

PEER REVIEW ALERT 11-04 (June 2011)

Revision to Interpretation 59-1 and Must Cover vs. Must Select Industries

Interpretation 59-1 explains that a reasonable cross section of a firm's accounting and auditing practice not only includes consideration of the specific industries that are required to be selected, but also other industries that have a significant public interest. On May 3, 2011, the Peer Review Board approved a revision to Interpretation 59-1 providing specific considerations for selecting a reasonable cross section of engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA and audits of broker-dealers. The revision to the interpretation is effective for reviews that commence on or after July 1, 2011.

The interpretation also now defines industries that have a significant public interest as those that benefit the general welfare of the public, such as those that have recent regulatory and legislative developments (for example, broker-dealers). Public interest industries will vary across firms and reviewers should consider the composition of a firm's accounting and auditing practice when determining if their risk assessment should address a public interest industry.

Peer review staff periodically assesses industries to determine which may have the most significant public interest of the moment. Currently, the list includes HUD, school districts, and state and local government. These industries, in addition to the must select industries (as described in Interpretation 63-1), are must cover industries for all firms. A firm may have additional must cover industries based on the concentration of its auditing practice. Industries in which a firm's auditing practice has a 10% or more concentration or the firm's three largest industry concentrations (if none represent more than 10%), are also considered must cover industries.

All must selects are must cover industries, however, all must cover industries are not must selects. Must select industries must be included in the sample of engagements selected for review. A must cover industry does not have to be selected for review, however, either the team captain or a team member must have at least recent experience in the industry (resume codes A, B, or C) to aid in the risk assessment process and determination of whether an engagement from the must cover industry should be selected for review. There are no must cover industries for Engagement Reviews.

This article is not a change in the scheduling process, but merely a reminder of must cover industries. As mentioned, peer review staff periodically assesses industries that have the most significant public interest of the moment. If the list expands beyond HUD, school districts, and state and local government, an alert will be issued to the peer review community.

Reviewer Resume Experience Codes

The reviewer resume codes have been revised so that resume codes A, B and C may only be used for services performed in a peer reviewer's *own firm*. A new resume code ("other") has been added. The "other" code is used for supervising one or more accounting or auditing engagement or carrying out the quality control functions (services) *for a firm where the peer reviewer is neither a partner nor a*

professional employee (another firm). These services are otherwise known as independent contractor services. If the peer reviewer wants to use the “other” resume code, the reviewer must provide a description of the services performed in the text box provided on the reviewer resume. The services performed for another firm must be current, they must have been *performed* within one year of the date the reviewer is approved to perform the review. Once the peer reviewer is no longer engaged to perform the services for another firm, the peer reviewer is required to remove the industry code from his/her resume within one year of when the services were performed. If the nature or extent of the services performed changes, the peer reviewer must update the information on their resume. **All industry codes that relate to work performed for another firm that do not meet the following criteria must be removed by August 30, 2011.**

The revised reviewer resume codes on the reviewer resume will now read:

A - Currently (presently involved) in supervising or performing engagements, in your own firm; or carrying out all the quality control functions on engagements in your own firm (including review of related engagements as part of the firm’s monitoring or inspection process) and currently meeting relevant, industry specific educational requirements, as applicable.

B - Recently (within 5 years) supervising or performing engagements in your own firm and currently meeting relevant, industry specific educational requirements, as applicable.

C - Supervising or performing certain components (but not all) of quality control functions on engagements in your own firm and currently meeting relevant, industry specific educational requirements, as applicable.

Other – Supervising one or more accounting or auditing engagements or carrying out the quality control functions for a firm when the peer reviewer is neither a partner nor a professional employee of the firm.

The peer reviewer should provide a list of all pertinent information (see following paragraph) to allow the AE to ensure that the reviewer is qualified to perform peer reviews of the requested industry. Based on the information provided by the peer reviewer, the AE will determine whether the peer reviewer is qualified to review engagements in that industry. The administrator may need to consult with a technical reviewer, RAB members or committee members to determine if the reviewer qualifies to add the industry code to their resume. The AE individual(s) who is consulted should feel confident in approving the reviewer to perform peer reviews in that industry. Once the AE determines that the reviewer is qualified to perform the review, the reviewer will be approved to perform the review. In cases where local resources are unable to determine if a reviewer is qualified for a particular industry, the AE may also consult with AICPA staff.

Written information provided by the reviewer for services performed for another firm should include, but is not limited to; engagement year-end, name of firm the work was performed for and the actual work performed (i.e. financial statement review, working paper review, EQCR, etc.). In order to add these services to the reviewer’s resume, the firm that the reviewer performs the services for must be enrolled in a peer review program and their previous peer review must have a pass rating.

At a minimum, the services performed for another firm should include a review of the financial statements and involvement in or review of the significant judgments and conclusions of the engagement team.

Only peer reviewers who are eligible to perform peer reviews may apply to have work performed for another firm added to their resume. Per Paragraph .31b of the *Standards*, an individual must “be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in the program (see interpretations), as a partner of the firm, or as a manager or person with equivalent supervisory responsibilities.” Therefore, an individual is not qualified to perform peer reviews if they only perform work for another firm.

After the effective date of this guidance, August 31, 2011, all reviewers will be required to update their resume within 1 year of the date they previously updated their resume. If reviewers do not update their resume, they will not be able to schedule reviews.