2011 Special Session For Peer Review Committee Members

Frank Boutillette, CPA
Gary Freundlich, CPA
Daniel J. Hevia, CPA

Frank R. Boutillette, CPA/ABV, Partner

Frank is a partner with WithumSmith+Brown, PC in New Brunswick, NJ. He has over 25 years of accounting and auditing experience. He is a licensed certified public accountant in the states of New York and New Jersey and specializes in accounting and auditing and business valuation services. Frank is the practice leader of WS+B’s Financial Services & Investment Group and has a great deal of experience working with investment companies (hedge funds and mutual funds), broker-dealers, private equity companies, registered investment advisors, closely-held businesses and construction companies. He also performs peer reviews of CPA firms.

Frank is a frequent lecturer on accounting and auditing topics to professional and business groups. He has been quoted in several publications and is the coauthor of three books on accounting. Frank resides in Monmouth County, NJ.

Gary Freundlich, CPA

Gary Freundlich is the Technical Director of the American Institute of Certified Public Accountants (AICPA) Peer Review Program (Program).

Gary has been primarily responsible for the overall work of the AICPA Peer Review Board (Board) and the National Peer Review Committee, fostering a modern peer review program, promoting self-regulation and championing global peer review.

Over the past 20 years, Gary’s responsibilities have included the day-to-day operations of the Program, supervising the approximately 20+ staff providing consultation on peer review matters and performing oversight on the peer review activities of the 42 state CPA societies and other entities administering the Program. He has also been responsible for the work performed by the Board which includes the standard setting process, preparing guidance for the administration of the Program, and preparing the materials for use by peer reviewers in the conduct of their reviews. Gary has also been a speaker at many AICPA Peer Review Conferences and has authored several peer review related articles.

Prior to joining AICPA Practice Monitoring in 1991, Gary was with PricewaterhouseCooper’s (Coopers & Lybrand’s) accounting and auditing practice in New York.

A native of Syracuse, New York, Gary attended the University of Florida and Queens College of the City University of New York where he graduated with Bachelor’s Degrees in Accounting & Information Systems and Economics. Gary now resides in Pittsboro, North Carolina, works out of the AICPA’s Durham office and is an avid fisherman.
Daniel J. Hevia, CPA

Dan is a shareholder of Gregory, Sharer & Stuart. He has developed a broad base of closely-held businesses and individual clientele in a wide range of industries including insurance, healthcare, professional employer organizations, not-for-profit organizations and employee benefit plans. Dan has also developed an extensive Peer Review practice, conducting over 500 peer reviews of other CPA firms over the past 25 years. In addition, he has served for over 25 years as an Investigating Officer and Expert Witness for the Florida Department of Business and Professional Regulation – Division of Certified Public Accountants.

Dan is the current Chair of the AICPA Peer Review Board. He is also a current member of both the Board of Governors and Audit Committee for the Florida Institute of Certified Public Accountants, and past chair of the Peer Review Committee and State Legislative Policy Committee.

Dan is a past chairman and current board member of the audit committee of the Boys & Girls Clubs of Tampa Bay, Inc. He is a past chairman of the Board of Youth Homes of Florida, Inc. and past member of the Hillsborough County Legislative Delegation’s Performance Audit Review Committee.

Dan received a Bachelor of Arts in Accounting from the University of South Florida in 1971 and is a licensed CPA in Florida and New York.

Objectives of Session

- Teach and inform committee members
- Confirm existing knowledge
- Promote interaction and discussion
- Promote consistency in the PRP

Topics of Discussion

- Committee/RAB Member Qualifications
- National RAB Consultants
- Committee/RAB Responsibilities
- Oversight
- Monitoring Peer Reviews
- Evaluating Peer Review Documents
- RAB Acceptance Process
- Engagements Not Performed/Reported in Conformity with Applicable Professional Standards
Topics of Discussion

- Corrective Actions and Implementation Plans
- Proposed Revisions to FFC/IP Guidance
- Waiving Corrective Actions and Implementation Plans
- Reviewer Performance
- Proposed Reviewer Performance Guidance
- New Team and Review Captain Training Options
- Peer Review Mentoring

Committee/RAB Member Qualifications

- A majority of the peer review committee members and the chairperson charged with the overall responsibility for administering the program at the administering entity should possess the qualifications required of a System Review team captain.
- A majority of the report acceptance body members and the chairperson charged with the responsibility for acceptance of System Reviews should possess the qualifications required of a System Review team captain.

Committee/RAB Member Qualifications

- When considering team captain qualifications, limitations and restrictions that disqualify someone as a peer reviewer should also be taken into account as it would also impact the person's ability to serve on a RAB or committee.
- Each RAB member should meet additional qualifications (even if not team captain qualified)
  - Currently active in public practice
  - Most recent report for all associated firms rating is Pass/Unmodified
  - Trained in the standards, interpretations, and guidance of the program
RAB Qualifications

- At least one member of the RAB considering a peer review that includes a must-select, must have current experience in such engagements
  - Government Auditing Standards (GAS/ Yellow Book) including to OMB Circular A-133 (Single Audits),
  - ERISA
  - FDICIA: total assets > $500 million
  - Audits of carrying broker-dealers (recent change in 2011)

National RAB Consultants

- National RAB Consultant Qualifications for RAB participation
  - a. Currently active
    - Current experience for GAS, ERISA, FDICIA, or carrying broker-dealer engagements
  - b. Pass/unmodified report for associated firm(s)
  - c. Not associated with non-conforming engagement
- Does not have to meet all RAB qualifications
- Does not have to physically participate in RAB meeting
- Administering entity determines need during RAB scheduling
- National RAB list available to Administrators
- State society Exec Director or PRC chair should reach out
- Contact AICPA PRP Staff if interested in National RAB list

Committee Responsibilities

- Ensure consistent application of the Standards and guidance
- Develop policies and procedures at the administering entity related to peer review (i.e. oversight)
- Act on requests for changes in timing or year ends of peer reviews
- Monitor overdue peer reviews, corrective actions, and implementation plans
- Refer instances of noncooperation and disagreements to the Peer Review board
- Establish fair procedures for reviewers
- Evaluate technical reviewers on an annual basis
RAB Responsibilities

- Ensure that all firms within its jurisdiction have timely peer reviews

- Timely presentation of reviews to the RAB
  - 120 Days of receipt
  - Or 60 Days for Engagement Reviews meeting criteria

- Consider whether the review has been performed in accordance with these standards, interpretations, and related guidance materials

- Ensure adequate completion of corrective actions and implementation plans, including those that are overdue

Oversight

Administering Entities’ Oversight

- Chapter 2 Oversight Handbook
- At a minimum, a committee member, a subcommittee of the administering entity’s peer review committee, or another individual or team should perform the administrative oversight in those years when there is no board oversight.
- AEs are required to submit their oversight policies and procedures, along with the results of their oversight processes, to the board on an annual basis as part of their plan of administration

Emphasis Areas for AE Administrative Oversights

- Retain peer review working papers within policy
- Review the AICPA working paper oversight comments
- Monitor status of pending follow-up actions appropriately
- Follow up on old reviews
  - Review at least quarterly to determine the actions to be taken in order to close out old reviews, including those with corrective or monitoring actions
- Send letters/correspondence appropriately
  - Poor reviewer performance (feedback forms signed by PRC member)
  - Delinquent peer reviews
  - Overdue notices for implementation plans and corrective actions
Administering Entity Annual Oversight Reports

- Goal: Increase transparency of the program
- Includes statistical information—minimum 1 year, maximum 3 years
- Covers calendar year; due December 31 each year with Plan of Administration
- Reviewed and approved by AE’s PRC
- Should be placed on the administering entity’s website (after acceptance by the AE’s PRC)

Administering Entity Annual Oversight Reports

- Recommendations to include in report:
  - Description of AE’s oversight process
  - Procedures performed with respect to reviewed firms and peer reviewers
  - General results of its oversight program for the year
  - Number and type of reviews conducted
  - Summary of engagements that were not performed in accordance with professional standards
  - Actions required to be taken by reviewed firms
  - Statistical information—minimum 1 year, maximum 3 years

Monitoring Peer Reviews

- Fair Procedures for Reviewed Firms
  - Closely monitor open follow up actions
  - Consultations and Disagreements (Ch. 7 RAB Handbook)

- AICPA Hearing Process for Reviewed Firms
  - Administrator submits supporting documents to AICPA
  - Pre-notice of hearing (30 days)
  - Hearing notice (30 days)
  - Hearing panel (30 days)
  - Joint Trial Board for appeals
Monitoring Peer Reviews

- Monitoring Reports from the Administrator
  - Scheduling Status Report
  - Reviewer Assignment Report
  - Committee Follow Up Report

Evaluating Peer Review Documents

- System Review Risk Assessments
  - Considerations of QCM

- Engagement Selection
  - Considerations of reasonable cross section

- Severe non-compliance with recently issued professional standards

- Evaluation and elevation of matters, findings, and deficiencies

- Sufficient identification of systemic cause in System Reviews

RAB Acceptance Process

- Deferred - RAB needs additional information
- Delayed - Reviewer or firm needs to make slight modifications
- If deferred or delayed, review is not accepted yet

- A-133 Acceptance process (effective since 6/1/10)
  - Submission of Engagement Profile and Part A of Single Audit Checklist to AE for evaluation during RAB Acceptance
  - Technical Reviewer’s Checklist Attachment 3 to evaluate Engagement Profile and Part A
Peer Review Program

RAB Acceptance Process

- Common Errors on the Single Audit/A-133 Major Program Determination Worksheet
  - Improperly clustered programs, same CFDA #'s not consolidated
  - Direct State funds or local funds
  - Last year audited as major should be a YEAR, not Yes/No
  - Math errors
  - Non-existent CFDA #'s and programs
    - Ex: School district audits - CFDA #10.550 School Food Commodities Program no longer exists separately (since 2009); should be included in Child Nutrition Cluster

Engagements Not Performed/Reported in Conformity with Applicable Professional Standards

- AU section 561 Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report
- AU section 390, Consideration of Omitted Procedures After the Report Date
- SSARS No. 19, Compilation and Review Engagements
  - Do not instruct firms to recall/re-issue reports
  (Reference Source: Standard par. 67 and .109 and Interpretation No. 67-1)

Corrective Actions and Implementation Plans

- Should be in accordance with guidance - “suggested actions”
  - RAB Handbook Chapter 4 - System Reviews
  - RAB Handbook Chapter 5 - Engagement Reviews
  - Due as soon as reasonably possible
- Customize actions (within the guidance) to fit a situation
- Issue Extended/Continuation follow up action letters when necessary
Example of Detailed Corrective Action

- Agrees to arrange for an outside party agreeable to the committee and at the firm’s expense, to perform a pre-issuance review of the firm’s next audit of an entity subject to OMB A-133.
- Within thirty days of completing the review as described above and by no later than October 31, 2011, the outside party should submit to committee for its review a report describing: (1) findings on the audit reviewed (2) his/her conclusions and recommendations to the committee.

Examples of Detailed Implementation Plans

- Ensure that all professional staff in your firm who work on accounting and auditing engagements participate in at least 8 hours of continuing professional education in Audit Planning and Risk Assessment by August 31, 2011. Please send a letter to the Committee detailing the courses taken by each individual, along with proof of attendance at the courses.
- Submit evidence of proper firm licensure for the CPA firm. This should be submitted to the Committee by August 31, 2011.

Corrective Actions and Implementation Plans

- Corrective Actions
  - Deficiencies in Report
  - May have 3rd party involvement
  - Review “accepted” when firm signs acceptance letter agreeing to action; Review “completed” when firm complies with action
  - Non-cooperation can lead to reviewed firm termination

- Implementation Plans
  - Findings on FFC Forms
  - No 3rd party involvement
  - No impact on acceptance or completion of peer review
  - Non-cooperation can lead to reviewed firm termination
Appropriateness of Implementation Plans

- Implementation Plans are not required for every FFC with repeat findings.
- Consider requesting a revised FFC form (reviewer recommendation or firm response).
- Implementation Plan Task Force

Proposed Revisions to FFC Forms and Implementation Plans (IPs) Guidance

- Current Implementation Plan guidance clarifications
  - IPs should not be used to correct a finding communicated on FFC that should be a deficiency in the report.
  - IPs should not be used as a 4th level of reporting.
  - RABs should consider the severity of the IP they believe is necessary and determine whether the finding should be a deficiency instead.
  - If not a deficiency, the reviewed firm’s response should be considered in determining whether the firm can address the finding on their own or whether RAB involvement is needed.

Proposed Revised Guidance for FFC Forms

- Proposed Revised Guidance for FFC Forms
  - Reviewed firm’s responses should be comprehensive, genuine, and feasible. FFC should be returned if it’s not.
  - Guidance and the FFC form will be revised to require the following information:
    - Check the box Yes or No – does the firm agree with the finding and will implement the reviewer’s recommendation?
    - The reviewed firm should document:
      - How they intend to implement the reviewer’s recommendation (or alternative plan if the firm does not agree with the recommendation)
      - The person(s) responsible for the implementation
      - The timing of the implementation
      - If applicable, additional procedures to ensure the finding is not repeated in the future
Proposed Revised Guidance for Implementation Plans – Engagement Reviews

<table>
<thead>
<tr>
<th>Finding</th>
<th>Suggested plan(s) to be performed as soon as possible</th>
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<tbody>
<tr>
<td>Repeat findings</td>
<td>• Require members of the firm to take specified types and amounts of CPE</td>
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<tr>
<td></td>
<td>• Require firm to submit monitoring or inspection report</td>
</tr>
<tr>
<td>Failure to possess applicable firm license(s)</td>
<td>• Submit proof of valid firm license(s)</td>
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Proposed Revised Guidance for Implementation Plans – System Reviews

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<tr>
<th>Finding</th>
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<tbody>
<tr>
<td>Engagements not performed or reported on in accordance with professional standards in all material respects</td>
<td>• Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance or post-issuance reviews of certain types or portions of engagements focusing on the areas identified in the finding</td>
</tr>
<tr>
<td>• Initial or repeat finding on must-select industry</td>
<td>• Require the firm to hire and submit the firm’s internal monitoring or inspection report to an outside party acceptable to the RAB</td>
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<tr>
<td>• Repeat finding on other industries</td>
<td>• Require members of the firm to take specified types and amounts of CPE</td>
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<tr>
<td></td>
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Replacement/Waiver Guidance

- RAB Handbook Chapter 6 - Enhanced in 2010
- Committee should first consider replacing a corrective action/implementation plan before waiving
- Each corrective action and segment of implementation plan should be separately considered
- Late completion of an action is not a reason to waive
- Don’t close a review because next review is pending
Waiving Corrective Actions/Implementation Plans

Examples where it is appropriate to waive an action/plan:

- The firm represents it is no longer performing the types of engagements that were the source of the deficiencies and the underlying systemic cause did not extend to other aspects of the firm's practice.
- The firm has given up its auditing and accounting practice and represents it has no plans to perform audit/accounting engagements in the future.
- A partner leaves the firm and that partner was the sole source of the engagement/systemic deficiencies.
- The firm has been sold and is no longer practicing and not licensed to practice.

Reviewer Performance

- Reviewers must be treated fairly
- Feedback should be constructive and educational
- Reviewer Feedback Form must be signed by a peer review committee member
- Ordinarily, reviewer performance deficiencies should be initially documented as reviewer feedback
- Committee must establish process for monitoring feedback forms for patterns
- Reviewers that are deemed as not cooperating with the committee and/or board may have their ability to perform peer reviews suspended, restricted, or limited based on the completion of some action(s), as determined by the committee and/or board.

Dealing with Problem Reviewers

- Objectively evaluate, assess, and monitor reviewer performance
  - More reliance on the program by regulators
  - Firms suffer when reviewer does not fulfill all reviewer responsibilities
  - Feedback ➔ DL #1 ➔ DL #2 ➔ DL #3
- Example scenarios:
  1) Reviewer is habitually late submitting peer review documents
  2) Reviewer continually chooses minimum engagement selection in a System Review and does not provide sufficient cross-section
  3) Reviewer does not properly evaluate/document underlying cause, matters, findings, or deficiencies
Proposed Reviewer Performance Guidance

- RAB Handbook Chapter 8
- Administrative procedures will be streamlined
- Applies to team captain, review captain, team member, QCM reviewer, technical reviewer, and committee or RAB member
- Overview of proposed changes:
  - Fair procedures under various scenarios
  - Committee considerations for reviews in various stages
  - Allows reviewers an appeal process in every facet
  - Peer Review Board Rules of Procedures for Reviewers

Proposed Reviewer Performance Guidance

- Failing to meet and maintain reviewer qualifications
  - Ineligible to schedule or perform reviews in any jurisdiction
- Failing to Perform in a Timely and Professional Manner
  - Includes failing to submit peer review workpapers, respond/resolve technical reviewer/RAB questions, revisions
  - AE can suspend reviewer in states administered by that AE
  - Pervasive suspensions may lead to national suspension
  - Peer Review Board Rules of Procedures
  - Committee considerations for reviews in different stages

Proposed Reviewer Performance Guidance

- Pattern of poor performance, serious weakness, multiple suspensions, and egregious performance matters
  - Reviewer feedback
  - Performance Monitoring Letter
  - Performance Deficiency Letter
  - Egregious performance defined and dealt with on a case by case basis
New Team and Review Captain Training Options

- New training options available in 2012
  - Restructured “How To” course: Day 1=Theory, Day 2=Practical Application
  - Practical application – Mentoring option: Significant performance on a System Review mentored by qualified/approved team captain

- Proposed training options available in 2013
  - Self-study + test option for Theory portion of How To course
  - Competency testing option for Theory portion of How To course
  - Separate Engagement Review course
  - Continuing Ed: 2 hour webcasts (cumulative 8 hrs over 3 yrs)

Peer Review Mentoring - New Team Captain Qualifications Option

- Benefits: Improved quality, succession planning, reviewer pool
- Approval of mentors begins in Fall 2011 for 2012
- Mentor and new team captain approved by AICPA Peer Review Program Staff

Mentor Qualifications
- Team captain qualified in good standing
- Past performance
- Other Considerations:
  - Number and level of involvement on peer reviews performed as team captain in past 3 years
  - Feedback/recommendation from administering entities

Peer Review Mentoring - New Team Captain Qualifications Option

- Mentor Responsibilities
  - Submit application to become a mentor
  - “Opt in” consent for publication of name on peer review website if approved as mentor
  - Mentor role:
    - Team member acts in the role of a team captain in-training (minimum 1 System Review)
    - Mentor verifies that team member performed tasks outlined on Team Member Participation Checklist
    - Mentor provides an overall assessment
    - Team Member Participation Checklist goes to the RAB considering the related peer review
    - RAB provides AICPA Staff with any relevant comments about review or team member’s performance
Questions, Comments, Suggestions?