

## August 2014 Peer Review Update

The August 2014 Peer Review Update contains the Peer Review Alert 14-04 and the August 2014 Reviewer Focus. Click a link below to go directly to the article.

### Peer Review Alert 14-04

- [Peer Review Exposure Draft on new SSARS Services](#)
- [Revision to Peer Review Guidance for Engagement Reviews](#)

### August 2014 Reviewer Focus

- [Replacement Review Considerations When Peer Review Documents are Recalled \(Impact to reviewer independence, consideration of prior FFCs and deficiencies, identification of repeats, consecutive pass with deficiencies or fail reports\)](#)
- [Instructions to search the Department of Labor's EFAST2 website](#)
- [Tool Available to Assist Reviewers in Complying with Enhanced Guidance on Quality Control Materials \(QCM\) Used by a Reviewed Firm](#)
- [AICPA Releases Enhancing Audit Quality \(EAQ\) Discussion Paper](#)

### Peer Review Alert 14-04 (August 2014)

#### Peer Review Exposure Draft on new SSARS Services

The Peer Review Board has issued an [Exposure Draft](#) that proposes the exclusion of preparation services performed under SSARS from the scope of peer reviews for enrolled firms. Additionally, firms would not be required to enroll in the peer review program if their highest level of service is preparation services performed under SSARS. Paragraph .06 of the Standards currently indicates “an accounting and auditing practice for the purposes of these Standards is defined as all engagements performed under Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS); Statements on Standards for Attestation Engagements (SSAEs); Government Auditing Standards (the Yellow Book) issued by the U.S. Government Accountability Office; and engagements performed under Public Company Accounting Oversight Board (PCAOB) standards (see interpretations). Engagements covered in the scope of the program are those included in the firm’s accounting and auditing practice that are not subject to PCAOB permanent inspection (see interpretations).” If no revisions to this paragraph were made, a firm issuing a disclaimer report for their preparation service engagements performed under SSARS would be required to enroll in the Program.

The Peer Review Board has considered the Preparation of Financial Statements SSARS, comments on the initial exposure draft for these standards, state board implications, and other factors in concluding that preparation services should be excluded from the scope of peer reviews of enrolled firms. In addition, the performance of preparation services under SSARS would not require a firm to enroll in the peer review program.

Comments and responses about the Exposure Draft should be sent to Tim Kindem, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by October 31, 2014. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by October 31, 2014.

The Board will consider the proposed changes and the comments received during open session on January 28, 2015. The proposed changes, if approved, will be effective upon approval.

## Revision to Peer Review Guidance for Engagement Reviews

On May 20, 2014, the Peer Review Board (Board) issued the [Engagement Review Reports: Pass with Deficiencies vs. Fail Exposure Draft](#) proposing for firms that perform more than one engagement, and the same deficiency is identified on each engagement, a fail report should be received. This change was proposed to address the inconsistencies in report ratings for firms that perform one engagement vs. multiple with deficiencies identified on each, as well as improve the transparency of reports.

The Board considered the concerns raised by the peer review community about the inconsistencies created by the current guidance and the feedback received on the proposed guidance. The Board has adopted the proposed guidance. The change is effective for peer reviews with a report date on or after January 1, 2015.

## *Reviewer Focus*

Welcome to the August 2014 edition of **Reviewer Focus**. We designed this communication to focus your attention on current issues to assist you in more effectively performing your peer reviews and enhancing the quality of the work performed by your peer review clients. The information contained herein has **not** been approved by the AICPA Peer Review Board and thus does not constitute other guidance as defined in the *AICPA Standards for Performing and Reporting on Peer Reviews*.

This edition of Reviewer Focus contains three articles:

1. [Replacement Review Considerations When Peer Review Documents are Recalled \(Impact to reviewer independence, consideration of prior FFCs and deficiencies, identification of repeats, consecutive pass with deficiencies or fail reports\)](#)
2. [Instructions to search the Department of Labor's EFAST2 website](#)
3. [Tool Available to Assist Reviewers in Complying with Enhanced Guidance on Quality Control Materials \(QCM\) Used by a Reviewed Firm](#)
4. [AICPA Releases Enhancing Audit Quality \(EAQ\) Discussion Paper](#)

### **Replacement Review Considerations When Peer Review Documents Are Recalled**

On May 28, 2014, the AICPA Peer Review Board (PRB) approved revised guidance related to recall of peer review documents which was communicated in the [June 2014 Peer Review Alert 14-03](#). The [June 2014 Reviewer Focus](#) addressed questions about the guidance subsequently received by staff. Additional clarifications discussed by the PRB on August 6, 2014 are included below.

**Question:** Can the reviewer that performed a peer review that is recalled, also perform the firm's replacement review?

**Answer:** It depends.

- The reviewer will not be allowed to revise the peer review report or perform the firm's replacement review unless the reviewer recalls the previously issued peer review report.
- The reviewer must consider if he or she is independent to perform the replacement review based on the period to be covered by the replacement review. Based on Interpretation 21-2, a reviewer is not independent if he or she performed the monitoring

(peer review included if it serves as firm's inspection) of a firm's accounting and auditing practice for the year immediately preceding or during the peer review year. Depending on the year-end of recalled review, and year-end to be covered by the replacement review of a subsequent period, the reviewer may not be independent. If the recalled peer review served as the firm's inspection you are likely not independent to perform the firm's replacement peer review for the very next period.

For example: Original peer review period was December 31, 2011 (served as firm's inspection); the error was discovered in 2013 and the acceptance and the report were recalled. The original reviewer is not independent to perform the replacement review for December 31, 2012. However, the reviewer would be independent if the replacement review was for December 31, 2013 or 2014. Scenarios provided in the RAB Handbook, in consultation with the firm and administering entity provide guidance to determine the proper period to be covered by the replacement review based on the circumstances.

Question: When a report or acceptance letter is recalled, should the team captain performing the replacement review consider Findings for Further Consideration Forms (FFCs) or deficiencies for a recalled review along with the firm's responses?

Answer: Yes. If the report or acceptance letter is recalled for a material departure in the peer review report, the reviewer should consider the FFCs and deficiencies for a recalled review. The reviewer should examine the firm's related responses and remedial actions taken to determine if the conditions continue to exist. (See Standards paragraph .39) The reviewer should consider prior relevant findings and deficiencies, just as he or she should consider the results of inspections and external communications from other regulatory bodies, monitoring, or enforcement bodies and document those considerations in the risk assessment and evaluation of systemic cause. (See Interpretation 52-1).

Question: If the prior findings and deficiencies from the recalled review continue to exist during the period covered by the replacement review, should the reviewer identify those conditions as repeat findings or repeat deficiencies?

Answer: No, the reviewer should not identify those conditions in a replacement review as repeat findings or repeat deficiencies. Even though the same conditions may persist in the replacement review, the previous peer review documents are no longer validly accepted. Therefore if FFCs or report deficiencies are issued for the replacement review, they should not refer to repeat findings or deficiencies which were recalled. However, the report acceptance body should consider previously issued corrective actions and implementation plans when concluding on remedial actions that should be taken by the firm related to the replacement review.

Question: If the firm's review was the firm's second consecutive pass with deficiencies or fail report rating what are the implications if the firm's replacement review is also a pass with deficiencies or fail rating?

Answer: Interpretation 5h-1 indicates that--

- receiving at least two consecutive peer reviews prior to the third that had a report with a peer review rating of pass with deficiencies and/or fail (previously referred to as modified or adverse reports); AND
- receiving notification via certified mail after the second consecutive report with a peer review rating of pass with deficiencies and/or fail (previously referred to as modified or adverse reports), that a third consecutive failure to receive a report with a peer review

rating of pass (previously referred to as an unmodified report) may be considered a failure to cooperate with the administering entity.

The notification received by the firm after it received the second consecutive report with a peer review rating of pass with deficiencies or fail remains in effect even if the firm's peer review documents are recalled as a result of a material departure in the peer review report. If the firm receives a third peer review rating of pass with deficiencies or fail on its replacement review, the firm may be considered as failing to cooperate with the administering entity. This will result in the firm being sent to a hearing panel of the PRB to determine if the firm's enrollment in the program should be terminated.

AICPA Staff and the PRB will continue to evaluate the recall guidance and determine whether authoritative guidance is necessary. If you have additional technical questions regarding the recall guidance, please contact the AICPA Peer Review Hotline at (919) 402-4502, option 3.

### **Instructions to search the Department of Labor's EFAST2 website**

Many peer reviewers, technical reviewers and peer review administrators requested instructions to search the Department of Labor's EFAST2 website for Form 5500 filings. [Detailed instructions](#) can be accessed under the [For Peer Reviewers](#) section of the Peer Review Interest Area on AICPA.org. Please note, reviewers are not required to search Form 5500 filings when performing peer reviews.

### **Tool Available to Assist Reviewers in Complying with Enhanced Guidance on Quality Control Materials (QCM) Used by a Reviewed Firm**

A new tool is available on the [QCM Review Results](#) webpage to assist reviewers in a System Review in complying with enhanced Quality Control Material (QCM) guidance that was effective January 1, 2014. The searchable pdf tool is a quick and easy resource for reviewers to determine whether and when the specific QCM guides used by a firm has been subject to a QCM review, and the results.

The [tool](#) summarizes QCM review results by identifying the following information:

- Provider
- Report year end
- Report code
- Acceptance date
- Scope exclusions (if any) and
- Materials included in scope.

Not all guides published by a QCM provider are QCM reviewed; the provider determines which are included in the QCM review's scope.

Guides used by a firm for specific practices or industries, such as school districts, banking, insurance, broker-dealers or SOC engagements, may not have been offered by the QCM provider, or included in the scope of the provider's QCM review. A firm may use more general guides, tailored a general guide, or developed their own guide to perform and report on an engagement. A reviewer needs to consider these possibilities when planning and performing the peer review.

QCM will often have different elements, such as written guidance, practice aids, letter templates, sample completed aids/ templates, and continuing professional education modules.

Some of these elements may be excluded from the scope of the review, as disclosed in the QCM review report.

The tool is hyperlinked to the QCM review reports and related acceptance letters already posted on the webpage. Use of the tool will not replace reading the actual QCM review reports. The reports note, for example, that users of the QCM and the QCM review report should carefully consider the scope of the QCM review, understand the intended uses and limitations of the materials, and the users' responsibility for evaluating the QCM's suitability and for implementing, tailoring and augmenting the QCM as appropriate.

The enhanced QCM guidance was discussed in [Peer Review Alert 13-04](#). It indicated a reviewer should understand a firm's policies and procedure for determining the reliability of the QCM utilized by a reviewed firm and determine if they are appropriately designed and implemented. The reviewer should also determine that the firm's QCM are reliable. If the QCM did not undergo a QCM review, then the reviewer should perform additional procedures to assess the QCM. The objectives of those procedures are to assess the provider's system to develop and maintain reliable aids, and to determine the reliability of the aids. The enhanced guidance was reflected in PRP Section 2000, Interpretations 42-2 and 42-3, a new article in PRP Section 3100 Supplemental Guidance, and PRP Section 4800 "Summary Review Memorandum" (SRM), and the Quality Control Questionnaires.

#### **AICPA Releases Enhancing Audit Quality (EAQ) Discussion Paper**

On August 7, 2014, the AICPA launched a discussion paper soliciting stakeholder responses to a major effort seeking to improve auditing of private entities. Peer Review Conference attendees received an advance copy of the paper and discussed the topics during Tuesday's Exchange of Ideas session.

"EAQ is a holistic effort to consider auditing of private entities ... through multiple touch points, especially where quality issues have emerged," AICPA President and CEO Barry Melancon, CPA, CGMA, said in a news release. "Many AICPA committees, boards, and staff contributed to the EAQ. The goal is to align the objectives of all audit-related AICPA efforts and collectively improve the quality of audit services delivered by the profession."

As peer reviewers, your input is vital to the plans for enhancing audit quality. To read the paper and provide comments, which are due Nov. 7, visit [aicpa.org/EAQpaper](http://aicpa.org/EAQpaper). Some efforts that already are underway are included in the discussion paper.