

PEER REVIEW ALERT 11-07 (October 2011)

Enhanced Guidance on the Finding for Further Consideration (FFC) form and implementation plans (IPs)

The Peer Review Program Manual (PRPM) and RAB Handbook have been revised to include enhanced guidance on the completion of the Finding for Further Consideration (FFC) form and appropriate implementation plans (IPs).

Finding for Further Consideration (FFC) Form

In an effort to guide reviewed firms in providing a comprehensive, genuine, and feasible response on an FFC form, the FFC forms for both System and Engagement Reviews were revised. The reviewed firm's response should describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation), the person(s) responsible for implementation, the timing of the implementation and, if applicable, additional procedures to ensure the finding is not repeated in the future. In addition to the items listed above, the reviewer's recommendation and the reviewed firm's responses on all FFC forms prepared in connection with a System Review need to address the underlying systemic cause of the finding. Therefore the reviewer, with the assistance of the firm, will need to make an appropriate determination of the systemic cause in order for the reviewed firm's response to be comprehensive, genuine, and feasible. If the reviewed firm's response is not deemed to be comprehensive, genuine, and feasible, the technical reviewer or RAB will request a revised response. The team or review captain should assess the adequacy of the firm's response as reflected on the FFC prior to submission with the working papers.

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. Thus, it depends on mutual trust and cooperation. On System Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with their system of quality control or their compliance with the system, or both. On Engagement Reviews, the reviewed firm is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified in engagements. Based on the information on the FFC form, the RAB may be comfortable that the firm will address the findings or the firm may be required to have an implementation plan in addition to the plan described by the reviewed firm on the FFC form.

The FFC forms in Section 4960 for System Reviews and Section 6600 for Engagement Reviews and correlating sections of the PRPM have been revised as discussed above.

Repeat Findings

The interpretations to the standards and the supplemental guidance were updated to provide a description and example of repeat findings. The concept of a repeat finding is the same as that previously describing a repeat deficiency in interpretation 96n-1 and has been added as new interpretation 83-2. Additional examples are now included in the supplemental guidance (Section 3300) that include repeat findings in a System and Engagement Review and also a repeat deficiency in an Engagement Review.

Implementation Plans

In considering whether an implementation plan (IP) is necessary, RABs should first determine if the finding should really be a deficiency. Under current Peer Review Standards, the threshold for a deficiency in the peer review report is more clearly defined than the reason for a modified report under the previous Standards. IPs should not be used to correct a finding communicated on an FFC form that would be more appropriately reported as a deficiency in the report. IPs should also not be used to make up

for poorly constructed recommendations and responses on the FFC form. Additionally, IPs should not be used as a fourth level of reporting (i.e., ‘the finding was communicated to the firm and the firm seems to get the point we’ll just require some strongly worded IPs rather than sending the report back for revision’). Instead, RABs should consider the severity of the IP they believe is necessary to correct the finding and then determine whether a pass with deficiencies or fail report should have been issued. If the RAB determines the finding should have actually been a deficiency or significant deficiency, the report should be sent back for revision.

If the finding does not rise to the level of a deficiency, RABs should then consider if the firm’s response on the FFC form is comprehensive, genuine, and feasible. If the firm’s response is comprehensive, genuine, and feasible, even in a repeat finding situation, an IP may not be necessary. For example, if the firm’s response on the FFC form is that the firm will purchase 3rd party practice aids, the RAB should trust that the firm will do that and should not require an IP to provide proof of purchase of those practice aids. However, if this is a repeat finding and the firm’s previous response was the same, the RAB may determine that the purchase of practice aids is not a comprehensive, genuine, and feasible response. In that situation, the RAB should request a revised FFC response and consider whether an IP is necessary. The overarching principle is if the firm’s response properly addresses the issue, the RAB generally should allow the firm to proceed without additional intervention.

For System Reviews, IPs requiring the involvement of an outside party (e.g. preissuance review) are only appropriate in response to a finding that resulted in an engagement that was not performed or reported on in accordance with professional standards in all material respects for an initial or repeat finding on a must select industry or for any type of industry in the case of a repeat finding. An IP involving an outside party may be appropriate in these situations as the finding is isolated and it does not result in a deficiency when considering the firm’s system of quality control taken as a whole. If a finding resulting in engagements not performed or reported on in accordance with professional standards in all material respects was not isolated and is representative of a weakness in the firm’s system of quality taken as a whole, the matter should be reported as a deficiency. An IP including a preissuance review, for example, should focus on the issue identified in the finding and may not need to be performed on the entire engagement. If the finding does not result in an engagement that was not performed or reported on in accordance with professional standards in all material respects, an IP may only be required for repeat findings and firm license issues. In these instances, appropriate IPs would be the submission of the firm’s monitoring report to the RAB, CPE, or submission of proof of a valid firm license. IPs requiring the involvement of an outside party generally are not appropriate except in the instances described above.

For Engagement Reviews, implementation plans requiring the involvement of an outside party are not appropriate. In accordance with the standards, a matter on an engagement review resulting in an engagement not performed or reported on in accordance with professional standards in all material respects should be reported as a deficiency. Accordingly, if a RAB believes that involvement of an outside party is necessary to correct a finding, it is more likely that the finding should be reported as a deficiency in the report. IPs are only appropriate on Engagement Reviews for repeat findings and firm license issues. In these instances, appropriate IPs would be the submission of the firm’s monitoring report to the RAB, CPE, or submission of proof of a valid firm license.

For both System and Engagement Reviews, the guidance for allowable plans as discussed above and included in exhibits 4-2 and 5-2 of the RAB Handbook must be followed, even in instances where the same finding is included on more than two reviews. However, in these instances, the RAB should consider a more rigorous implementation plan, including the adequacy of the amount and nature of required CPE. For example, the RAB may determine that more than 8 hours of CPE is necessary and may require 24 hours or change the nature of the required courses. Another example would be for the RAB to require both CPE and submission of the firm’s monitoring report to the RAB.

Actions that should not be required by RABs as implementation plans, in any situation, are a team captain revisit or monitoring performed by an outside party. Such actions may be appropriate responses for broader system deficiencies, but are not appropriate to address an isolated finding resulting in engagements not performed or reported on in accordance with professional standards in all material respects, except as those activities described above for System Reviews. If the RAB believes one of these broader system-based actions is necessary, what has been reported as a finding should more likely be reported as a deficiency in the report. The RAB also should not require an accelerated review as an implementation plan. However, the reviewed firm may elect to have an accelerated review as an alternative to completing an implementation plan of postissuance review or submission of the firm's monitoring report to an outside party.

RABs are expected to comply with the guidance as revised and presented in this alert and the RAB Handbook. Compliance with the guidance will be monitored during oversight of the administering entity.

Peer Review Program materials, including the RAB Handbook, have been revised to reflect the information above regarding what situations warrant and what types of implementation plans may be required. These revisions are effective for reviews commencing on or after January 1, 2012 and will be included in the anticipated January 2012 production of the Peer Review Program Manual.

The proposed guidance will be discussed during a Peer Review Update webinar to be held in December 2011. Further information regarding the webinar will be available shortly on the Peer Review Interest Area – www.aicpa.org/InterestAreas/PeerReview.