AICPA Enhancing Audit Quality Initiative

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Highlights and Progress 2016 ➤

AICPA®

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Auditing Profession Takes Key Steps Toward Enhancing Audit Quality

Auditing is the cornerstone of the CPA profession and a valuable service to financial statement users of businesses, not-for-profits, governments and employee benefit plans. Given the public's and business decision-makers' reliance on audited financial statements, CPAs must perform audits in the highest-quality manner.

As part of our Enhancing Audit Quality initiative, launched in 2014, we implemented several programs that promote audit quality and demonstrate the profession's ongoing commitment to quality improvement. Overall, these initiatives are designed to provide auditors and audit engagement teams with resources and tools to maintain and enhance their competencies, as well as promote high-quality work. A sound audit does not occur by chance. It results from diligent planning, competent performance and meaningful reporting.

The *AICPA Enhancing Audit Quality Initiative, Highlights and Progress 2016* describes our progress since issuing the *6-Point Plan to Improve Audits* in May 2015. The 6-Point Plan is a road map for the profession's continued journey to audit excellence in an ever-changing and increasingly complex business environment.

Looking at the progress we've made, I'm especially excited about what the profession can accomplish with newly implemented initiatives. For example:

➤ New quality-control tools, resources and training help firms establish and maintain effective quality-control systems.

➤ Enhancements to the Peer Review Program better identify practice issues and require more targeted and timely remediation.

➤ New industry-specific training programs focus on competency development — that is, applying knowledge and skills — and related certificate programs help highly competent auditors distinguish themselves in the marketplace.

While we've achieved a great deal in this first year, there's still much more to do. Ultimately, audit quality results from a profession-wide dedication to continuous improvement and evolution. The profession has taken significant steps to keep pace with the expectations and demands to protect the public. I thank all of the firms and individuals who have participated in this effort for their tireless and ongoing contributions. I am proud to be part of a profession that puts quality first.

Sincerely,

Susan S. Coffey, CPA, CGMA
AICPA Executive Vice President — Public Practice

OVERVIEW

The AICPA supports audit quality by attracting highly qualified individuals to enter the profession; developing a comprehensive examination for licensure; establishing auditing standards for private entities;[1] supporting firms with educational guidance, tools, resources and implementation materials; monitoring the quality of performance while requiring appropriate remedial action where needed; and establishing and enforcing the AICPA Code of Professional Conduct.

In 2014, in light of the increasingly complex business environment, the AICPA initiated a comprehensive effort to consider auditing of private entities through multiple touch points, particularly where quality issues have emerged. The goal was to align the objectives of all AICPA audit-related efforts to enhance audit performance. The AICPA shared its ideas and plans in a discussion paper released in August 2014 and issued its *6-Point Plan to Improve Audits* in May 2015 (aicpa.org/auditquality).

The 6-Point Plan (see figure 1) is a road map of current and future activities designed to enhance audit quality profession-wide at every step by:

➤ Attracting the best and brightest to the profession and preparing them for a career in auditing

➤ Developing and maintaining a robust CPA Exam that reflects the realities of real-world practice and assesses the knowledge and skills needed by newly licensed CPAs

➤ Developing, updating and communicating comprehensive standards to support quality performance

➤ Providing guidance and training to support competency

➤ Evolving the Peer Review Program to more effectively monitor practice, including detecting deficiencies and remediating firms, when necessary

➤ Conducting an enforcement program that is robust and meaningful when quality issues persist

Highlighted below are some of the key accomplishments under each component of the 6-Point Plan.

Point 1: Pre-licensure — To encourage students to pursue CPA licensure, continuous engagement occurs across the pipeline. The pipeline is a coordinated and continuous process with established touch points along the way so that students have regular and consistent interaction as they move from high school to accounting major to exam candidate. The AICPA recognizes that evolving the CPA Exam provides another opportunity to enhance audit quality in the pre-licensure phase. The next version of the CPA Exam, scheduled to launch in April 2017, will increase focus on higher-order skills, such as critical thinking, problem-solving and analytical ability. Specifically, the Audit and Attestation (AUD) section of the exam will expand testing to the analysis and evaluation levels, using more simulations that allow a candidate to demonstrate competence in recognizing issues, identifying errors, challenging assumptions and applying both professional judgment and skepticism.

Point 2: Standards and Ethics — The Auditing Standards Board (ASB) continues to monitor the implementation of the Clarified Statements on Auditing Standards and is working to improve the communicative value and relevance of the auditor's report through proposed revisions to generally accepted auditing standards. The new Assurance Research Advisory Group (ARAG) was formed to drive practice-oriented assurance research to inform the standard-setting process.

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[1] For the purposes of this paper, "private entities" refers to all non-SEC registrants, including but not limited to not-for-profit organizations, employee benefit plans and governmental entities.

Figure 1:
6-Point Plan to
Improve Audit Quality

The EAQ initiative starts with a renewed commitment to quality — and the CPA profession's foundational principle of public protection.

Point 3: CPA Learning and Support — The [AICPA | CIMA Competency and Learning Website](#) provides a means for auditors to assess and improve their knowledge and competencies in various subject matter areas, including employee benefit plan audits (EBP); governmental audits; information technology assurance; not-for-profit; financial accounting and reporting; and other assurance. Competency-based learning programs specific to EBP and single audit engagements include intermediate and advanced offerings that allow proficient practitioners to distinguish themselves in the marketplace through a certificate provided as a digital badge. These efforts underscore the AICPA's commitment to professional competency development by transitioning CPAs from a compliance- to a competency-based professional development model. New tools, resources and courses have been developed to support practitioners as they implement Statements on Quality Control Standards (SQCS). AICPA

Governmental and Employee Benefit Plan audit quality centers and the [Center for Plain English Accounting](#) have continued to make major contributions driving quality improvements.

Point 4: Peer Review — The AICPA has instituted reforms directed at enhancing the accountability of enrolled firms and their peer reviewers.

➤ The Enhanced Oversight Program, piloted in 2014 and expanded in 2015–16, has identified where peer review can be strengthened, and informed the Peer Review Program of changes, particularly regarding issue detection and remediation. In 2016, the number of engagements subject to enhanced oversight doubled and root cause analysis was added to the process.

➤ Reviewers are looking more deeply at certain industries and high-risk areas identified by the Peer Review Board (PRB), including EBP audits and single audits.

➤ New procedures instituted in January 2015 expedite removal from the Peer Review Program of poor performing firms that fail to remediate.

➤ New peer reviewer training requirements now in place facilitate detection and remediation of deficiencies by reviewers.

➤ A new data-matching program instituted in 2016 to increase the likelihood that all firms that should be enrolled in peer review are enrolled and that all engagements that should be subject to review are included in the scope of peer review.

➤ The Office of Management and Budget (OMB) Uniform Guidance for Federal Awards (which replaces OMB Circular A-133) requires a quality study every six years covering single audits that the Federal Audit Clearinghouse submits. The first study will occur in 2019 or 2020, as determined by OMB (on single audits submitted to the Federal Audit Clearinghouse no earlier than 2018). The AICPA is helping firms prepare for these quality reviews through outreach to raise awareness of the Uniform Guidance and educating firms on identifying and addressing quality issues.

Point 5: Practice Monitoring of the Future — Response to the purposely provocative concept paper on transforming peer review into a near real-time practice monitoring process was robust, with more than 70 responses received before the comment period ended June 15, 2015. Responses recognized that peer review needs to evolve while expressing concern about what that evolution may entail. Those responses, together with the pilot of a self-monitoring tool for firms' internal use, will help inform next steps for the initiative.

Point 6: Enforcement — The AICPA Professional Ethics Division is collaborating with the National Association of State Boards of Accountancy (NASBA) and the U.S. Department of Labor (DOL) on an initiative that allows the AICPA Ethics Division and U.S. Department of Labor to share investigative files with state boards of accountancy. Additionally, the Ethics Division is mining publicly available databases to identify potential issues for outreach to firms.

BACKGROUND

The CPA profession has always been committed to achieving the highest level of audit quality. The AICPA supports this commitment by establishing a robust CPA Examination, auditing standards for private entities and a practice monitoring program for firms that perform accounting and auditing engagements. The AICPA also supports audit quality through the development of authoritative guidance, educational resources, implementation tools and materials. These initiatives are the central foundation of the profession's public interest mission, and the AICPA continuously monitors and evaluates their effectiveness to promote continuous improvement.

In the increasingly complex business environment, audit quality has become an area of focus needing continual assessment and improvement.

Accordingly, the AICPA initiated a comprehensive effort to consider auditing of private entities through multiple touch points, particularly where

quality issues have emerged, with the goal of aligning the objectives of all AICPA audit-related efforts to enhance audit performance. The AICPA shared its ideas and plans in a discussion paper released in August 2014 and issued its *6-Point Plan to Improve Audits* in May of 2015 (see Figure 1).

PRE-LICENSURE: LAYING THE FOUNDATION

❯ **Powering the CPA Pipeline**

❯ **CPA Exam**

❯ **Accounting Doctoral Scholars Program 2.0**

POWERING THE CPA PIPELINE

To encourage students to pursue CPA licensure, continuous engagement occurs across the pipeline (see figure 2). The pipeline is a coordinated and continuous process with established touch points all along the way so that students have regular and consistent interaction as they move from high school to accounting major to exam candidate. The AICPA is also working with its state society partners to significantly increase the reach of the Accounting Pilot Bridge Program, which introduces high school students to both financial and managerial accounting and raises their awareness of accounting as a career option. Moreover, on a university level, the AICPA is developing many initiatives that focus on building relationships with professors, as they are tremendous influencers of students.

CPA EXAM

Developing competent auditors requires testing the knowledge and skills that are most relevant in practice. Due to increasing complexity in business and continual advances in technology, newly licensed CPAs are being asked to perform more advanced audit procedures earlier in their careers compared to previous generations.

After extensive research and outreach to firms and other stakeholders, the AICPA's CPA Examinations team released an exposure draft in September 2015 calling for enhanced testing of higher-order cognitive skills, incorporating

After extensive research and outreach to firms and other stakeholders, the AICPA's CPA Examinations team released an exposure draft in September 2015 calling for enhanced testing of higher-order cognitive skills incorporating critical thinking, problem-solving, analytical ability and professional skepticism.
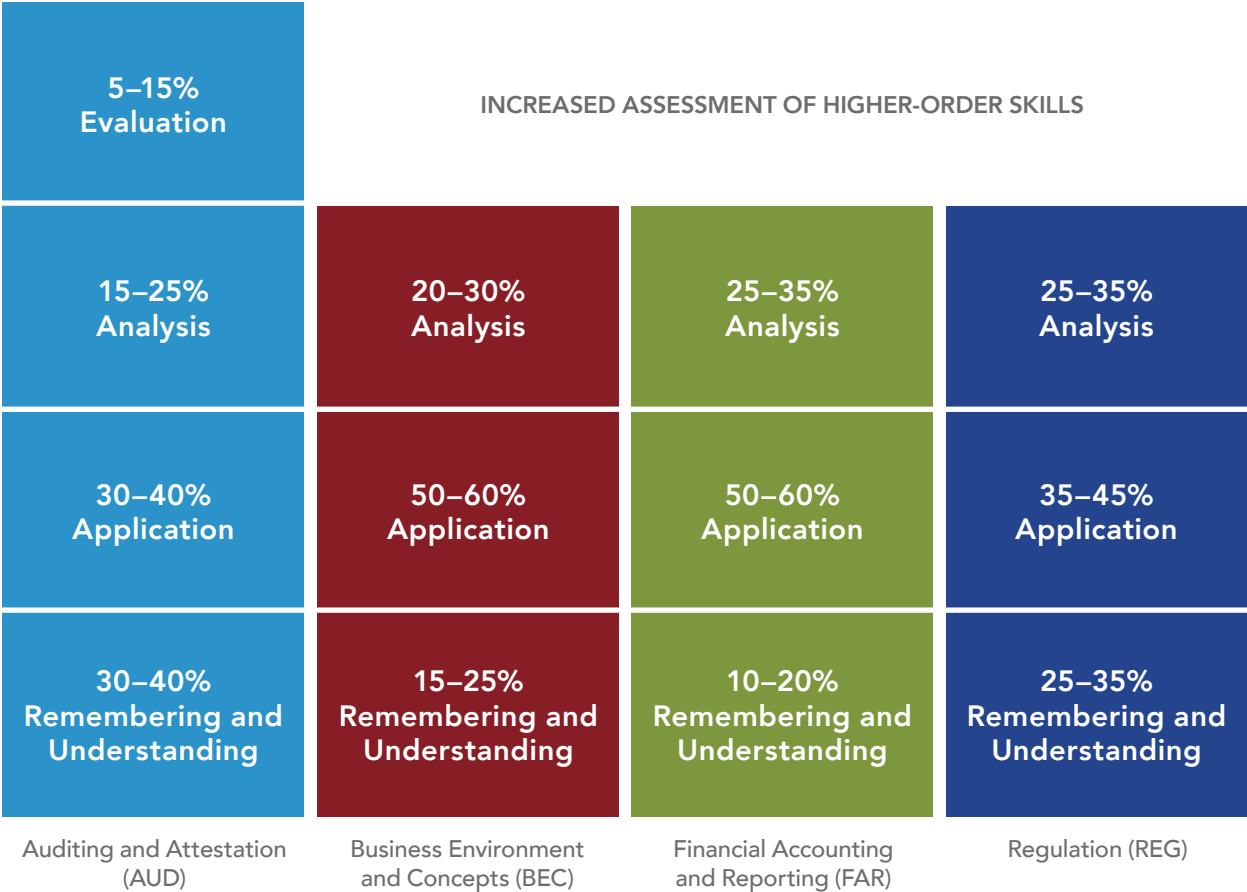
critical thinking, problem-solving, analytical ability and professional skepticism. After considering the comments received, the AICPA is implementing that vision, and the next version of the Exam will be offered beginning in April 2017 (see Figure 3).

Figure 2: Powering the CPA Pipeline

HIGH SCHOOL

▶ **NAF Academy of Finance**

AICPA accounting recognition with state society co-branding available

25,706 students

97% graduation rate

Pilot in four states in 2016 (MD, NC, NY and FL)

UNIVERSITY

▶ **State Society Pilot Program**

Co-membership opportunities to identify and support accounting students

Targeted seven state society partners in pilot

Launched in January 2016

▶ **AICPA Fellowship for Minority Doctoral Students**

Since 1969

Over 130 minority doctoral fellowship recipients

25 fellows for 2016–17 receiving $12,000 each

▶ **Accounting Doctoral Scholars Program**

$17 million in funding — firms, state societies and others

108 additional Ph.D. candidates funded

ADS 2.0 launched in August 2016

▶ **AICPA Legacy Scholarships**

46% increase in scholarship funding

106 recipients

Recipients required to promote CPA on campus

AICPA-commissioned researchers talked to faculty from 50 universities to understand how they improved the CPA Exam sit-and-pass rate on their campuses.

▶ **Community College Programs**

Focusing on new programs and initiatives to drive greater awareness

Tripled number and amount of two-year accounting scholarships

▶ **Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits**

Published since 1971

Expanding to include business and industry hiring trends in 2017

Record levels of enrollment and hiring

CPA CANDIDATES

▶ **CPA Exam: Easy to Test, Not an Easier Test**

Next version of the Exam launches in April 2017

Enhanced focus on testing higher-order skills

Total testing time increases from 14 to 16 hours

Each quarter of testing extended by 10 days

3.4% increase in first-time test takers in 2015 over 2014

YOUNG CPAs

Figure 3: Skill Allocation for Next CPA Exam

5–15% **Evaluation**	INCREASED ASSESSMENT OF HIGHER-ORDER SKILLS		
15–25% **Analysis**	**20–30%** **Analysis**	**25–35%** **Analysis**	**25–35%** **Analysis**
30–40% **Application**	**50–60%** **Application**	**50–60%** **Application**	**35–45%** **Application**
30–40% **Remembering and** **Understanding**	**15–25%** **Remembering and** **Understanding**	**10–20%** **Remembering and** **Understanding**	**25–35%** **Remembering and** **Understanding**
Auditing and Attestation (AUD)	Business Environment and Concepts (BEC)	Financial Accounting and Reporting (FAR)	Regulation (REG)

ACCOUNTING DOCTORAL SCHOLARS PROGRAM 2.0

Audit quality improvement starts with ensuring that today's college students have the competencies to meet the challenges of tomorrow.

With this in mind, the AICPA Foundation and major accounting firms created the Accounting Doctoral Scholars (ADS) Program in 2008. Thanks to funding from 49 state CPA societies, many accounting firms and the AICPA, 108 Ph.D. candidates with CPAs and real-world experience were added to the accounting programs at U.S. colleges and universities. Through their practical experience, the majority of these new accounting faculty members are better equipped to help their students develop into highly competent auditors.

The ADS 2.0 Program will recruit CPAs to enter The Association to Advance Collegiate Schools of Business-accredited doctoral programs concentrating in audit or tax. As with the original ADS Program, eligible candidates must, among other requirements, have three or more years of recent public accounting experience. The new phase of the ADS Program, launched in August 2016, will bring more CPAs to the classroom. With another influx of skilled faculty with practical experience, the future of accounting education will advance to meet the demands of the profession.

STANDARDS AND ETHICS

❯ Auditor Reporting
❯ Assurance Research Advisory Group

> The Assurance Research Advisory Group (ARAG) seeks to drive research on assurance issues most pressing to the profession by soliciting and funding research proposals from academia.

Providing practitioners with the support they need to perform at a high level is a key component of enhanced audit quality. The AICPA helps practitioners by providing them with clearly articulated standards that lead to quality performance. As practitioners implement the clarified auditing standards, the standards are continuously evaluated through analysis of peer review data to determine whether they are properly understood and applied in practice.

AUDITOR REPORTING

In addition to monitoring implementation of the standards, the Auditing Standards Board (ASB) continues to work on improving the communicative value and relevance of the auditor's report. The ASB is exploring potential revisions to the going concern standard and the standard addressing the auditor's responsibility for other information in documents containing audited financial statements.

As part of this project, the ASB is also considering whether quality behavior can be driven by a redesigned EBP auditor's reporting model that better describes the auditor's responsibilities related to the plan's compliance with laws, regulations and certain plan provisions.

ASSURANCE RESEARCH ADVISORY GROUP

To help aid the ASB and other standard setters, and to bridge the gap between academic research and private company assurance practice, the AICPA established the Assurance Research Advisory Group (ARAG). ARAG is a group of practitioners and academics formed in collaboration with the American Accounting Association (AAA). Modeled on the Center for Audit Quality's Research Advisory Board, the group requests, reviews and approves academic research proposals to address private company assurance topics of interest to stakeholders. Approved research proposals are eligible for funding and, where applicable and approved, access to firm personnel and/or firm data the AICPA Peer Review Program gathers. In providing funding and resources, ARAG seeks to:

❯ Drive research about assurance issues that are most pressing to the profession

❯ Provide the AICPA with valuable insights into the factors that affect the quality of assurance services

❯ Use those insights to support the standard-setting process and the broader Enhancing Audit Quality (EAQ) initiative

CPA LEARNING AND SUPPORT

❯ **Education and Resources**
❯ **State Regulatory Training Requirements**
❯ **Statement on Quality Control Standards Tools, Resources and Courses**
❯ **Audit Quality Centers and Center for Plain English Accounting**

The AICPA is transforming its educational offerings to increase competency and to align with the learning demands of today's CPAs.

EDUCATION AND RESOURCES

The AICPA developed targeted education, training and resources to help auditors demonstrate their commitment to audit quality.

For example, the new Single Audit Certificates and Employee Benefit Plan certificate programs were designed to go beyond basic knowledge testing and focus on assessing the CPA's competency to perform an audit in these highly specialized areas (see figure 4). Using the AICPA EBP and Governmental Auditing competency frameworks as a guide, these programs were constructed to provide candidates with the learning resources needed to pass robust exams at the intermediate and advanced levels. This approach will help practitioners demonstrate their competency while distinguishing themselves in the marketplace.

Other efforts include:

▶ Developing an enhanced Audit Staff Essentials curriculum for new staff, designed to focus on competency enhancement through exposure to real-world audit challenges

▶ Launching the AICPA | CIMA Competency and Learning website to help practitioners identify gaps in audit knowledge and assist them in developing their competencies by mapping their needs to relevant learning and resources

▶ Creating new courses for peer reviewers that incorporate knowledge assessments

▶ Developing new and updated courses to address the 2015 and 2016 Peer Review Program areas of focus, including independence, the sufficiency of audit evidence, EBP audits, issuers of municipal securities, single audits and crowdfunding

The EBP and Single Audit certificate programs provide a way for proficient practitioners to demonstrate their competency and commitment to quality and distinguish themselves in the marketplace.

Figure 4: Certificate Programs

EBP AND SINGLE AUDIT CERTIFICATES

- Demonstrate CPAs' commitment to quality
- Intermediate and advanced certificates
- Reflect current regulatory standards
- Flexibility
- CPE credits

STATE REGULATORY TRAINING REQUIREMENTS

The AICPA continues its work with the National Association of State Boards of Accountancy (NASBA), the state boards and state societies of accountancy to determine how best to transition from a compliance- to competency-based continuing professional education model. Additionally, the AICPA is developing and executing programs that focus on competency development instead of credit/time-based traditional CPE offerings.

STATEMENT ON QUALITY CONTROL STANDARDS TOOLS, RESOURCES AND COURSES

In addition to focusing on competency-based continuing education, the AICPA has developed the following tools, resources and courses to support practitioners as they implement Statements on Quality Control Standards:

➤ Model quality-control documents for sole proprietors and small firms that lay out suggested practices and tips from quality-control experts

➤ A free webcast and an in-person seminar on quality control that more than 40 state societies delivered

➤ A free, robust toolkit available online to help firms invigorate the focus on quality in their practice

Continuing these efforts, the AICPA is in the process of developing:

➤ Industry-specific quality-control supplements to address specialized areas, such as single audit and employee benefit plans

➤ An online self-study course on quality controls with video lectures from experts in the field

AUDIT QUALITY CENTERS AND CENTER FOR PLAIN ENGLISH ACCOUNTING

The EBP and Governmental audit quality centers, established 12 years ago, continue to provide valuable resources and tools to help member firms committed to high-quality audits.

> Member firms of the audit quality centers showed a 50% lower non-conformity rate compared to non-members under the Peer Review Board's Enhanced Oversight Program.

These resources and tools, along with member firms' commitment to quality, have resulted in a 50% lower non-conformity rate compared to non-members under the Peer Review Board's Enhanced Oversight Program.

The Governmental AQC has undertaken extensive efforts to assist members with implementing the audit requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance, which supersedes OMB Circular A-133, includes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative requirements for all federal grants and cooperative agreements.

The Employee Benefit Plan Audit Quality Center's Executive Committee is developing a white paper proposing a new EBP information reporting model, which would improve the usefulness of the information and related assurances provided to stakeholders.

The Center for Plain English Accounting serves as a national accounting and auditing resource center for local and regional CPA firms, providing them with reports, webcasts, technical alerts, written responses to inquiries and other resources — all in non-technical language.

PEER REVIEW

- ▶ **Targeted Firm Quality and Accountability**
- ▶ **Enhancing Quality of Peer Reviewers**
- ▶ **Improving Firm and Engagement Tracking**
- ▶ **Single Audit Quality Study Preparation**

Enhancements in peer review, both in the near- and long-term, are at the core of the 6-Point Plan. Those enhancements start with a focus on firm quality and accountability.

TARGETED FIRM QUALITY AND ACCOUNTABILITY

The need for improved quality is evident when considering the results of the Peer Review Board's Enhanced Oversight Program, piloted in 2014. Subject-matter experts (SMEs) evaluated engagements on a surprise basis after the peer reviewer evaluated the engagement, but before the Peer Review Committee evaluated the peer review.

> The need for improved firm quality and accountability is evident when considering the results of the Peer Review Board's Enhanced Oversight Program, piloted in 2014.

The engagements selected for enhanced oversight included a statistically valid sample of "must-select engagements"[2] as well as EBP and single audit and other engagements performed under Government Auditing Standards and Service Organization Control (SOC) report engagements.

The SMEs found that 44% of the engagements reviewed failed to conform to applicable professional standards in all material respects.

To improve compliance with professional standards, starting in 2015, peer reviewers have focused their efforts on the specialized industries and areas of practice where the SMEs noted the most issues, including audits of EBPs and single audits, as well as the sufficiency of audit evidence. Starting in 2017, reviewers will perform an enhanced assessment of each firm's quality-control system using materials developed with help from the Auditing Standards Board and other AICPA committees.

The objective of these efforts is to improve detection of quality challenges so that firms can appropriately remediate. In instances where firms do not remediate as required, the Peer Review Board can quickly terminate firms from the Peer Review Program. Firms that fail to submit their Employer Identification Number (EIN) will be dropped from peer review. Firms dropped from peer review are potentially at risk of not meeting state licensing requirements.

Figure 5: Peer Review

Improved Detection ▶ **More Effective Remediation** ▶ **Quality Enhancement**

[2] In a system review, the peer reviewer must select for review at least one of each type of engagement subject to Government Auditing Standards (GAS), Employee Retirement Income Security Act (ERISA), Federal Deposit Insurance Corporation Improvement Act (FDICIA), carrying broker-dealers or Service Organization Control (SOC) 1 or 2 reports. Additionally, if the firm performs engagements of entities subject to OMB Uniform Guidance, at least one such engagement must also be selected for review.

ENHANCING QUALITY OF PEER REVIEWERS

Requiring increased focus on problem areas will not improve detection of non-compliance unless it is coupled with enhanced peer reviewer quality. This is evidenced by the fact that much of the non-compliance the SMEs identified through the Enhanced Oversight Program was not identified by peer reviewers who looked at those same engagements.
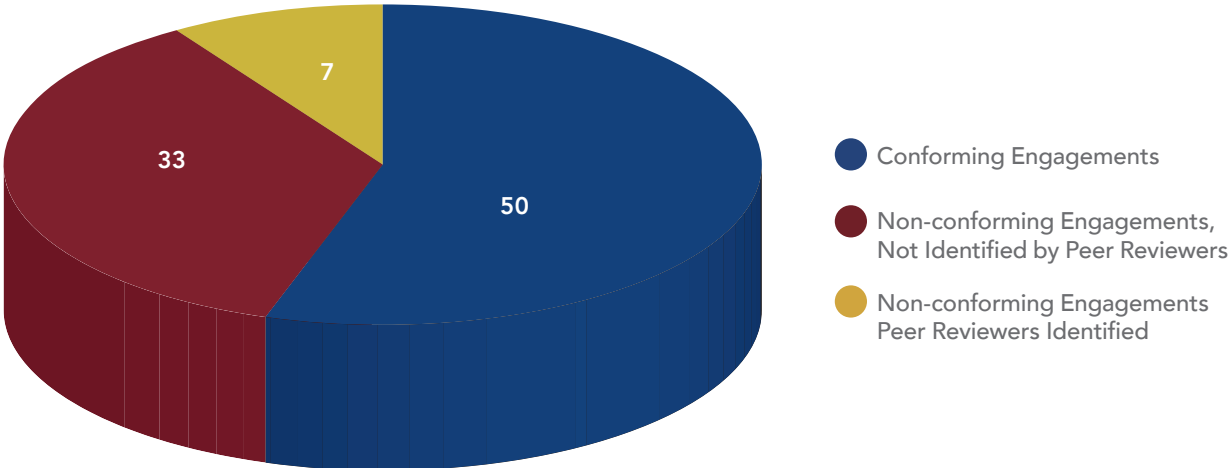
> In its first year, Enhanced Oversight found five times more non-conforming engagements than peer reviewers who reviewed the same engagements; reviewer remediation more than tripled.

To address this challenge, the PRB has instituted new requirements that expedite the process of remediating and removing poor-performing peer reviewers. The PRB has increased the qualifications to review specialized engagements, such as EBP and single audits, and has new training equirements for team captains and reviewers of specialized engagements.

Also, to support peer reviewers who lack the requisite experience in certain specialized engagements, a significant number of highly qualified SMEs have been added to the peer reviewer pool.

Finally, due to the effectiveness of the Enhanced Oversight Program pilot in detecting and addressing instances of non-compliance, the PRB approved it as a permanent component of the Peer Review Program. The number of engagements subject to enhanced oversight increased from 90 engagements to 190 for 2016. Also, starting in 2016, the enhanced oversights now include a root-cause analysis designed to determine which quality-control policies and procedures have the strongest correlation to audit quality. Those findings will be communicated to the profession so that firms can learn from them and incorporate best practices into their systems of quality control.

Figure 6: Oversight Results by Type (Total Number of Engagements: 90)

- Conforming Engagements
- Non-conforming Engagements, Not Identified by Peer Reviewers
- Non-conforming Engagements Peer Reviewers Identified

IMPROVING FIRM AND ENGAGEMENT TRACKING

The Peer Review Program cannot be fully effective unless all firms required to have a peer review enroll in the program. To increase the likelihood that all firms that should be enrolled in peer review are in fact enrolled, and that all engagements that should be subject to review are included in the scope, the AICPA started gathering EINs from all firms enrolled in the program.

Starting in 2016, EINs in the AICPA's peer review database are being compared with other available databases (e.g., U.S. Department of Labor's EFAST2 for EBP audits and the Federal Audit Clearinghouse for single audits) to promote compliance.

> The Uniform Guidance requires a quality study every six years covering single audits submitted to the Federal Audit Clearinghouse. The first study will occur in 2019 or 2020 as determined by OMB (on single audits submitted to the Federal Audit Clearinghouse as early as 2018).

SINGLE AUDIT QUALITY STUDY PREPARATIONS

The new Uniform Guidance requires a quality study every six years covering single audits submitted to the Federal Audit Clearinghouse (FAC). The first study will occur in 2019 or 2020 as determined by OMB (on single audits submitted to the Federal Audit Clearinghouse as early as 2018).

To prepare the profession, the AICPA is:

➤ Studying a statistical sample of single audit engagements through Peer Review's Enhanced Oversight Program to identify firm characteristics that drive quality performance

➤ Undertaking direct outreach via the AICPA's Governmental Audit Quality Center (GAQC) to auditors, auditees and other stakeholders to raise awareness about the requirements of the Uniform Guidance

➤ Developing webcasts, alerts and other resources for GAQC and AICPA members

➤ Mining the Federal Audit Clearinghouse to identify opportunities for outreach to firms and to determine whether firms are properly enrolled in the Peer Review Program.

PRACTICE MONITORING OF THE FUTURE

❯ **Concept Paper**
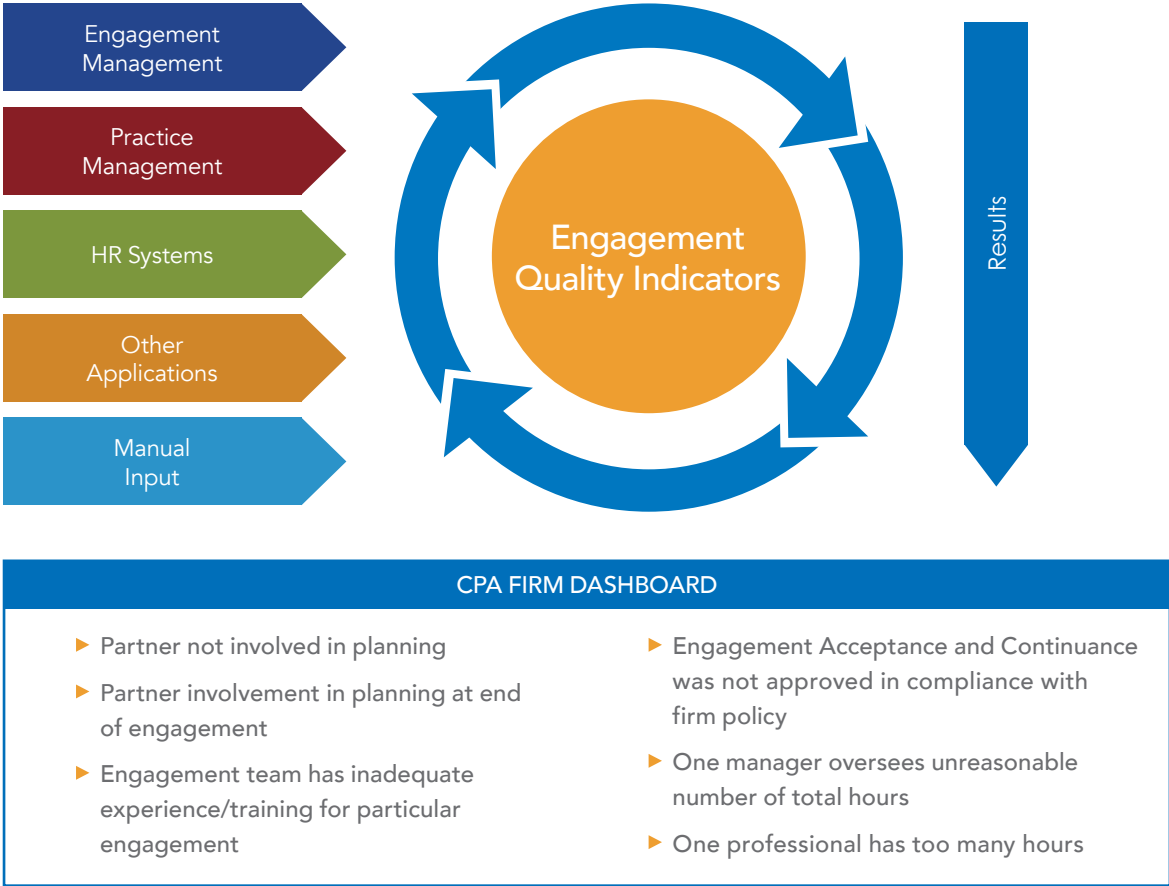
❯ **PMoF Tool Pilot**

CONCEPT PAPER

The AICPA on Dec. 15, 2014, issued a concept paper titled, *Evolving the CPA Profession's Peer Review Program for the Future: A provocative vision of what practice monitoring could become.* The paper paints a picture of how the more than 30-year-old Peer Review Program might be transformed into an ongoing, near real-time practice monitoring process. The response to the paper was robust, with hundreds of comments received before the public comment period ended June 15, 2015.

Overall, the responses represented both recognition that the Peer Review Program needs to evolve and concern about what that evolution may entail. The AICPA is developing a prototype Practice Monitoring of the Future (PMoF) tool for firms to pilot internally in their practice (see Figure 7), and the responses from the concept paper along with the results of the pilot will help inform the next steps for this initiative.

> Overall, the responses represented both recognition that peer review needs to evolve and concern about what that evolution may entail.

Figure 7: Practice Monitoring of the Future (PMoF) Tool Prototype[3]

CPA FIRM DASHBOARD

- ▶ Partner not involved in planning
- ▶ Partner involvement in planning at end of engagement
- ▶ Engagement team has inadequate experience/training for particular engagement

- ▶ Engagement Acceptance and Continuance was not approved in compliance with firm policy
- ▶ One manager oversees unreasonable number of total hours
- ▶ One professional has too many hours

[3] The intent of the tool is to provide firms with an "early warning" of potential problems so they can be investigated and, if necessary, action can be taken to avoid larger problems later.

ENFORCEMENT

> **Information Sharing**

> **Data Mining**

INFORMATION SHARING

The AICPA has collaborated with NASBA to promote an initiative that allows for "cooperative enforcement" with state boards of accountancy. With the CPA's consent, the AICPA's Ethics Division and U.S. Department of Labor can share their respective investigative files with state boards so they can take appropriate action. Additionally, with the CPA's consent, the AICPA Ethics Division can perform investigations on behalf of state boards. As this program is increasingly used, the result should be enhanced efficiency of state board investigations. The program will focus initially on investigations involving employee benefit plan audits but may expand to cover governmental and other audit investigations.

DATA MINING

The AICPA Ethics Division is actively mining publicly available databases to identify instances where individuals are not in compliance with standards. When non-compliance is detected, the Ethics Division notifies the firm in question and provides insights to aid compliance and, where necessary, requires remediation.

CONCLUSION

The AICPA has embraced its stewardship of the auditing profession for 129 years and has dedicated substantial resources to initiatives that help firms continuously improve and conduct quality audits. The AICPA and the profession continue to place the highest priority on audit quality and the CPA's role in protecting the public interest.

As the AICPA continues to expand programs to increase audit quality over the next several years, the AICPA's Enhancing Audit Quality initiative is expected to have an even greater impact on quality within the profession. The Enhancing Audit Quality initiative, through the *6-Point Plan to Improve Audits*, represents a long-term effort involving thousands of firms and audit professionals, dozens of federal and state regulatory agencies and a multitude of other stakeholders.

Looking to the future of the EAQ initiative, the AICPA is exploring how it can be an even greater resource to the profession and further support firms' efforts to maintain audit quality. The AICPA soon will roll out new programs and tools to support firms, including:

➤ Offering the next version of the CPA Exam, starting in April 2017, with increased assessment of higher-order cognitive skills that are key to auditing

➤ Exploring potential revisions to the going concern standard and the standard addressing the auditor's responsibility for other information in documents containing financial statements

➤ Considering changes to the auditor's reporting model, including special considerations for reporting on EBP audits

➤ Developing a new AICPA Audit Data Analytics Guide to update and expand on the existing AICPA Analytical Procedures Guide

➤ Evaluating the effectiveness of new audit approaches using analytics

➤ Offering enhanced Audit Staff Essentials training for experienced staff, senior/in-charge and experienced senior auditors

➤ Collaborating with NASBA and state societies to determine the best way to transition from a compliance-based to competency-based professional development model

➤ Developing and executing pilot programs that focus on competency development instead of traditional CPE offerings

➤ Increasing the number of engagements reviewed through the Peer Review Enhanced Oversight Program and performing root-cause analysis, designed to determine which quality-control policies and procedures have the strongest correlation to audit quality

➤ Developing a self-monitoring tool for firms' voluntary internal use to help them identify potential quality issues before an engagement is completed

CPAs have always been proud of the work they do for businesses and the public, and they enjoy a strong reputation as a result. A constantly evolving and increasingly complex environment has challenged the profession to redouble efforts to perform quality audits. The profession is taking on that challenge with resolve and spirit. Through the Enhancing Audit Quality initiative, the AICPA will continue to provide the guidance, support and tools, as well as continue standards and enforcement activities, that enable the profession to further its journey to audit quality.

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