

## November 2014 Peer Review Update

This November 2014 Peer Review Update contains the Peer Review Alert 14-06 and the November 2014 Reviewer Focus. Click a link below to go directly to the article.

### Peer Review Alert 14-06

- [Revisions to Consecutive Non-Passing Report Guidance](#)
- [Exposure Draft: Preparation of Financial Statements Performed Under SSARS and the Impact on the Scope of Peer Review](#)
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### Peer Review Alert 14-06 (November 2014)

#### Revisions to Consecutive Non-Passing Report Guidance

The Peer Review Program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the profession. In order to more responsively deliver on that underlying principle, the Peer Review Board (Board) approved revised guidance related to a firm's receipt of consecutive non-passing peer review report ratings.

The revised guidance requires notification of firms upon receiving a peer review report rating of *pass with deficiencies* or *fail* via certified mail or its equivalent. Firms that receive a consecutive peer review report rating of *pass with deficiencies* or *fail* will be evaluated by their administering entity's peer review committee and may be deemed not to be cooperating. Firms deemed noncooperative will be notified and the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated.

#### Exposure Draft: Preparation of Financial Statements Performed Under SSARS and the Impact on the Scope of Peer Review

The Peer Review Board (Board) has issued a new [Exposure Draft](#) on November 18, 2014 that states that firms that only perform preparation engagements under SSARS would not be required to enroll in the AICPA peer review program (Program) but may elect to do so. The Board has considered the Preparation of Financial Statements SSARS, comments received on the August 18, 2014 exposure draft, state board implications and how a preparation engagement could be reviewed in concluding to issue a new exposure draft. 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 (SAs); 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)." With the current proposal, no revisions to paragraph .06 are required, although a change to paragraph .07 is currently being proposed which would explicitly state that firms are not required to enroll in peer review if they only perform preparation engagements. However, the Exposure Draft describes changes to paragraphs .104 and .108 and introduces new interpretations to

describe when a preparation engagement should be selected for enrolled firms and what procedures the reviewer can perform on these engagements.

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 January 2, 2015. Electronic submissions of comments or suggestions should be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

The Board will consider the proposed changes and the comments received during open session on January 27, 2015. The proposed changes, if approved, will be effective upon issuance.

**Exposure Draft: Peer Reviewer Performance, Disagreements and Qualifications**

The Peer Review Board has issued an [Exposure Draft](#) that proposes revisions to Standards and related interpretations designed to expedite remediation and removal of poor performing reviewers, improve consistency in the handling of reviewer performance matters and enhance reviewer qualifications and training requirements for reviewers of must-select engagements.

Comments and responses should be sent to Carl Mayes, Senior Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by January 2, 2015. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by January 2, 2015.

The Board will consider the proposed changes and the comments received during open session on January 27, 2015. The proposed changes, if approved, will be effective for peer reviews commencing on or after May 1, 2016.

# ***Reviewer Focus***

Welcome to the November 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. [Evaluation of Population Completeness](#)
2. [Replacement Reviews](#)
3. [Independence Alert](#)

## **Evaluation of Population Completeness**

Recent changes to peer review practice aids were made to reinforce the importance of providing complete information about the firm's engagements for its peer review. In the April 2014 version of the Summary Review Memorandum Planning question H. was added as follows: "Briefly describe and assess the firm's approach to ensuring completeness of the engagement listing. This listing should include engagements with periods ending during the year under review whether issued or not." Based on technical reviews and oversights recently performed by staff, it appears that reviewers are not comprehensively addressing this requirement. Below are factors to assist reviewers with documenting the response to this question.

- Is the firm's time and billing system appropriately designed and utilized to capture all services performed for each client?
  - Does the report generated from the firm's time and billing system capture all engagements within the scope of the peer review? (Year ends covered in the period whether or not completed or issued; financial forecasts or projections and agreed upon procedures with report dates during the year under review.)
  - Does the firm timely update its time and billing system upon the acceptance of new clients and engagements and who is responsible for this task?
- Who is responsible for verifying the engagement information presented for internal monitoring and the peer review?
  - Is each partner with attest engagements asked to review the engagement listing for the completeness and accuracy of their engagements, including levels of service, industry identification, and hours?
- Do the practice areas, levels of service, and industries identified on the engagement listing agree with the information provided by the firm to the administering entity on the Information Required for Scheduling a Review form?
- Is the methodology used by the firm to ensure completeness appropriate for the size and complexity of the firm's practice? The reviewer should consider corroborating certain aspects of the firm's methodology for population completeness during interviews with the managing partner and staff.

The Peer Review Board (board) also approved additional revisions to practice aids that will be issued in January 2015. The revisions include enhancements to the quality control questionnaires completed by the firm, the reviewer's guidelines for review of a firm's quality control policies and procedures, and instructions to firms and reviewers for system and engagement reviews. The enhancements further emphasize the importance of providing a complete and accurate engagement listing and cooperating with the program.

## **Replacement Reviews**

The Peer Review Board (board) issued revised guidance to more effectively address the procedures that should be followed when a must-select engagement was not included in a firm's most recent peer review. The guidance provides considerations for recall and a replacement review. It is extremely important that replacement reviews be handled appropriately throughout each step of the process, including committee acceptance. Furthermore, reviewers, technical reviewers, and committees should carefully consider whether the results of the replacement reviews are appropriate.

AICPA Standards for Performing and Reporting on Peer Reviews indicate that when a firm has a design weakness in its system of quality control but the review does not uncover engagement findings, the issue by itself would not ordinarily lead to a peer review report deficiency, but rather a Finding for Further Consideration. However, a firm's failure to have a system of quality control that ensures the proper and complete identification of engagements performed may qualify as an exception to the "ordinarily" guidance.

When a firm fails to report all of its engagements on the previous peer review, the peer reviewer should determine the underlying cause and why the firm's monitoring process did not identify the issue. As indicated in the recall guidance, at a minimum, the reviewer must prepare a Matter for Consideration (MFC) Form during the replacement review to address this issue. Substantial consideration must be given as to whether this should result in a deficiency or significant deficiency. Even if the firm only has one EBP audit, it may still be considered a material part of the firm's practice. The reviewer should provide strong documentation supporting a decision about why a deficiency is not warranted. Report acceptance bodies are expected to scrutinize and challenge any unsubstantiated situations that do not result in a pass with deficiency or fail report rating on the replacement review.

AICPA Peer Review Staff is conducting desk review oversights for firms that receive a rating of pass on a replacement review and will focus on the conclusions reached regarding the underlying cause of the issue, the firm's monitoring process and whether there were any non-conforming engagements in the replacement review.

For replacement reviews that are in progress and not yet accepted by the committee, reviewers may want to reconsider their conclusions reached on the review. Reviewers should be allowed to revise and resubmit peer review documentation to the administering entity if thorough consideration was not documented.

## **Independence Alert**

The Center for Audit Quality (CAQ) and the AICPA will be releasing a joint Independence Alert later this week. The alert is intended to provide audit firms with an overview of the independence rules of the Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) applicable to financial statement audit and attestation engagements for the following non-issuers:

- Non-issuer broker-dealers that are registered with the SEC as a broker or dealer; and
- Where the engagement(s) is subject to the requirements of SEC Rule 206(4)-2 (17 CFR 275.206(4)-2) ("Custody Rule"), SEC-registered and state registered investment advisers, related party custodians, or private funds (e.g., pooled investment vehicles).

The alert will be posted on [aicpa.org](http://aicpa.org) when available and an email referencing the alert will be sent to all firms that audit broker-dealers. Refer to [Auditors of Broker-Dealers](#) for the latest information.