

Peer Review Transparency

- The AICPA's Peer Review Board, Board of Directors and Council have all expressed strong support for increased transparency of peer review results.
- Transparency essentially boils down to making the results of peer reviews more available to interested parties.
- As you know, when the AICPA membership voted to approve mandatory peer review 17 years ago, it came with the expectation that the results of peer review would remain between the reviewer and the reviewed firm.
- While peer review was originally designed as an educational and remedial program with members expecting, and the Institute delivering, confidentiality throughout the process, the regulatory climate has changed.
- Users of peer review have expanded to include regulators and clients, who expect and demand more transparency in all business transactions.
- Since mandatory peer review went into effect in January 1988, tens of thousands of firms have made peer review results available more broadly, through one of three types of situations:
 - By agreeing to join PCPS, SECPS (now CPCAF) or other volunteer sections with a peer review public file requirement.
 - Through a mandate from a state board of accountancy or other regulatory body such as the GAO.

- Or, voluntarily publicizing, promoting and distributing peer review results as part of the firm's marketing and client relations efforts.
- The member awareness initiative, which was launched at the Fall Council meeting, has two primary purposes:
 - *To educate a broad base of members on the issues surrounding the call for greater transparency in the peer review process, and*
 - *To gauge their willingness to take **bold** moves in **formalizing** the shift from a confidential peer review process to a process that includes disclosure in the public interest.*
- A member referendum would not be put forward until members have had the opportunity to consider, discuss and weigh in on whether it is appropriate for us to pursue greater transparency
- Our efforts will center the dialogue around two possible ways to make peer review results more available:
 - Creating a public file for all firms that undergo peer review that would be open to inspection by the general public, possibly through a special section of the AICPA Web site; or
 - Creating a regulatory file for all firms that undergo peer review that would be directly open to inspection only by state boards of accountancy.
- Two points of clarification on the regulatory file:
 - First, members should recognize that because of the provisions of the Freedom of Information Act and

individual state law, information provided to state regulators may in some cases be made available to the general public upon request.

- Second, the documents included in those files will most likely include the peer review report, the acceptance letter and if applicable the letter of comment and the firm's response to the letter of comment. It would not include work papers or any other documents that the Peer Review Board does not approve for inclusion.
- The education campaign is expected to continue into the first part of 2005, with the expectation that Council will be able to evaluate member feedback at that time.
- As we go forward with this dialog, I am often asked why are we doing this – pushing for peer review transparency – now.
- When I answer, I certainly reiterate the facts I mentioned earlier about the changing marketplace and regulatory environments and how peer review results for tens of thousands of firms are already being made available beyond the firm and the peer reviewer.
- But more importantly, I like to tie back this effort to the core values of our profession -- our strongly held beliefs in integrity, objectivity and competence.
- The question we are now considering is - Can we be transparent when it comes to our own internal processes for ensuring quality
- Greater transparency of peer review results would also reaffirm that we are a profession that does not tolerate those who break

the rules, since it would allow regulators, potential clients and the public to become aware of those who fail to comply with the rules or have practice quality issues.

- As a great profession, we have on many occasions demonstrated a willingness to raise the bar on ourselves. The question for the profession is, can we remain and grow as a great profession - and one that controls its own destiny - without greater peer review transparency?