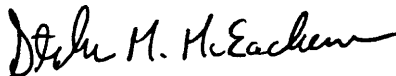
We are not sure that a letter of comment will fix the problems with the off-site reviews. The requirement to write the letter will increase the cost of the reviews and, therefore, make firms more unhappy with the process.

Page 19

The last sentence in the recommendation in paragraph 6 tends to indicate that the firm should manually type the financial statements until software problems can be cured. Perhaps it would be clearer to the reader if prepare was replaced with correct, so that the sentence would read, "Until the software is revised, the firm should manually correct the compiled financial statements in accordance with professional standards."

If you have questions regarding any of these comments, please contact Jerry Crisp at (214) 689-6040 or Steve McEachern at (713) 774-9761.

Sincerely,



Stephen M. McEachern, Chairman  
Quality Review Committee

# EXPOSURE DRAFT

## PROPOSED AMENDMENT TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: California Society of Certified Public Accountants' Committee on Professional Conduct

Comments: Amendment 5.

What is the definition of "illegal acts" as stated in this amendment and what are the responsibilities of the reviewers in determining and reporting illegal acts?

"4d. The failure would have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice." How does the reviewer determine what firms similar in size or nature of practice are doing?

.81 Appendix G1.

1. "Accordingly, when the review discloses significant departures from professional standards in the engagements reviewed, those departures should be clearly described in the review report as exceptions to the limited assurance expressed in the report. Do the words "review report" refer to the report made by the reviewer or the accountants' report on review and compilation engagements?"

# EXPOSURE DRAFT

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

Robert Fisher - Chairperson, WICPA Quality Review Committee

As written, the standards would permit a team captain from a firm that only does compilation reports without disclosures to serve as team captain for an off-site review of a firm that has a more significant A & A practice.

That is, a practice involving other SSARS work (reviews & full disclosure compilation engagements) could be reviewed by a team captain that does not have appropriate and "current" experience, since his/her practice only involves non-disclosure compilations.

Suggest paragraphs 18 and 21 on pages 5 and 6 address this

Also suggest 21 reads "A report .... that is not adverse or qualified." Deleting "for significant departures..." which could be footnoted to cover transition period.

Suggest consideration be given to consistent use of term "modified" or "qualified" to describe such reports. This should be coordinated with PCPS and SECPS programs.

# EXPOSURE DRAFT

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: M. Alexis Dow, CPA; Technical Reviewer for Quality Review Program administered by the Oregon Society of CPAs and Off-Site Quality Reviewer.

Comments:

(1) Requiring letters of comments for off-site quality reviews provides benefit at a cost. Reviewed firms will likely absorb more professional information during the Quality Review process if the discussion of recommendations now occurring as part of this process is repeated in written form (i.e. Letter of Comments), which can be read and reread as desired by the reviewed firm. This benefit comes at the cost of additional time by the reviewed firm and the reviewer to more fully explore the reason for the observed deficiencies in order for the reviewer to develop, with input from the reviewed firm, meaningful recommendations for improvement. Based on my experience performing over one hundred off-site quality reviews, additional time required by the reviewer would rarely exceed two (2) hours and would rarely exceed an additional hour by the reviewed firm. This is a relatively small cost for what is potentially a significant benefit.

(2) With respect to Appendix G appearing on page 11 of this Exposure Draft, paragraph 1.b. provides an example of a significant departure from professional standards (...a review or compilation report that refers to conformity with generally accepted accounting principles when the financial statements have been prepared on an other comprehensive basis of accounting.) There can be circumstances where such a reference could result in an insignificant departure from professional standards. For example, the first paragraph of a compilation report may clearly state that the financial statements were prepared using an other comprehensive basis of accounting and financial statement titles may be appropriate for financial statements prepared

#### Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern to you. For convenience, the most significant points have been identified in the summary that accompanies this exposure draft. Return this response form to the address indicated on the reverse side by the comment date.

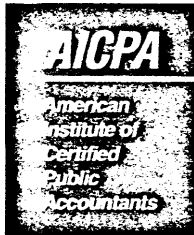
CUT ALONG LINE

Comments (continued): using an other comprehensive basis of accounting; however, the report paragraph stating that required disclosures have been omitted may refer to generally accepted accounting principles. Clearly, this is an insignificant departure from professional standards as it is unlikely that the financial statement user would be misled.

Accordingly, please consider replacing this example or modifying the wording to more clearly describe a truly significant departure from professional standards. This can be accomplished by adding the following words to the end of paragraph 1.b. of Appendix G: "...and there is no clear indication that the financial statements have been prepared using an other comprehensive basis of accounting."

Return responses to:

AICPA  
Janet Luallen, Senior Technical Manager  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881



Division for CPA Firms

Harborside Financial Center  
201 Plaza Three  
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Fax (201) 938-3056



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September 15, 1993

Ms. Janet Luallen, CPA  
Quality Review Division  
American Institute of CPAs  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

Dear Ms. Luallen:

We appreciate the opportunity to express the views of the Private Companies Practice Section's Peer Review Committee ("PCPS PRC"), with respect to the exposure draft titled Proposed Amendments to Standards for Performing and Reporting on Quality Reviews, dated June 15, 1993.

We support the Quality Review Executive Committee's ("QREC") decision to adopt the changes as set forth in paragraphs 1-4.

We would, however, ask QREC to withdraw or delay moving forward with the proposal as set forth in paragraph 5. In the spirit of aligning the standards of the three AICPA practice monitoring programs as closely as possible, we believe that all three committees should jointly address this issue with hopes of developing a common position across the three programs.

With respect to paragraphs 6 and 7, we offer the following comments pertaining to the appendices:

**Appendix B:**

The use of the term modified in paragraph 1 seems inconsistent with paragraph 62 of the standards. A report is either unqualified, qualified or adverse. Therefore we suggest that the word modified be replaced with "qualified".

We suggest that the first sentence of paragraph 2 be expanded to include the following phrase at the end of the sentence "with professional standards in the performance of an accounting or auditing engagement."

2.a. (1) be revised to state "Preparing an appropriate audit program."

Paragraph 4, sixth line be modified to read ". . . sec. 390 or the . . . ."

Ms. Janet Luallen, CPA  
September 15, 1993  
Page 2

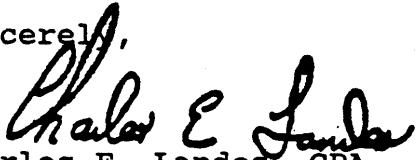
Appendix I:

We believe that the last paragraph of the adverse concluding paragraph is inconsistent with the intent of an off-site review and is inconsistent with other professional standards. By using the term "in our opinion" completely changes the nature of that paragraph from a report paragraph to that of an opinion paragraph. We believe, as stated in the second preceding paragraph of the adverse report, that an off-site review does not provide the reviewer with basis for expressing an opinion.

Again, we would ask in the spirit of cooperation, that QREC not adopt this language but work with staff and our committee to adopt language that is consistent between committees and above all correct technically.

Should you have any questions regarding these comments, please do not hesitate to contact me. Thank you for your consideration.

Sincerely,



Charles E. Landes, CPA  
Chairman  
PCPS Peer Review Committee

cc: PCPS Peer Review Committee  
Dale R. Atherton  
John F. Morrow  
Karen H. Jones

NATHAN WECHSLER & COMPANY  
PROFESSIONAL ASSOCIATION  
CERTIFIED PUBLIC ACCOUNTANTS

38

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MEMBER OF THE PRIVATE  
COMPANIES PRACTICE SECTION

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KENNETH C. WOLFE, CPA  
MURIEL D. SCHADEE, CPA  
KIRK B. LEONI, CPA  
WAYNE B. OEHM, CPA  
STEPHEN F. LAWLOR, CPA

PHILIP W. GROW, CPA  
JACQUELINE DOWNING, CPA

CHRISTOPHER P. TORREGROSSA, CPA  
ORESTE J. MOSCA, CPA  
RODGER O. HOWELLS, CPA  
STEVEN M. DROUIN, CPA  
NANCY J. LAMARCHE, CPA  
NORMA J. MEIER, CPA  
ROBERT W. READ, CPA

September 7, 1993

Ms. Janet Luallen  
Senior Technical Manager  
AICPA  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, New Jersey 07311-3881

Comment on the Exposure Draft

Re: Proposed Amendments to Standards For Performing and Reporting on Quality Reviews  
Performing and Reporting on OFF-SITE Quality Reviews

Name and Affiliation: Kirk B. Leoni, CPA  
Chairperson, Quality Review Committee  
New Hampshire Society of Certified Public Accountants

Comments: I support the changes noted in the exposure draft. The changes noted in exposure draft paragraph numbers 1 through 3 will help ensure that reviewers are sufficiently qualified with recent experience to provide guidance to the reviewed firm consistent with the educational thrust of the quality review program. For this program to be a success, the level of experience and expertise of the reviewer must hold up to a high standard while still meeting the criteria of a review by peers.

The changes noted in paragraph 4 relating to required letters of comments is also a positive step that reinforces the educational thrust of the program. In cases where a qualification was necessary, the addition of a letter of comments will better document the underlying problems and corrective actions to be taken by the reviewed firm and, will therefore serve as a tool to improve the professionalism of our industry.



NATHAN WECHSLER & COMPANY  
PROFESSIONAL ASSOCIATION

38

Ms. Janet Luallen  
Page 2  
September 7, 1993

The appendix changes and additions noted in paragraphs 6 and 7 will help clarify some of the questions that are frequently raised on quality reviews and, accordingly, I support these proposals.

The amendment regarding the reporting of suspected illegal acts may be a difficult provision as it would seem to be contrary to the confidentiality standard of the program. However, I support this provision as it is consistent with the professional standards that apply to our client engagements and to do less within our self-monitoring program would undermine the credibility of that program.

Very truly yours,



Kirk B. Leoni, CPA  
Chairperson, Quality Review Committee  
New Hampshire Society of Certified  
Public Accountants

KBL/mcs  
cc: Dean Kenney, CPA  
New Hampshire Society of  
Certified Public Accountants

# EXPOSURE DRAFT

39

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: *James S. Gallozzi, Shareholder  
within Smith & Brown*  
Comments: *Uni. of Penna night faculty*

The most significant omission in this document is, in my opinion, the fact that no letter of representation is requested from the client CPA firm.

Representation letters are now a part of review level service literature. A quality review (or peer review, although not the focus of this exposure draft) should also require the reviewer firm acquire a management representation letter. Contents might include

- a statement that all engagements performed have been listed on the client list.
- a statement that the specialized industry codes have been verified as correct.
- a statement that the hours listed are correct.
- a statement that at least certain of the engagements reviewed were selected on a surprise basis.
- a statement that the level of service associated with each engagement is correct, and interim statements have been identified.
- a statement that reports on internal accounting control, attestation engagements, and personal financial statements are acknowledged as being a part of the reporting practice.

This letter should be presented, in unsigned form, to the firm the first day of the quality review.

I hope these comments will be received by the committee in the spirit in which they are rendered--i.e. improve the credibility of the process.

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#### Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern to you. For convenience, the most significant points have been identified in the summary that accompanies this exposure draft. Return this response form to the address indicated on the reverse side by the comment date.

## EXPOSURE DRAFT

PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING  
AND REPORTING ON QUALITY REVIEWS

## PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: Joseph E. Koscielny, CPA , Chairman Quality Control  
Committee, New Jersey Society of Certified Public  
Accountants

Comments:

The exposure draft of the proposed amendments to standards for performing and reporting on quality reviews, performing and reporting on off-site quality reviews dated June 15, 1993 was reviewed and discussed at our committee meeting held on August 24, 1993. We agree with all of the proposed amendments except for paragraph 5 on page 7.

Paragraph 5 on page 7 states " .XX If information comes to the AICPA Quality Review Executive Committee's attention that causes it to question whether an individual owner or employee of the firm has committed an illegal act which the quality review program is not designed to address, the AICPA Quality Review Executive Committee may take actions leading to the reporting of the matter to the AICPA Professional Ethics Division for investigation and disposition."

Serious concerns were raised regarding a) the impact on the reviewers performing the reviews, b) the apparent modification of the thrust of the program from an educational program, to now include a punitive factor, and c) the confidentiality of the reports.

The concerns regarding the impact on the reviewers performing the reviews stems from concerns over legal liability and the increased potential for legal suits against the reviewer by the reviewed firm. Our committee believes that this potential legal exposure will reduce the number of reviewers willing to do reviews. It is also felt that firms may prohibit their members from performing reviews because of the legal exposure.

The apparent modification of the program to now include a punitive factor is contrary to the initial emphasis of the program as being educational. Our committee believes that this will result in a reduction of membership in the AICPA.

The confidentiality of the quality review reports would now appear to be subject to an open public file with the report of illegal acts. The original confidentiality was felt to be a strong factor in retaining members in the AICPA quality review program. With the elimination of confidentiality, our committee believes that this will result in a reduction of membership in the AICPA.

Page 2

No definition of an illegal act has been included in the exposure draft. This will result in different interpretations by individuals that can lead to problems for the reviewer, the reviewed firm and the AICPA QREC.

Our committee therefore recommends that paragraph 5 as presented on page 7 of the exposure draft be eliminated in full, and that the rest of the exposure draft be adopted as proposed.

*Joseph R. Krawling CPA*



September 13, 1993

SEP 15 1993

AICPA Quality Review Executive Committee  
American Institute of CPAs  
Quality Review Division  
Harborside Financial Center  
201 Plaza III  
Jersey City, NJ 07311-3881

Dear Committee Members:

The North Carolina Association of CPAs' Quality Review Executive Committee and the Board of Directors of the Association have reviewed and discussed the *Exposure Draft - Proposed Amendments to Standards for Performing and Reporting on Quality Reviews - Performing and Reporting on Off-Site Quality Reviews*. We would like to voice our opinion on the issues of reviewer qualifications and the reporting of illegal acts.

Our interpretation of expertise is defined as actual on the job experience and/or the ability to remain current within an area that he/she may not be presently practicing through CPE courses. The *Exposure Draft* states that the qualifications needed to be an on-site reviewer as "at least five years of *recent* experience in the practice of public accounting in the accounting and auditing function". We respectfully request that you require that the expertise listed on the AICPA reviewer resume form for the high risk areas (as defined by the AICPA's *Standards for Performing and Reporting on Quality Reviews*, section 3000.42) be within the most recent 3 years and within the last 5 years for other areas. We have observed a need for definitive terms of "current" and "experience" due to the continuous changes in the AICPA's *Professional Standards* as well as in the CPA profession. In addition, a reviewer's signature would acknowledge that by falsely claiming "current" information, he/she may be removed from the database of qualified reviewers and reviews. These representations would be subjected to random and periodic verification by the QREC.

The committee and the board oppose the amendment that "allows the AICPA Quality Review Executive Committee to report certain matters to the AICPA Professional Ethics Division for investigation and disposition". The reason for our opposition is that confidentiality is the foundation of quality review and the program was not and is not designed to address illegal acts. By reporting anything that appears to be illegal to the Ethics Division is in direct conflict with the nature of the Program.

North Carolina Association of Certified Public Accountants


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PO Box 80188, Raleigh, NC 27623-0188 • 3100 Gateway Centre Blvd., Morrisville, NC 27560-9241  
919-469-1040 • NC WATS 1-800-722-2836 • FAX 919-469-3959

By specifying the requirements to become qualified to perform reviews, we will provide firms with experienced and knowledgeable reviewers. Furthermore, the purpose of the Quality Review Program should remain focused on its objectives for improving and maintaining the quality in the CPA profession and not become entangled with reporting suspected illegal activities.

We hope that our requests will be discussed at your committee's next meeting. Please contact our chairman, Robert Taylor (919/492-3041) for further discussion or for any questions.

Very truly,



Robert E. Gresham, President  
NC Association of CPAs

/srf

cc: James T. Ahler, NCACPA Executive Director  
Richard Stallings, Administration/Controller Director  
Robert Taylor, QR Executive Committee Chairman



WASHINGTON SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

42

September 8, 1993

Janet Luallen, Senior Technical Manager  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

RE: EXPOSURE DRAFT RE: OFF-SITE QUALITY REVIEWS

Dear Ms. Luallen:

Our committee has read the exposure draft and evaluated the issues presented regarding off-site reviews. We generally concur with the changes to the standards as proposed in the draft, including paragraph 5, which would require the reporting of certain matters to the AICPA Professional Ethics Division for investigation and disposition. We would like QREC to reconsider appendix J regarding guidelines for and illustration of a letter of comments on an off-site quality review.

Specifically, guideline 2. d. requires a recommendation be made by the reviewer related to a finding. In our opinion, a reviewer's recommendation would be inconsistent with the nature of off-site reviews. Off-site reviews are report reviews and generally do not include adequate procedures to draw a conclusion regarding system issues. We believe that recommendations would simply become guess work and would probably result in unproductive time spent by reviewers, the reviewed firm, and report acceptance bodies discussing reviewer recommendations.

We believe it is more appropriate that a reviewed firm respond to findings with recommendations. Reviewed firms have better knowledge about the cause of findings and therefore can better assess what changes are required.

We also believe that letters of comment on off-site reviews, although having the benefits of better communication and bringing the QR process into conformity with PCPS requirements, will add one to two hours to the majority of reviews. This cost needs to be considered in evaluating the impact of this exposure draft.

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Ms. Janet Luallen, Senior Technical Manager  
September 8, 1993  
Page 2

We appreciate this opportunity to respond to the exposure draft.

Sincerely,

The Off-site Quality Review Committee of the  
Washington Society of Certified Public Accountants by



Steven B. Bass, CPA  
Chairman



## ILLINOIS CPA SOCIETY QUALITY REVIEW REPORT ACCEPTANCE COMMITTEE

**Comments on Exposure Draft of Proposed Amendments to Standards for  
Performing and Reporting on Quality Reviews**

1. Throughout the exposure draft, the word "qualified" is used to indicate the type of report to be issued in situations where significant deficiencies have been found. We question why the wording does not mirror that of the on-site review format where "modified" is the standard language used. Why have this minor but confusion difference? Given that the reporting procedures for off-site reviews will now follow the on-sites (separate report and letter of comments) why not use the same wording - Unqualified (with or without LOC), Modified or Adverse. There should certainly be no need to refer to "qualified for significant departures" off-site reports any longer with the new reporting format in place. QREC should take advantage of this opportunity to make on- and off-site reviews more compatible, not less.
2. Pages 18 and 19: Examples of Matters that Might Be Included in Letters of Comments on Off-Site Quality Reviews
  - a. The first finding should indicate that the difference between GAAP and OCBOA was material, thus resulting in a significant departure. We have always been told that materiality should be considered in this instance and we have had situations where the difference was not material and the departure, while mentioned, was not considered significant. The wording here gives the impression that this situation is always a significant departure, when in fact it may not be.
  - b. The second finding also needs some indication of materiality - the lack of these types of disclosures alone would not indicate a significant departure unless the numbers were material.
  - c. The fourth finding should not lump "reporting on comparative financial statements" and "going concern issues" together. We do not believe that failure to report on comparative financial statements should be a matter that results in a modified report. In fact, the guidance we have received has been just the opposite. However, the going concern issues could certainly be a reason for modification.
2. Page 20: Illustration of Response by a Reviewed Firm to a Letter of Comments

It would be helpful to the reviewed firm if the example showed how to use the headings "Matters That Resulted in a Modified or Adverse Report" and "Matters That Did Not Result in a Qualified or Adverse Report" with instructions to use only if included in the letter of comments.

**AICPA Quality  
Review Program**

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*American Institute of  
Certified Public Accountants*

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SEP. 15 1993

*Administered in Kentucky by the*

*Kentucky Society of  
Certified Public Accountants  
310 West Liberty Street  
Louisville, KY 40202  
(502) 589-9239  
FAX: (502) 581-1411*

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September 10, 1993

Janet Luallen, Senior Technical Manager  
AICPA Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

Re: AICPA Quality Review Executive Committee Exposure  
Draft: Proposed Amendments to Standards for Performing  
and Reporting on Quality Reviews - Performing and  
Reporting on Off-Site Quality Reviews

Dear Ms. Luallen:

At its meeting on August 26-27, 1993 the Kentucky Society of Certified Public Accountants' Quality Review Committee (committee) discussed the above cited exposure draft (ED).

The committee supports the exposure draft and encourages its adoption. No comments were made regarding proposed amendments to (a) allow associations to arrange and conduct off-site reviews; (b) refine the requirements of individuals performing reviews; and (c) allow the AICPA Quality Review Executive Committee to refer certain matters to the AICPA Professional Ethics Division for investigation and disposition.

The following observations or suggestions for clarification are applicable to other issues discussed in the ED.

1. Appendix J, paragraph 2.d. (page 16 of the ED), in discussing the proposed letter of comments for off-site quality reviews, includes the following:

In addition, the letter of comments should identify, where applicable, any comments that were also made in the letter of comments issued on the firm's previous quality review or peer review.

Should mention also be made of the firm's previous off-site report? As written, matters which resulted in an adverse off-site quality review report (no letter of comments) would not need to be identified in the letter of comments on the current off-site review. It is likely that flexibility inferred from the appendix would be used by reviewers.

Janet Luallen, Senior Technical Manager  
AICPA Quality Review Division  
September 10, 1993  
Page 2

2. Several of the examples of matters that might be included in letters of comments on off-site quality reviews (Appendix J, page 18 of the ED) refer to reporting or disclosure errors. No attempt is made to "close the loop" as so carefully emphasized in letters of comment issued in connection with on-site quality reviews. AR § 100.42 and AR § 9100.13-.15 refer the accountant to AU § 561 where the accountant, subsequent to the date of reporting on compiled or reviewed financial statements, discovers that the financial statements may be incorrect, incomplete, or otherwise unsatisfactory. The off-site engagement statistics data sheet (attachment 2 to the off-site technical reviewer's checklist) requires the reviewer to identify actions to be taken on substandard engagements. It appears illogical to not "close the loop" in letters of comment on off-site quality reviews.

Also on page 18, but of less concern, failure to disclose material intercompany transactions is mentioned in the illustration. "Related party" may be more appropriate than "intercompany." In many circumstances (i.e. in consolidated financial statements), intercompany transactions are eliminated; and disclosure requirements are not applicable (FASB Current Text Accounting Standards, vol. 1, section R36.102.).

3. A reasonable definition of "substandard engagement" is long overdue. No doubt team captains still will need to exercise seasoned judgement, and their determination that the aggregate effect of deficiencies constitute a "substandard engagement" will be considered harsh by some firms under review. One observation is offered for consideration.

Substandard engagements, according to appendix B, page 8-9, involve (a) performance failures (paragraph 2.a.); (b) failures in the application of generally accepted accounting principles (GAAP) including disclosures (paragraph 2.b.); or (c) significant reporting failures (paragraph 2.c.). It may be viewed only as a matter of semantics, but presentation deficiencies are not discussed. In some circumstances, such as in financial statements of entities operating in special industries, actual GAAP deficiencies or disclosure errors may be insignificant, yet the presentation of information might seriously depart from applicable guidance. Examples include financial statements of banks, construction contractors, and not-for-profit organizations after FASB Statement No. 117 Financial Statements of Not-for-Profit Organizations becomes effective.

Janet Luallen, Senior Technical Manager  
AICPA Quality Review Division  
September 10, 1993  
Page 3

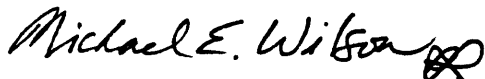
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Should the definition of "substandard engagement" be modified to specifically address presentation deficiencies?

\* \* \* \* \*

As mentioned earlier, the committee acted in support of the ED. Your careful consideration of the above comments is, however, appreciated.

Sincerely,



Michael E. Wilson CPA

Chairman, Quality Review Committee  
Kentucky Society of Certified Public Accountants

SEP. 15 1993

ISAAC W. CHOY, CPA, INC.

Member Private Companies Practice Section  
Division for CPA Firms AICPA

45

September 9, 1993

Ms. Janet Luallen, Senior Technical Manager  
AICPA  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

Re: Comments to Proposed Amendments to Standards for Performing and Reporting on  
Off-Site Quality Reviews dated June 15, 1993

Dear Ms. Luallen:

Here are my comments on the proposed changes to the above named standards.

Amendment No. 1: No Comment

Amendment No. 2: I feel it is important to have quality in all aspects of the quality review program. The training courses I have taken do not cover the mechanics of the review process in much detail. It also does not help that procedures are not standardized or are made up as the review process evolves. If the objective is to have quality in the reviewing process, then an improvement in this area could be achieved in the following manner:

1. Lengthening training program to be more comprehensive.
2. All persons involved in the administration of this program should attend the same training course as the reviewers.
3. The technical reviewers must have at least five years experience in "local size" accounting firm.
4. All persons involved in administrating this program should have at least performed reviews.

Amendment No. 3: No Comment

Amendment No. 4: Letters of comment are not necessary in doing reviews (on site or off-site). The administrators would understand the review process better if they performed reviews themselves. During the review process, if the reviewer finds a defect most firms require that the reviewer explain the finding thoroughly including citations from professional standards. If the defect is procedural in nature, the discussion between the reviewers and the firm centers on the system breakdown and possible solutions. Most of the time, the reviewer offers checklist or other practice aids used in the reviewer's firm as suggestions on how to correct the defect. This interchange of ideas is the real value of having quality reviews. This need not be written down on a piece of paper to have someone 5,000 miles away determine if the comment was appropriate or not. The finding was already argued, studied and concluded by the most qualified individuals in the review process, the reviewer and the firm.

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Ms. Janet Luallen  
September 9, 1993  
Page 2

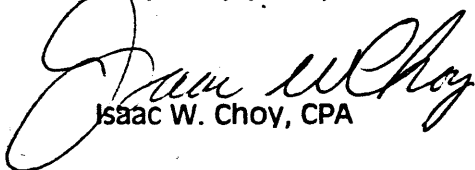
Amendment No. 5: The Quality Review Executive Committee should not report any matters to anyone. I cannot understand how the definition of the term "confidential" is so confusing to the committee. The very essence of our profession is that we understand, practice, profess, and live by the term "confidential." It means not to tell anybody. I wonder if the amendment to our bylaws allowing quality review would have passed if the practitioner knew that the reviews would not be confidential? For that matter the trend of the program seems to be heading towards positive enforcement (punishment) and public files from the original intent of remedial, education and confidential.

Amendment No. 6: Again the committee amazes me that they try to corrupt the term "confidential" and try to define the term "substandard." The review process is two practitioners trying to help each other improve the quality of their practice. Defects are studied and discussed and substandard findings are agreed to again by the most qualified individuals. Their judgement should not be questioned. After all, we do make a living exercising our professional judgement daily. As for the appendix changes, I still cannot understand why the wording of the review report is so important that samples have to be followed...if nobody is going to see them (confidential remember).

Final Comments: If the quality review process is to continue, then it must be a positive educational process. The practitioners that I have had the privilege to review, shows me that the commitment to quality is very alive and well in the State of Hawaii. Practitioner helping fellow practitioners should be the motto to follow. Public files of review reports is not the way to quality. The concept of total quality management states that inspection and negative feedback is not the way to quality. Quality begins from the level of the lowest staff accountant who is led by the individual practitioner who believes in quality of our profession. Technical reviewers, senior technical reviewers, vice presidents, presidents, divisions, committees, chairmen and more committees are the very bureaucracy we are trying to avoid by government intervention. Maybe we should all rethink our commitment to quality.

Thank you very much for allowing me to share my thoughts with you.

Very truly yours,

  
Isaac W. Choy, CPA

# EXPOSURE DRAFT

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: M. Alexis Dow, CPA; Technical Reviewer for Quality Review Program administered by the Oregon Society of CPAs and Off-Site Quality Reviewer.

Comments:

(1) Requiring letters of comments for off-site quality reviews provides benefit at a cost. Reviewed firms will likely absorb more professional information during the Quality Review process if the discussion of recommendations now occurring as part of this process is repeated in written form (i.e. Letter of Comments), which can be read and reread as desired by the reviewed firm. This benefit comes at the cost of additional time by the reviewed firm and the reviewer to more fully explore the reason for the observed deficiencies in order for the reviewer to develop, with input from the reviewed firm, meaningful recommendations for improvement. Based on my experience performing over one hundred off-site quality reviews, additional time required by the reviewer would rarely exceed two (2) hours and would rarely exceed an additional hour by the reviewed firm. This is a relatively small cost for what is potentially a significant benefit.

(2) With respect to Appendix G appearing on page 11 of this Exposure Draft, paragraph 1.b. provides an example of a significant departure from professional standards (...a review or compilation report that refers to conformity with generally accepted accounting principles when the financial statements have been prepared on an other comprehensive basis of accounting.) There can be circumstances where such a reference could result in an insignificant departure from professional standards. For example, the first paragraph of a compilation report may clearly state that the financial statements were prepared using an other comprehensive basis of accounting and financial statement titles may be appropriate for financial statements prepared

#### Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern to you. For convenience, the most significant points have been identified in the summary that accompanies this exposure draft. Return this response form to the address indicated on the reverse side by the comment date.

CUT ALONG LINE

Comments (continued): using an other comprehensive basis of accounting; however, the report paragraph stating that required disclosures have been omitted may refer to generally accepted accounting principles. Clearly, this is an insignificant departure from professional standards as it is unlikely that the financial statement user would be misled:

Accordingly, please consider replacing this example or modifying the wording to more clearly describe a truly significant departure from professional standards.

This can be accomplished by adding the following words to the end of paragraph 1.b. of Appendix G: "...and there is no clear indication that the financial statements have been prepared using an other comprehensive basis of accounting."

Return responses to:  
AICPA  
Janet Luallen, Senior Technical Manager  
Quality Review Division  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881



# EXPOSURE DRAFT

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47

## PROPOSED AMENDMENTS TO STANDARDS FOR PERFORMING AND REPORTING ON QUALITY REVIEWS

### PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS

June 15, 1993

Comment date: September 15, 1993

Name and Affiliation: *James S. Galloghly, Shouli, W. W. Smith & Brown*

Comments: *Univ. of Pennsylvania night faculty*

The most significant omission in this document is, in my opinion, the fact that no letter of representation is requested from the client CPA firm.

Representation letters are now a part of review level service literature. A quality review (or peer review, although not the focus of this exposure draft) should also require the reviewer firm acquire a management representation letter. Contents might include

- a statement that all engagements performed have been listed on the client list.
- a statement that the specialized industry codes have been verified as correct.
- a statement that the hours listed are correct.
- a statement that at least certain of the engagements reviewed were selected on a surprise basis.
- a statement that the level of service associated with each engagement is correct, and interim statements have been identified.
- a statement that reports on internal accounting control, attestation engagements, and personal financial statements are acknowledged as being a part of the reporting practice.

This letter should be presented, in unsigned form, to the firm the first day of the quality review.

I hope these comments will be received by the committee in the spirit in which they are rendered--i.e. improve the credibility of the process.

*(See also 2/5 - 5/5)*

#### Instructions for Response Form

This form may be used for comments or suggestions relating to any aspect of the exposure draft that is of concern to you. For convenience, the most significant points have been identified in the summary that accompanies this exposure draft. Return this response form to the address indicated on the reverse side by the comment date.

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## SUMMARY

## WHY ISSUED

The Quality Review Executive Committee (QREC) is considering the issuance of these proposed amendments to the Standards for Performing and Reporting on Quality Reviews to enhance on-site and off-site quality reviews and eliminate some of the differences between the two types of reviews.

## WHAT THEY DO

The proposed amendments would bring about significant changes in the performance and reporting on quality reviews. The proposed amendments —

- Allow associations of CPA firms to arrange and carry out off-site quality reviews in the same manner as they arrange and carry out on-site quality reviews.
- Require all individuals performing on-site and off-site quality reviews (a) to be currently active in the practice of public accounting (b) to have five years of recent experience in the accounting and/or auditing function of a firm enrolled in one of the AICPA practice-monitoring programs, and (c) to have attended an applicable reviewer's training course.
- Require letters of comments to be issued in conjunction with off-site quality review reports so reviewers can more easily report on deficiencies detected during the review. These letters of comments also provide reviewers the opportunity to make useful recommendations for correcting the deficiencies detected.
- Allow the AICPA Quality Review Executive Committee to report ~~certain matters~~ *illegal members' acts* to the AICPA Professional Ethics Division for investigation and disposition.
- ~~omit~~ "substandard engagements" for purposes of the quality review program.

*Give guidance as to what constitutes*

## HOW THEY AFFECT EXISTING STANDARDS

These proposed amendments would revise and add to the existing Standards. For purposes of this exposure draft, the language to be revised is shown with a line drawn through it and the new language is presented in boldface italics. The proposed amendments are expected to become effective with quality reviews conducted on or after April 1, 1994.

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*This exposure draft has been sent to —*

- *Members of AICPA Council and technical committees.*
  - *State society and chapter presidents, directors and quality review committee chairmen.*
  - *Organizations concerned with AICPA practice-monitoring programs — such as certain federal regulatory agencies, state boards of accountancy, or associations of CPA firms.*
  - *Persons who have requested copies.*
-

or, if a one year deferral was granted for any reason,  
four years.

All on-site review team members must have at least five years of *recent* experience in the practice of public accounting in the accounting and auditing function.<sup>4</sup> A team captain must be a proprietor, partner, or shareholder of an enrolled firm and must have completed a training course that meets requirements established from time to time by the AICPA Quality Review Executive Committee. A team captain must also be associated with a firm that has received an unqualified report on its system of quality control within the previous three years.<sup>5</sup> A team captain should have a familiarity gained through personal experience with the types of problems encountered by the reviewed firms.

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(47)

.21 All reviewers participating in off-site quality reviews (available to firms that perform no audits of historical or prospective financial information statements) should have had at least five years of *recent* experience in the accounting or auditing function<sup>6</sup> of a firm enrolled in an approved practice monitoring program within the most recent ten years, culminating in a position as (1) a proprietor, partner, or shareholder, or (2) a manager or person with equivalent supervisory responsibilities, practice of public accounting in the accounting or auditing function<sup>6</sup> and must have completed a training course that meets requirements established from time to time by the AICPA Quality Review Executive Committee. Off-site reviewers must also be associated with a firm that has received, within the three previous years, either of the following:

- a. An unqualified report on its system of quality control.
- b. A report on an off-site review that is not adverse or qualified for significant departures from professional standards.

3. This amendment revises paragraph 64 to make reference to unqualified and qualified reports on off-site quality reviews rather than unmodified and modified reports.

.64 In deciding on the type of report to be issued, the ~~team captain~~ reviewer should be guided by the considerations in appendix G. The standard form for an ~~unmodified unqualified~~ report on an off-site quality review is illustrated in appendix H. Illustrations of other types of reports are presented in appendix I. Appendix J includes an illustration of the way in which a firm might respond to a modified review report.

4. This amendment revises various paragraphs in the section of the standards on letters of comments to require the issuance of letters of comments in connection with off-site quality reviews.

.66 The letter of comments on an on-site quality review should be prepared in accordance with the guidance and illustrations in appendix E. An illustration of a response by a reviewed firm is included in appendix F.

.XX A letter of comments is required to be issued in connection with an off-site quality review when there are matters that resulted in qualification(s) to the standard form of report

<sup>4</sup> The Quality Review Executive Committee recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. This standard is not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a quality review with professional expertise.

<sup>5</sup> See note 4.

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*Working papers ordinarily should include documentation showing that —*

- a. *The work has been adequately planned and supervised, indicating observance of the first standard of field work.*
- b. *A sufficient understanding of the internal control structure has been obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.*
- c. *The audit evidence obtained, the auditing procedures applied, and the testing performed have provided sufficient competent evidential matter to afford a reasonable basis for an opinion, indicating observance of the third standard of field work.*

- b. *There has been a significant failure to reach appropriate conclusions on accounting issues, which has a material effect on financial statement amounts or disclosures.*
- c. *There has been a significant failure to comply with applicable reporting standards.*

3. *An engagement generally is not deemed to be substandard when —*

- a. *The firm did not comply with its quality control policies and procedures in all material respects if such policies and procedures go beyond the requirements of professional standards.*
- b. *Disclosure deficiencies exist but they do not cause the financial statements to be misleading.*
- c. *An error has been made in accounting for a transaction but the error is not material.*

d. *Documentation in non-key areas is deficient.*  
 The Nature and Significance of Engagement Deficiencies

4. The overriding objective of a system of quality control is to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. When a review team encounters *substandard engagements* ~~significant failures to reach appropriate conclusions, particularly those requiring the application of Statement on Auditing Standards (SAS) No. 46, Consideration of Omitted Procedures After the Report Date (AICPA, Professional Standards, vol. 1, AU sec. 390) and the section of SAS No. 1 entitled "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report" (AU sec. 561), the team is faced with a clear indication that, in those engagements, the firm failed to conform~~ ~~did not comply~~ with professional standards. The review team's first task in such circumstances is to try to determine why the failure occurred. The cause of the failure ~~to reach appropriate conclusions~~ might be systems-related and might affect the type of report issued if, for example —

- a. The failure related to a specialized industry practice and the firm had no experience in that industry and made no attempt to acquire training in that industry or to obtain appropriate consultation and assistance.
- b. The failure related to a matter covered by a recent professional pronouncement, and the firm had failed to identify through professional development programs or appropriate supervision the relevance of that pronouncement to its practice.
- c. The failure would have been detected had the firm's quality control policies and procedures been followed.
- d. The failure would have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or

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knowledge; in some cases, the reviewer will wish to consult with the entity administering the review before reaching such a conclusion.

5. The failure to reach ~~appropriate conclusions~~ *conform with professional standards* on an engagement may be the result of an isolated human error and, therefore, does not necessarily mean that the review report should be ~~modified~~ *qualified or adverse*. However, when the reviewer believes that the probable cause (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants) of a significant failure to ~~reach appropriate accounting and auditing conclusions~~ *conform with professional standards* on one engagement also exists in other engagements, the reviewer needs to consider carefully the need for a qualified or adverse report.

#### The Pattern and Pervasiveness of Engagement Deficiencies

6. The review team must consider the pattern and pervasiveness of engagement deficiencies and their implications for compliance with the firm's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. As in the preceding section, the review team's first task is to try to determine why the deficiencies occurred. In some cases, the design of the firm's system of quality control may be deficient as, for example, when it does not provide for timely partner involvement in the planning process. In other cases, there may be a pattern of noncompliance with a quality control policy or procedure as, for example, when firm policy requires the completion of a financial statement disclosure checklist but such checklists often were used only as a reference and not filled out. That, of course, makes effective partner review more difficult and increases the possibility that the firm might not *conform* ~~comply~~ with professional standards in a significant respect, *which means that the reviewer must consider carefully the need for a qualified or adverse report*. On the other hand, the types of deficiencies noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the deficiencies were isolated cases of human error *that should not result in a qualified or adverse report*.

#### Design Deficiencies

7. There may be circumstances where the reviewer finds few deficiencies in the work performed by the firm and yet may conclude that the design of the firm's quality control system needs to be improved. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to necessary policies and procedures in areas such as hiring, assigning personnel to engagements, advancement, and client acceptance and continuance. A reviewer might conclude that these conditions could create a situation in which the firm would not have reasonable assurance of conforming with professional standards in one or more important respects. However, in the absence of deficiencies in the engagements reviewed, the reviewer would ordinarily conclude that the matter should be dealt with in the letter of comments.

#### Forming Conclusions

8. In order to give appropriate consideration to the evidence obtained and to form appropriate conclusions, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of the evidence obtained cannot be evaluated primarily on a quantitative basis.

*Reporting*  
9. In those instances where projections and/or forecasts are peer reviewed, the peer review report should refer to attestation engagements.

Comments of the Committee on Quality Review of  
the Pennsylvania Institute/Delaware Society of CPAs on the Exposure  
Draft Dated June 15, 1993  
of Proposed Amendments to Standards for Performing and  
Reporting on Quality Reviews

Page 8 Paragraph 2.a. refers to attestation standards. This is inconsistent with the references in paragraph 30 of the Standards.

Paragraph 2.a. (2) includes failure to apply analytical procedures in the planning and overall review stages of the audit as an example of an omitted procedure which should lead to a qualified report. In some reviews, firms have commented that an analytical review in the planning stage could generally not be done until a meaningful trial balance was developed. In addition, while we consider analytical procedures to be an important part of the audit process, on certain relatively small and simple engagements substantive tests can provide the auditor with a reasonable basis for his opinion whether or not analytical procedures have been performed. In such cases, classifying such an engagement as substandard seems to be putting form ahead of substance.

Inclusion of the last part of paragraph 2.a.(3) (beginning "It also states that - ") adds nothing significant to the Standards. Further, to consider a sole practitioner's failure to document audit planning and supervision (when he does all or most of the audit work) to result in a substandard engagement would again be putting form ahead of substance.

Page 9 Paragraph 3.b. refers to disclosure deficiencies. We recommend that it be expanded to refer to both disclosure and reporting deficiencies.

Paragraph 3.b. refers to deficiencies that do not cause the financial statements to be "misleading." This requires some elaboration. For example, certain deficiencies may cause the financial statements to be misleading to some (for example, uninformed) readers, but not to other readers.

Further, if "an engagement generally is not deemed to be substandard when...disclosure [and reporting] deficiencies...do not cause the financial statements to be misleading," should we not, as a corollary, add to paragraph 2. a new item d. to say that "an engagement is deemed to be substandard...when...disclosure (and reporting) deficiencies exist that cause the financial statements to be misleading."

Page 10 In the last sentence of paragraph 7, add the words "significant" or "material" before "deficiencies."

Page 12 Paragraph 2.b. is appropriate when reaching a decision as to whether an adverse report should be issued. However, it should be made clear that even if the departures noted are isolated, a qualified report would be appropriate since we are reporting on "reports submitted for review by [the firm]..."

Page 18 The second finding should be amended to add "significant" or "material" before "related-party transactions and lease obligations..."

Page 19 We do not believe that failure to report on comparative financial statements in accordance with SSARS (the fourth finding) would ordinarily be a matter that would result in a qualified report. For example, if the accountant's report failed to refer to financial statements for a prior year included for comparison with those for the current year, we believe that the reader would assume (naturally) that the accountant's report was intended to apply to both years.

# AICPA Quality Review Program

American Institute of  
Certified Public Accountants

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Administered in Connecticut by the

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September 16, 1993

Quality Review Division  
AICPA  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881

Attention: Janet Luallen, Senior Technical Manager

RE: Exposure draft: Performing and Reporting on Off-  
Site Quality Reviews

This letter represents the consensus opinion of the members of the Quality Control Review Committee of the Connecticut Society of CPAs:

I. Item 5 (Reporting certain matters to the AICPA Professional Ethics Division) should be deleted from this exposure draft and dealt with in a separate action. Our committee considered the entire concept of turning over QR reports to Ethics extremely controversial and was, for the most part, opposed in concept. Therefore we think that an off-site review exposure draft is not the appropriate vehicle in which to introduce this radical change.

II. The off-site Review's Checklist should include steps that address licensing and litigation, similar to the On-Site Team Captain Checklist steps I h (i)-(iv).

In a matter unrelated to the Off-Site reviews, the committee would like to see an appropriate letter added to the manual for reporting on On-Site reviews where there are no audits performed.

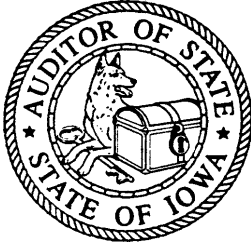
Other than the above, the Committee agrees to the proposed changes in the exposure draft and commends the committee for its efforts.

Sincerely,



SUSAN L. JANSEN, CPA  
for the CSCPA Quality Control Review Committee





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Richard D. Johnson, CPA  
Auditor of State

50

September 15, 1993

Janet Luallen, Senior Technical Manager  
Quality Review Division  
AICPA  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NY 07311-3881

Dear Ms. Luallen:

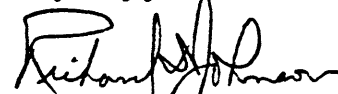
Re: Exposure Draft - "Performing and Reporting  
on Off-Site Quality Reviews"

We have read this document and agree with the amendments. We do, however, think that the standard for "qualification for service as a reviewer" is deficient as it relates to the experience of a reviewer.

This office has the responsibility for reviewing audit reports of local governments in the State of Iowa. Many of these audits are performed by firms with a significant government clientele and who have "passed" a quality review. In our reviews of these reports, and sometimes also the workpapers, we often see instances of serious audit and reporting deficiencies that would not have escaped the notice of a reviewer experienced in governmental accounting, auditing, and reporting.

It is our opinion that if a firm's clients include a concentration in a particular industry(s) then that firm should be reviewed by someone knowledgeable in that industry. Otherwise, there may be serious deficiencies not detected. We urge that committee consider the addition of an experience requirement to the qualifications for a reviewer.

Very truly yours,



Richard D. Johnson, CPA

RDJ/sc

76.

(51)  
SEP. 21 1993

EXPOSURE DRAFT  
PROPOSED AMENDMENTS TO STANDARDS  
FOR PERFORMING AND REPORTING ON  
QUALITY REVIEWS

Performing and Reporting on  
Off-Site Quality Reviews

June 15, 1993  
Comment Date: September 15, 1993

Name and Affiliation:      Glen Vice, Chairman  
                                 Lindsay Calub, Member  
                                 Jon H. Flair, Member  
                                 Stephen Alderdice, Member  
                                 Lyn Tew, Member  
                                 Sharon Hutto, Member

Accounting and Auditing Standards  
                                 Committee  
Louisiana Society of CPS's

Comments:

Paragraph  
#

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- 1                              Agree that review teams should be able to carry out off-site quality reviews in the same manner as on-site reviews.
- Good guidance.
- 2                              Agree that off-site reviewers should be required to meet the same qualifications as on-site reviewers. Also agree that experience should be recent.
- If a team captain is associated with a firm that has received a report that is not adverse or qualified for significant departures from professional standards, then that team captain should be eligible to perform a quality review. I would suggest adding the following language as underlined: "A team captain must also be associated with a firm that has received either an unqualified report on its system of quality control or a report that is not adverse or unqualified for significant departures from professional standards within the previous three years."

3 The change from unmodified to unqualified is more consistent with wording of audit reports.

Good guidance.

4 A letter of comment should be required with an off-site quality review.

In certain instances there may be no comments for which a letter of comments would be required. I would therefore recommend that the following language, as underlined be added to the first sentence. "This amendment revises various paragraphs in the section of the standards on letters of comments require, in certain instances, the issuance of letters of comments in connection with off-site quality reviews."

5 Quality review committee should be allowed to communicate certain matters to the AICPA Professional Ethics Division.

5-7 Good guidance.

Appendix B Guidance should be provided to define substandard engagements.

Appendix G Good Guidance.

Appendix H-K Standard reports and letters illustrated provide helpful guidance.

General The amendments proposed appear to enhance the performance and reporting on quality reviews. The performance of off-site quality reviews should be conducted consistent with on-site reviews. Additionally, qualifications of individual reviewers should be the same without regard to whether or not the review will be on or off-site.

The amendments in this exposure draft appear reasoned and well written. The appendices are especially useful.

The amendments appear to be well written and, if adopted, would provide useful guidance to both those performing quality reviews and those receiving them.

Agree with all paragraphs, especially paragraph 4 which would require a LOC to be issued separately on an off-site engagement which would change the

requirements of off-site engagements to be consistent with on-site engagements with respect to LOC's.

The QREC should consider that nonqualified reports should disclose whether or not a letter of comment was issued.

(52)  
**UACPA**

*Utah Association of Certified Public Accountants*

September 10, 1993

Quality Review Executive Committee  
c/o Janet Luallen, Senior Technical Manager  
Quality Review Division  
A I C P A  
Harborside Financial Center  
201 Plaza Three  
Jersey City, New Jersey 07311-3881

SEP. 23 1993

Subj: RESPONSE TO EXPOSURE DRAFT:  
"PERFORMING AND REPORTING ON OFF-SITE QUALITY REVIEWS"  
Dated: June 15, 1993

Dear Diane S. Conant, Chairman:

We, as members of the Quality Review Committee of the Utah Association Of Certified Public Accountants, support acceptance of the above-referenced exposure draft. We endorse the effort to bring the On-Site and Off-Site programs together and to provide further guidance to the program. The elimination of separate requirements for team members and reviewers, the elimination of an Off-Site unqualified report with a separate paragraph for insignificant departures, and the adding of a required comment letter for off-site reviews all strengthen the quality review programs.

We concur, on the whole, with the specific recommendations and changes; however, we express the following comments for your consideration (underlining denotes suggested specific language changes):

(18) ...A team captain must be associated with or was associated with at the time of the review a firm that has received an unqualified report on its quality control within the previous three years.

Comments: With the moving around that takes place within our profession, it is felt that some consideration be given to a person's previous firm affiliations.

(21-b) A report on an off-site review that is not adverse or qualified for significant departures from professional standards.

Comments: This provision should NOT be added. The type of report this modification is addressing is still regarded as an unqualified report, so this special attention is unnecessary.

Quality Review Executive Committee  
September 10, 1993  
Page two

Comments: (continued)

We commend the committee in recommending the elimination of this type of a report and covering it in a comment letter (see suggested paragraph XX #1 and Appendix G (3) of the exposure draft). We do suggest that one hour be added to time budgets to cover time involved in comment letter preparation.

Thank you for giving us this opportunity.

Sincerely,



Quality Review Committee  
K. Tim Larsen, Chairman