

## October 2014 Peer Review Update

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### Peer Review Alert 14-05 (October 2014)

#### Revisions to Noncooperation and Recall Guidance

In January 2014, the Peer Review Board (board) approved revised noncooperation guidance related to a firm's omission or misrepresentation of its accounting and auditing practice. That guidance, effective for reviews commencing on or after April 1, 2014, indicated the firm would be subject to a hearing panel of the board to determine whether the firm's enrollment in the program should be terminated.

In May 2014, the board approved revised recall guidance that indicated if there was an error or omission that resulted in a material departure from peer review standards the firm's peer review acceptance must be recalled and the firm is required to have a replacement review submitted to the administering entity approximately 90 days after the notification.

To coordinate the noncooperation guidance with the revised recall guidance, on September 30, 2014 the board approved additional revisions.

A summary of the major revisions to noncooperation and recall guidance for reviews that commence on or after April 1, 2014 are as follows:

- Interpretation 5h-1 and Report Acceptance Body (RAB) Handbook Chapter 3, Recall of Peer Review Documents, were revised to indicate that if a firm omits or misrepresents information about its accounting and auditing practice that results in a material departure from peer review standards (as identified in the RAB Handbook, Chapter 3, Recall of Peer Review Documents) the firm will be subject to a hearing panel of the board to determine whether a firm's enrollment in the program will be terminated. The peer review acceptance letter will be recalled and other aspects of the recall guidance remain applicable, including administering entity notification to applicable state boards of accountancy.

- If a hearing panel determines that the firm's enrollment will not be terminated, a replacement review will be due approximately 60 days after the hearing panel decision. In addition to a replacement review, a hearing panel may also impose other corrective actions or sanctions on a firm.
- If a hearing panel determines that the firm's enrollment will be terminated, subsequent re-enrollment in the program is subject to approval by a hearing panel.
- Firms that voluntarily notify the administering entity of an omission or misrepresentation regarding the firm's accounting and auditing practice, will not be subject to a hearing panel for termination from the program under the following conditions:
  - Voluntary notification to the administering entity must be prior to the AICPA or administering entity being otherwise notified of or discovering the omission or misrepresentation and prior to the firm receiving notification from another regulatory or monitoring agency.
  - If the misrepresentation results in a material departure on its most recently accepted peer review, the peer review acceptance letter will be recalled and other aspects of the recall guidance remain applicable, including administering entity notification to applicable state boards of accountancy.
  - For material departures, the firm will be required to have a replacement review submitted to its administering entity 90 days after the firm's notification to the administering entity.

Interpretation 5h-1 was also revised to reflect that if a firm's enrollment is dropped from the program for not accurately representing its accounting and auditing practice, re-enrollment in the program will be subject to approval by a hearing panel. This relates to firms that signed a revised "no A&A" letter indicating that the firm was not required to have a peer review. The revised "no A&A" letter discloses the noncooperation provisions.

These changes to the noncooperation and recall guidance can be found as Agenda Item 1.3 in the [Peer Review Board Open Session Materials for September 30, 2014](#) and will be included in the next revision of the Peer Review Program Manual. The guidance was effective upon board approval.

### **Firm and Individual Licenses**

In order to address the public's expectations of the AICPA Peer Review Program (Program), improve the Program's credibility and affirm its commitment to quality, the Peer Review Board has approved revisions to guidance relating to firm and individual licensing. The guidance will also help firms adhere to SQCS 8 which requires compliance with "applicable legal and regulatory requirements", which includes firm and individual licensing requirements. The approved revisions are summarized as follows:

- Interpretation 208-1a-1 "Firm and Individual Licenses" now indicates that a reviewer is *required* to verify:
  - the practice unit license (firm license) in the state in which the practice unit is domiciled (main office is located).
  - individual (personnel) licenses in the state in which the individual primarily practices public accounting
    - For System Reviews, for a sample of appropriate personnel
    - For Engagement Reviews, for appropriate personnel on engagements selected

The reviewer should verify the license by requiring the firm to provide documentation from the licensing authority that the license is appropriate and active during the peer review year

and through the earlier of reviewed engagements' issuance dates or the date of peer review fieldwork.

For System Reviews, the team captain should also obtain an understanding of the firm's system of quality control with respect to firm and individual licensing.

These steps are in addition to the existing requirements that reviewers should make inquiries of the firm to determine if the firm and its personnel are appropriately licensed, and the existing requirement that reviewed firm's submit written representations indicating compliance with such required rules and regulations.

The reviewer must analyze the information obtained through these steps to determine the firm's compliance with firm and individual licensing requirements and then the impact on the peer review.

- Interpretation 52-1 "Understanding, Assessing, and Documenting Peer Review Risk Factors and Risk Assessment" has been enhanced to add the following as a control factor that should be considered in assessing risk:
  - Firm's policies and procedures to determine and monitor compliance with legal and regulatory requirements in accordance with SQCS 8, including but not limited to:
    - firm and individual licenses to practice both in the state the practice unit is domiciled (main office is located) and in the state in which the individual primarily practices public accounting,
    - Additional policies and procedures to comply with applicable out-of-state firm and individual licensing requirements
- Additional questions have been added:
  - For System Reviews: to the "Quality Control Policies & Procedures Questionnaires and Guidelines for Review of Quality Control Policies & Procedures" to describe the firm's policies and procedures for ensuring that the firm is maintaining the appropriate firm and individual licenses, including for states other than where its main office is domiciled/ the individual primarily performs public accounting.
- For Engagement Reviews to the:
  - "Engagement Summary Form" and "Engagement Questionnaire" for the firm to confirm that the firm and practitioner has the appropriate firm and individual licenses and that documentation is attached
  - "Review Captain Summary" to confirm that the firm has provided documentation of its firm license and selected individual licenses

There were no substantive changes to the Supplemental Guidance article "Impact on the Peer Review When Firm or Individual(s) Do Not Possess Licenses", except to conform to recent changes to Paragraph .118 of the Standards for Performing and Reporting on Peer Reviews relating to the Engagement Review "pass with deficiency" and "fail" report ratings.

A conforming change was made to separate the paragraph "Communication of Report Acceptances" previously under Interpretation 208-1a-1 to Interpretation 208-1a-2.

These changes can be found as Agenda Item 1.2 in the [Peer Review Board Open Session Materials for September 30, 2014](#) and will be included in the January 2015 Peer Review Program Manual. The guidance is effective for reviews commencing on or after January 1, 2015.

# ***Reviewer Focus***

Welcome to the October 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 6 articles:

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## **Reminder: Enhancing Audit Quality (EAQ) Discussion Paper Comments Due November 7**

On August 7, 2014, the AICPA launched a discussion paper soliciting stakeholder responses to a major effort seeking to improve auditing of private entities. 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).

## **System of Quality Control Practice Aids – Available for Free Download**

As part of the EAQ initiative, the Institute is pleased to provide an e-version of the Practice Aid [Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice](#), at no charge.

This publication is designed to help CPAs better understand and apply Statement on Quality Control Standards (SQCS) No. 8, *A Firm's System of Quality Control* (Redrafted) (AICPA, *Professional Standards*, QC sec. 10). SQCS No. 8 is included as appendix A of this Practice Aid.

The complete Practice Aid presents four hypothetical firms:

- a multi-office firm;
- a single-office firm;
- a sole practitioner; and
- a firm organized in an alternative practice structure.

The practice aid, along with the application material at the end of SQCS 8, are great resources for ensuring your own firm has appropriate QC policies and procedures and for assessing the appropriate design of the QC policies and procedures at your peer review clients. This is also a great value added tool you can provide to your peer review clients so they may assess their system of quality control prior to peer review.

### **Standards Tracker – Quick Reference to Professional Standards Changes**

Participants at the Peer Review Conference indicated they believe one of the factors leading to the decline in quality of accounting and auditing engagements is the challenge of keeping up with the ever-changing professional standards changes. The AICPA's [Standards Tracker](#) may significantly help this issue for both you and your peer review clients..

The AICPA's [Standards Tracker](#), available to members as part of the [Financial Reporting Center](#), provides a quick reference to recently issued professional standards, complete with effective dates, summaries, and links to the standards themselves. The tracker breaks down the professional standards into accounting and financial reporting, audit & attest, compilation, review, and quality control standards.

The Standards Tracker does not include peer review standards changes. However, peer review exposure drafts are posted with the other professional standards exposure drafts in the [research area](#) of [aicpa.org](#).

### **Online MFC Forms – Complete on Firm's Behalf**

The Peer Review Board realizes there are firms that will be unable or unwilling to complete their portion of the MFC forms online. Therefore, the "Complete on Firm's Behalf" option was provided. However, we do expect use of this alternative to be rare. Peer reviewers are expected to encourage reluctant firms to get involved, not only to save you time from having to enter information on the firm's behalf, but also because we have found firms that are involved take more ownership and that helps to improve the quality of accounting and auditing engagements. If appropriate, administering entities may provide feedback to reviewers that continuously complete MFCs on the firm's behalf. Additionally, we do expect that as we move toward more online entry of peer review scheduling information, etc. by the firm, the option to complete the MFC on the firm's behalf will no longer be available.

### **Peer Reviews of Firms that Audit Broker-Dealers, Including Non-Carrying Broker-Dealers**

The PCAOB recently issued its [third inspection report](#) on the audits of broker-dealers. The PCAOB continues to find a significant number of firms that are violating SEC independence rules. As a reminder, auditors should not provide typing and word processing services or financial statement templates that are not publicly available to broker-dealer clients. A violation of SEC independence rules results in a nonconforming engagement for BOTH carrying and non-carrying broker-dealers.

The PCAOB is also finding a significant number of firms that are not complying with general auditing standards stating "The most frequent audit deficiencies were noted in financial statement audit areas, including auditing revenue recognition, the auditor's response to the risk of material misstatement due to fraud, and audit procedures to rely on records and reports from service organizations, as well as areas specific to the audits of broker-dealers, including auditing the net capital computation and the audit work performed for the auditor's report on material inadequacies."

Although non-carrying broker-dealers are not considered must select engagements, given the high risk associated with them and the volume of audit deficiencies identified by the PCAOB, peer reviewers are expected to have thoroughly documented risk assessments addressing these engagements, including an explanation of why none are being selected, if applicable.

Due to the high risk associated with these engagements, an explanation of “not material to the firm’s A&A practice hours” is not acceptable. The risks described in Interpretation 59-1 should be addressed. Technical reviewers are expected to consider the peer reviewer’s risk assessment to determine if engagement selection is appropriate. Further, feedback should be issued in situations where the engagement selection or issue identification is not appropriate.

As a reminder, all broker-dealer audits with fiscal year ends of June 1, 2014 or later should be performed using PCAOB standards. A revised Broker-Dealer checklist will be available for download soon. Also, firms that perform engagements under PCAOB standards are required to have their peer reviews administered by the National Peer Review Committee.

**Save the Date – Upcoming Webinar**

*November 17, 2014 1-3pm EDT: Sufficiency of Audit Evidence – a Peer Review Focus*  
Speaker, Lyn Graham, will host a webinar on Sufficiency of Audit Evidence. The webinar focus will be on internal controls, risk assessment (including linkage to financial statement assertions), and sampling. This webinar will address issues commonly noted in inspections and peer reviews prior to planning this year’s engagements. Click [here](#) to register. This webcast counts toward meeting the peer reviewer-training requirement. If you are interested in attending the webinar, but not receiving CPE credit, please email [prsupport@aicpa.org](mailto:prsupport@aicpa.org).