# PRP Section 3200

## Peer Review Alerts

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NOTICE TO READERS

Peer Review Alerts (Alerts) are developed in open meetings by the AICPA Peer Review Board for peer reviews of firms enrolled in the AICPA Peer Review Program. Alerts need not be exposed for comment and are not the subject of public hearings. This guidance is applicable to firms (and individuals) enrolled in the program; individuals and firms who perform and report on peer reviews; entities approved to administer the peer reviews; associations of CPA firms whose members are also AICPA members, authorized by the board to assist its members in forming review teams; and the AICPA program staff. The guidance is effective upon issuance unless otherwise indicated.

Alerts communicate timely information regarding the AICPA Standards for Performing and Reporting on Peer Reviews (Standards) and related guidance, as well as updates on the peer review environment.

The Alerts supersede and replace the previous Peer Reviewer’s Alerts which have mostly been incorporated into the Standards and related guidance. In addition, the process to maintain them will be different.

As new articles are issued quarterly by the Board, they are added to a “New Alerts” Section of the Alert. Annually, the Board will evaluate which articles are to be excerpted and incorporated into the Standards and related guidance. Articles that are of a transitional nature, are not appropriate to be incorporated into the Standards and guidance, or both, will remain in the Alert. Each previous version of the Alert will be archived on the peer review Web site, and the more relevant version will be issued.

(Issued Through January 1, 2009)

REGULATORY ALERTS

Attestation Engagements Performed in Accordance With Generally Accepted Government Auditing Standards (GAGAS/Yellow Book)

Yellow Book states that each organization performing attestation engagements in accordance with GAGAS must establish a system of quality control that is designed to provide reasonable assurance that it and all its personnel comply with professional standards and applicable legal and regulatory requirements, and have an external peer review at least once every three years.

The organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed organization’s system of quality control was suitably designed and whether the organization is complying with its quality control system in order to provide the organization with reasonable assurance of conforming with applicable professional standards.

Therefore, if a firm enrolled in the AICPA Peer Review Program (PRP) only performs attestation engagements (in accordance with GAGAS), as its highest level of service, the firm is required to have a system review. Although some of the language in Yellow Book has recently changed, this is not a new requirement, and the Standards for Performing and Reporting on Peer Reviews were previously revised to reflect that firms performing “engagements” (not just “audits”) in accordance with GAGAS are required to have a system review.

Governmental Audit Quality Continues to Be a Concern

As noted in last year’s Peer Review Alert, a federal study on the quality of audits performed under OMB Circular A-133 was issued June 22, 2007. The report, titled Report on National Single Audit Sampling Project (the PCIE report), was issued by the President’s Council on Integrity and Efficiency (PCIE) and addressed to the OMB. The PCIE report clearly shows that improvements are needed in many areas. Both peer reviews and AICPA Professional Ethics Division (PED) investigations of audit organizations have previously indicated that there are problems in audits performed under Government Auditing Standards (GAS) and Circular A-133.
The PCIE Report

Overall, the federal study had two goals: (1) to determine the quality of single audits and establish a statistically based measure of audit quality; and (2) to recommend changes in single audit requirements, standards and procedures to improve the quality of single audits. The scope did not include a review of the content of, or the audit work performed, related to the general-purpose financial statements, the auditor’s opinion on those statements, or the auditors’ review of internal control over financial reporting. To accomplish its goals, the PCIE conducted quality control reviews (QCRs) of a statistical sample of 208 audits randomly selected from approximately 38,000 audits submitted and accepted by the Federal Audit Clearinghouse between April 1, 2003 and March 31, 2004. The sample was split into two strata. Stratum I included audits of entities that expended $50 million or more of total federal expenditures. Stratum II included audits of entities that expended at least $500,000 but less than $50 million of total federal expenditures.

The results are presented in the report in varying ways and using different breakdowns and tables. Overall though, 35% of the audits reviewed were found to be unacceptable and another 16% were of limited reliability. In addition to providing the results by the number of audits looked at, the PCIE also analyzed the results in relation to the dollar amounts of federal awards reported in the audits reviewed. One piece of good news in the report was that approximately 93% of the federal dollars reported in the audits reviewed were covered by acceptable audits. This difference exists because the PCIE report shows a marked positive difference in the quality of the work performed in the larger audits in Stratum I.

What’s Next?

The issuance of the PCIE report is not the end of the story. There was a Senate hearing on the PCIE report last October and the AICPA and various federal agencies have efforts underway in response to the report. The AICPA and its Governmental Audit Quality Center (GAQC) have formed 7 task forces to study in detail the PCIE report findings and recommendations and to work with the OMB, the Inspectors General (IGs) and other interested parties in order to provide additional guidance to help members achieve the highest standards in performing quality governmental audits. Each task force is in the process of carefully studying the issues raised in the PCIE report. The task forces are:

1. Sampling/Materiality Issues in a Single Audit Environment
2. Internal Control and Compliance Responsibilities in a Single Audit Environment
3. Schedule of Expenditures Federal Awards Reporting Issues
4. Reporting Audit Findings in a Single Audit
5. Single Audit Training Needs and Continuing Professional Education Evaluation
6. Practice Monitoring in a Single Audit Environment
7. Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance

Most of the AICPA task forces are expected to complete their activities during 2009, the result of which will likely include a revised compliance auditing standard, new or clarified guidance in the AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, and new illustrative practice aids. You should note that task force #6 previously mentioned falls under the jurisdiction of the AICPA Peer Review Board (PRB). It was established to develop ways in which the peer review process can aid in enhancing the quality and performance of Circular A-133 audits by member firms. The Task Force is in the first phase of its work, having recently met with the various federal agencies that perform QCRs to help the AICPA better understand the QCR processes across federal agencies and to assist the IGs in better understanding the peer review process. The Task Force will be reporting its progress at the November 2008 meeting of the PRB and anticipates presenting specific recommendations for actions at the Board’s January 2009 meeting so that its recommendations can be implemented in the performance of 2009 peer reviews.

The OMB has also established 8 of its own task forces to look at various issues associated with the PCIE report. The work of these task forces may result in proposed revisions to Circular A-133 sometime later in 2008 or in 2009 (e.g., the OMB may propose required additional single audit training and a related curriculum). The Government Accountability Office (GAO) has also received a Senate request to further study the single audit process in light of the PCIE report results. That study is underway and may continue into 2009.
Finally, the IGs at various federal agencies have stepped up the number of QCRs that they are performing. From the standpoint of these federal users, single audits conducted are a key accountability mechanism for the expenditure of taxpayer dollars. Consequently, the PCIE report has caused an increase in concern about the quality of the audits that the agencies rely upon.

The GAQC is a good information source for both Center members and non-members to keep abreast of developments in this area. Watch the GAQC Web site (www.aicpa.org/GAQC) for further updates.

What Can Peer Reviewers Do?

Peer reviewers that review single audits should first and foremost review the PCIE report in detail to gain a strong understanding of the numerous problem areas that were identified. Further, they should review Appendix A to this article which includes a summary of common deficiencies that were noted. Finally, the GAQC is a great resource for firms that perform governmental audits (including single audits) and their peer reviewers. Appendix B to this article provides more information on the GAQC and how to join or get more information.

Appendix A

Common Deficiencies Identified in the PCIE Report

Materiality. In single audits, the auditor must consider his or her findings in relation to each major program, which is a significantly lower materiality level than all programs combined. In some of the audits reviewed, the auditor did not document whether he or she considered materiality at the individual major program level.

Internal Control. The report found that in many single audits, auditors are not documenting their understanding of internal control over compliance as required by A-133 §.500(c)(1) in a manner that addresses the five elements of internal control. Further, the report stated that auditors did not document testing internal control of at least some compliance requirements as required by A-133 §.500(c)(2).

Compliance. The report stated that in some audits, auditors are not documenting compliance testing of at least some compliance requirements. For most audits considered unacceptable, the lack of documentary evidence for compliance testing was substantial. They found that the audit documentation did not always include evidence that the auditor tested major program compliance requirements or explain why certain generally applicable requirements identified in the OMB Compliance Supplement were not applicable to the audit.

Also, in some cases the auditor documented that types of compliance requirements identified as generally applicable to the major program in Part 2 of the OMB Compliance Supplement were not applicable (e.g., by only marking “N/A” next to the item in an audit program) but did not explain why.

Material Reporting Errors. Auditors misreported coverage of major programs. This occurred when the Summary of Auditor Results section of the Schedule of Findings and Questioned Costs identified that one or more major programs were audited as a major program when the audit documentation did not include support for all of the programs listed. Though inadvertent, this is a very consequential error because report users may erroneously rely on opinions that major programs have been audited as major.

Risk Assessments of Federal Programs. The report cited the following kinds of deficiencies in risk assessments of federal programs:

- Required risk analyses were not documented at all;
- The basis for the assessments of risk was not documented;
- The documentation indicated that the risk assessment was not performed or not properly performed for reasons including: not considering all programs, improperly clustering programs, not clustering programs, or mistakenly categorizing a program as Type A or as Type B; and
- The risk assessment decision was not consistent with information in the audit documentation.
**Apparent Audit Findings Not Reported.** In this scenario, the audit documentation or management letter content included matters that appeared to be audit findings. However, they were not reported as audit findings and there was no audit documentation explaining why.

**Audit Finding Elements.** A significant percentage of the audits reviewed in both strata, did not include all of the required reporting elements in the audit findings.

**Schedule of Expenditures of Federal Awards (SEFA) Problems.** For many audits reviewed, one or more of the following required SEFA content items were omitted. The report acknowledges that SEFA preparation is a client responsibility but that the auditor reports on the SEFA in relation to the financial statements and that the information in the SEFA is key to major program determination.

- Subgrant awards numbers assigned by pass-through entities not included
- Names of pass-through entities missing
- Grantor Federal agency names missing
- Grantor Federal agency subdivision names missing
- Multiple lines for Catalog of Federal Domestic Assistance (CFDA) numbers shown—total expenditures for CFDA not shown
- Programs that are parts of a cluster not shown as such
- Notes to SEFA missing
- Correct CFDA number; and
- Research and Development (R&D) programs not identified as such

**Management Representations.** For several audits, some or all of the management representations (identified in the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*), were not obtained. In a few other cases, the management representations were obtained several days prior to the dates of the auditor’s reports.

**Other Findings.** Numerous other findings were noted, primarily attributed by the reviewers as being caused by a lack of due professional care. They include the following:

- Low-risk auditee determination not documented or incorrect
- Minimum Percentage of Coverage requirement not met
- Audit programs missing or inadequate for part of the single audit
- Part of a major program or a major program cluster not tested
- The Summary of Auditor’s Results section of the Schedule of Findings and Questioned Costs was missing some information or some information was erroneous
- Error in threshold distinguishing Type A and Type B programs
- Indications that current compliance requirements were not considered

**Appendix B**

**AICPA Governmental Audit Quality Center**

The AICPA Governmental Audit Quality Center (GAQC) is a firm-based, voluntary membership Center with the goal of enhancing and promoting quality governmental audits. Governmental audits include all audits performed under *Government Auditing Standards* such as single audits and financial statement audits of governments and not-for-profit organizations; audits performed under federal audit guides such as the Housing and Urban Development Consolidated *Audit Guide* and various Department of Education Audit Guides; and other grant and assistance program audits.

The Center has almost 1,100 members in all 50 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. Center members audit over 82% of the federal expenditures audited in single audits performed by CPA firms. The GAQC helps firms meet the challenges of performing quality audits by keeping members informed about the
latest developments, as well as providing tools and information to help better manage a firm’s governmental audit practice.

**Center Resources and Benefits.** Center resources include timely e-mail news alerts on current governmental audit, accounting and regulatory developments; a dedicated Center Web site at www.aicpa.org/GAQC; CPE member-only teleconferences on a variety of technical, regulatory and practice management subjects; and an online discussion forum for networking and sharing best practices. Other resources and benefits include helpful practice aids, tools, articles, and savings on professional liability insurance.

**Center Requirements.** Among the GAQC membership requirements, Center members must designate a partner responsible for governmental audit quality that must also attend an annual 2-hour Center-sponsored Webcast; establish policies and procedures specific to the governmental audit practice; conduct annual internal inspections of their governmental audits; maintain their peer review report in a public file; and have their governmental audits selected in peer review reviewed by individuals employed by a Center member firm. Center members also must pay annual dues, which start at $150 per year for a firm with fewer than 10 CPAs.

**GAQC Members Find Great Value in Their Membership.** Overwhelmingly, Center members report high satisfaction with their Center membership. One of the most liked aspects of the Center is the timely information on matters of importance to governmental audits that assist member firms in enhancing the quality of their governmental audit practices. To join, or for more information about the GAQC, visit the Center Web site at: www.aicpa.org/GAQC; or call 202-434-9207.

**Recent 403(b) Regulatory Changes and the Effect on Future Peer Reviews**

Under U.S. Department of Labor (DOL) regulations issued on November 16, 2007, retirement plans sponsored by charitable organizations and schools under Internal Revenue Code section 403(b) and covered under the Employee Retirement Income Security Act of 1974 (ERISA) will be subject to the same reporting and audit requirements that currently exist for section 401(k) plans.

ERISA-covered 403(b) plans with 100 or more participants generally will be required to file audited financial statements beginning with their 2009 Form 5500 filing. 403(b) plans with fewer than 100 participants may be eligible to use abbreviated reporting forms without audited financial statements. The DOL estimates that approximately 7,000 “large” 403(b) plans will be subject to the new audit requirements and another 9,000 “small” 403(b) plans may be eligible to use the abbreviated reporting forms.

Reviewers should be aware of the effect of this change on the practices of the firms they peer review, especially on the risk assessment and engagement selection processes.

**DOL’s ERISA Audit Quality Enforcement Initiative**

The Department of Labor’s (DOL) Employee Benefits Security Administration (EBSA) has an ongoing enforcement initiative to monitor the quality of ERISA audits. The audit quality program is administered by the EBSA’s Office of the Chief Accountant. The DOL will reject the Form 5500 filing where it has been determined that an audit failure has occurred, and may refer substandard work to the AICPA’s Professional Ethics Division or the appropriate State Board(s) of Accountancy. The DOL’s audit quality monitoring program has a three-tiered approach as described subsequently.

- **“Augmented workpaper reviews” of firms that perform less than 100 ERISA audits.** The DOL randomly select audits to review and sends letters to the plan administrator requesting copies of the audit working papers. The DOL has completed over 1,500 of these “augmented workpaper reviews” since the 2003 plan year. The DOL performs an in-house review of the Form 5500, the independent auditor's report, and selected working papers for each of those engagements. Those reviews can be expanded to include additional working paper reviews, discussions with firm representatives, and any additional procedures deemed necessary based on the findings of the initial reviews.

- **“Mini-inspections” of firms that perform between 100 and 200 audits.** The DOL will perform a “mini-inspection,” whereby the DOL will send letters to the audit firm’s managing partner requesting them to complete a Firm Inspection Program Questionnaire and submit a list of their ERISA audit engagements. The DOL will review the completed questionnaire and select several ERISA audits to perform an in-house review of the Form 5500, the independent auditor’s report, and selected working papers for each engagement. The
“mini-inspections” could be expanded to include additional working paper reviews, discussions with firm representatives, and any additional procedures deemed necessary based on the findings of the initial reviews. For all reviews, the DOL will conduct a closing conference either by phone or in person to discuss the results of the inspection.

- “Inspections” of firms that perform over 200 ERISA audits. The DOL will send a letter to the audit firm’s managing partner to schedule an onsite inspection of that firm’s ERISA audit practice. This inspection will include completing the Firm Inspection Program Questionnaire and reviewing selected audit working papers. The engagements selected will be representative of the offices that perform ERISA engagements, as well as the types of ERISA audits performed by the firm. The firm inspection will conclude with a closing conference between the DOL representative and the appropriate firm personnel.

What Can Peer Reviewers Do?

Peer reviewers that review ERISA benefit plans could review the summary of common ERISA audit deficiencies, which follow. Also, the Employee Benefit Plan Audit Quality Center (EBPAQC) is a great resource for firms that perform governmental audits (including single audits) and their peer reviewers. In subsequent sections, we also provide more information on the EBPAQC and how to join or get more information.

Common ERISA Audit Deficiencies

The following are the more common audit deficiencies noted in DOL reviews and AICPA peer reviews.

- Planning
  - Inadequate audit planning.
  - Failure to assess the risk of material misstatement due to fraud.

- Internal Controls
  - Failure to document an understanding of internal controls, most often when a substantive audit is going to be performed.
  - Inadequate use of Statement on Auditing Standards (SAS) No. 70, Service Organizations (AICPA, Professional Standards, vol. 1, AU sec. 324) reports; lack of testing when SAS No. 70 report is obtained.

- Contributions
  - No audit work performed.
  - Particularly multiemployer plans, failure to obtain adequate audit evidence for contributions back to contributing employers (multiemployer plans). Reliance on contribution reports is not enough.

- Insufficient payroll audit procedures
  - Failure to test elective deferrals.

- Investments
  - No work performed.
  - Failure to test end of year values.
  - Failure to properly test year end values, particularly hard-to-value assets.
  - Improper use of limited scope certifications.

- Benefit payments
  - No audit work performed.
  - Inadequate auditing regarding eligibility of claims to be covered by the plan.

- Participant data
  - Insufficient testing of payroll data.
— Failure to test eligibility, forfeitures, and allocations.
— In defined contribution plans with limited scope audits, failure of auditors to test the allocation earnings and gains/losses to participant accounts.
— Sample sizes too low.
— Some firms have reduced their sample sizes selected for compliance and substantive testing to unacceptably low levels.

• Working paper documentation
  — Adequacy of audit documentation continues to be an issue.
  — Only evidence of audit work having been performed is a sign off on an audit step without any supporting documentation.

AICPA Employee Benefit Plan Audit Quality Center
The AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) is a firm-based, voluntary membership center with the goal of enhancing and promoting quality employee benefit plan audits. The center has over 1,600 members in all 50 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. The EBPAQC helps firms meet the challenges of performing quality audits by keeping members informed about the latest developments, as well as providing tools and information to help better manage a firm’s ERISA benefit plan audit practice.

Center resources and benefits. Center resources include timely e-mail news alerts on current EBP audit, accounting, and regulatory developments; a dedicated center Web site at www.aicpa.org/EBPAQC; CPE teleconference “Live Forums” on a variety of technical, regulatory, and practice management subjects; and an online discussion forum for networking and sharing best practices. Other resources and benefits include online Resource Centers in the areas of 403(b) plan audits, new audit standards, stable value investments, and the Pension Protection Act of 2006; tools and aids to assist members in planning and performing their audits and improving their EBP practice, including a SAS No. 70 review checklist, an internal inspection tool, an audit preparedness checklist, tools to help auditors respond to a request for proposal; plan advisories on monitoring TPAs, the importance of internal controls, and valuing and reporting plan investments; and savings on professional liability insurance.

Center requirements. Center members must designate a partner responsible for audit quality; establish a program to ensure personnel possess current knowledge of applicable professional standards, rules, and regulations; establish policies and procedures specific to ERISA audits; maintain a minimum amount of CPE training in EBP audits, conduct annual internal inspections of their ERISA audits; maintain their peer review report in a public file; and have audits selected in peer review reviewed by individuals employed by a center member firm. Center members also must pay annual dues, which start at $150 per year for a firm with fewer than 10 CPAs.

The EBPAQC is making a difference in audit quality. Reviews performed by the DOL’s EBSA continue to show a difference in the quality of ERISA audits performed by center member firms compared with those performed by nonmember firms. Not only do center member firms have fewer ERISA audit failures, but those failures also tend to be much less severe than those by nonmember firms.

For more information about the EBPAQC, visit the center Web site at www.aicpa.org/EBPAQC or call 202-434-9207.

Extension of Order Regarding Broker-Dealer Financial Statement Requirements Under Section 17 of the Exchange Act
The Securities and Exchange Commission (SEC) extended its order on December 12, 2006, originally issued on August 4, 2003, extended on July 14, 2004 and December 7, 2005, under Section 17(e) of the Securities Exchange Act of 1934, regarding audits of financial statements of broker-dealers that are not issuers (nonpublic broker-dealers). According to the extension, nonpublic broker-dealers may file with the SEC a balance sheet and income statement and may send to their customers a balance sheet certified by an independent public accountant, instead of by a registered public accounting firm, for fiscal years ending before January 1, 2009. The SEC extension can be found online at www.sec.gov/rules/other/34-54920.pdf.
ADMINISTRATIVE ALERTS

Reviewers—Update Your Resume Annually and Advise AICPA Peer Review of Your Correct E-Mail Address

The AICPA peer review team will inform reviewers via e-mail each year that their resumes are to be updated. Reviewers can enter their resume online at www.aicpa.org/members/div/practmon/index.htm. If a reviewer’s resume is not updated or acknowledged within two years, the reviewer will be prohibited from performing peer reviews until the resume is updated.

The AICPA peer review team will send all future correspondence regarding the AICPA peer review program via e-mail. Therefore, it is imperative that all reviewers maintain a current e-mail address on file with the AICPA peer review program. Failure to inform the AICPA peer review team of e-mail address changes may result in not having all the necessary information to perform and report on a peer review in conformity with the Standards. If your e-mail address changes, please contact the AICPA peer review team at (919) 402-4502 immediately or send an e-mail to PeerReviewUpdates@aicpa.org.

OVERSIGHT ALERTS

Comments From Working Paper Oversights

The following is a summary of the most prevalent and recurring comments that have been generated as a result of the most recent working paper oversights performed by AICPA Peer Review Program staff.

Risk Assessment

The risk assessment does not discuss the firm’s system of quality control.

Factors to consider in assessing risk can include the following:

- The relationship of the firm’s audit hours to total accounting and auditing hours
- The size of the firm’s major engagement(s) relative to the firm’s practice as a whole
- Initial engagements and their effect on the firm’s practice
- The industries in which the firm’s clients operate and their risk level
- The results of the prior peer review
- Owners’ continuing professional education (CPE) policies
- The firm’s monitoring policies
- Adequacy of the firm’s professional library
- Changes in the firm’s structure or personnel since the prior peer review
- Office locations.

Interpretation 52-1 of the Standards discusses the peer reviewer’s responsibility to document the risk assessment.

Supplemental Checklists on Engagement Reviews

In addition to using the Financial Reporting and Disclosure Checklist, the peer reviewer may also refer to the applicable supplemental checklists contained in PRP 22,000, “Engagement Checklist Supplements—System Reviews.” The supplemental checklists cover disclosure and financial presentation items that are unique to specific industries. Supplemental checklists are available for Banks and Savings Institutions, Construction Contractors, Common Interest Realty Associations, Health Care Organizations, HUD, Personal Financial Statements, Single Audit Act/A-133, and Yellow Book engagements.
Client Engagement Listings
The client engagement listing did not (1) indicate the 12-month period ended to which the listing applied, (2) had an incorrect peer review year, (3) contained engagements outside the scope of the peer review year, or (4) did not include all engagements covered by professional standards.

The peer reviewer should verify the accuracy of information submitted by firms prior to beginning the peer review through discussions with key personnel and comparison to the background information provided by the firm to the administering entity.

TRANSITION ALERTS

White Paper Issued for Navigating Through Revised Peer Review Standards
The AICPA’s Peer Review Board has issued a white paper, Navigating Through the Revised AICPA Standards for Performing and Reporting on Peer Reviews and Related Interpretations. The paper serves as a bridge between the current and revised Standards and Interpretations and explains how the changes may affect enrolled firms (including those responsible for the firm’s quality control function), peer reviewers, entities administering peer reviews, and peer review users, including regulators.

The white paper
• explains the top level changes in the reporting processes, considered to be the most significant of the changes;
• provides background and explanations to other significant changes (including the more principles-based approach and changes to engagement and report reviews);
• discusses how the comment letters received in response to the exposure draft were considered in the process of finalizing the revised Standards; and
• describes how readers can learn more about the revised Standards.

Some of the revised Standards and Interpretations changes affect enrolled firms’ 2009 peer review scheduling, for which planning could occur in fall 2008. In addition, there is a change in regard to independence requirements, which could affect how enrolled firms conduct their 2008 monitoring procedures.

To ensure AICPA Peer Review Program integrity and usefulness, the revisions were designed to meet stakeholders’ needs. The revisions recognize the public interest in the quality of the accounting, auditing, and attestation services provided by members’ firms. They also recognize the importance that peer review plays in the state board of accountancy licensure process and for other regulators such as the GAO. The revisions are expected to result in a more efficient and effective peer review process. The white paper will assist those parties interested in peer review to gain a better understanding of the revised guidance and serve as a helpful resource to navigating through the revised Standards and Interpretations.

The revised Standards and Interpretations are effective for peer reviews commencing on or after January 1, 2009 and are applicable to all AICPA members’ firms subject to peer review. Members’ firms currently enrolled in the Center for Public Company Audit Firms Peer Review Program are covered under this measure.

Independence Impairment for Those Performing Monitoring (Including Internal Inspections), Consulting Reviewers, and Preissuance Reviewers Intending to Perform Peer Reviews
Under Interpretations 21-2 and 21-3 of the revised Standards for Performing and Reporting on Peer Reviews, independence would be considered impaired for purposes of being able to perform a firm’s peer review (whether as a team captain or team member) for anyone also performing monitoring (which includes internal inspection), preissuance review, or consulting review for the firm for the year immediately preceding or during the peer review year. It is very important for peer reviewers to focus on this matter immediately because although the interpretation becomes effective for reviews commencing on or after January 1, 2009, the effect is immediate if peer reviewers have already performed or were planning to perform a firm’s monitoring (including internal inspection), preissuance review, or a consulting review in 2008, and they want to remain eligible to perform the firm’s peer review in 2009 (or later).
In conjunction with the guidance, reviewed firms and peer reviewers should consider the nature of any peer review services, including the performance of corrective or monitoring actions, to determine if there is an independence conflict.

**Three-Year AICPA PRP Peer Review Training Requirement Versus Five-Year CPCAF PRP Peer Review Training Requirement**

Interpretation 14 (33-1) to the revised *Standards for Performing and Reporting on Peer Reviews* discusses that in order to “maintain” the qualifications of a team captain or a review captain (assuming other qualifications are met), that individuals should participate in eight hours of peer review CPE within three years prior to the commencement of the review. Although the number of hours and three-year window has not changed for AICPA PRP reviewers, peer reviewers that only performed Center for Public Company Audit Firms (CPCAF) PRP reviews in the past would now be subject to the AICPA PRP requirements as of January 1, 2009, and would also only have a three-year window to take the peer review training rather than the existing five years under the CPCAF PRP. The effect of this interpretation is immediate for peer reviewers of CPCAF PRP reviews who have not participated in eight hours of CPE within three years prior to a review taking place on or after January 1, 2009 and want to remain eligible to perform the firm’s peer review.

**Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice (SQCS No. 7) Practice Aid Available**

This AICPA Audit and Accounting Practice Aid updated the 2004 edition of *Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice*. This Practice Aid is intended to help practitioners better understand and apply Statement on Quality Control Standards (SQCS) No. 7, *A Firm’s System of Quality Control* (AICPA, Professional Standards, vol. 2, QC section 10). That standard is included in appendix A of this Practice Aid. This version of the Practice Aid, prepared by the Quality Control Standards Task Force, has been revised to incorporate new policies and procedures that a firm should consider including in its system of quality control to be responsive to the issuance of SQCS No. 7. It is available for download at www.aicpa.org/download/members/div/auditstsd/System_of_Quality_Control_Practice_Aid.pdf or can be purchased online at www.cpa2biz.com.

**Documentation of a System of Quality Control Under the SQCS**

Statements on Quality Control Standards (SQCS) require a firm to document its system of quality control policies and procedures. The AICPA has developed quality control questionnaires used in the peer review process which may also be sufficient documentation of the system of quality of control for some firms. In order for the questionnaire to properly satisfy the SQCS’s documentation requirement, it should be completed and in effect prior to the beginning of the peer review year. When determining the extent of documentation required for the questionnaire, the reviewed firm should consider that “Yes” and “No” answers may assist in identifying the control objective, but it would not typically satisfy the required documentation of how the control was met. Documenting how controls are met is an integral component of documenting the quality control policies and procedures and is expected to be included if the questionnaire is meant to satisfy the requirements of SQCS No. 7 and be used as the firm’s quality control document. The reviewed firm should document the control objective and the details of the policies and procedures. Firms that have a complex system will require more detailed and tailored documentation. The document would suffice for 3 years, but should be monitored and continually evaluated.

**Statement on Auditing Standards (SAS) No. 115, Communicating Internal Control Related Matters Identified in an Audit**

The Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, Professional Standards, vol. 1, AU sec. 325). SAS No. 115 supersedes SAS No. 112 and was issued to eliminate differences within the AICPA’s Audit and Attest Standards resulting from the issuance of Statement on Standards for Attestation Engagements (SSAE) No. 15, *An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. SSAE No. 15 establishes standards and provides guidance to practitioners performing an examination of a nonissuer’s internal control over financial reporting in the context of an integrated audit. SSAE No. 15 aligns the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating
such deficiencies with the definitions and guidance in Public Company Accounting Oversight Board (PCAOB) Auditing Standards No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements* (AICPA, PCAOB *Standards and Related Rules, Rules of the Board, “Standards”). SAS No. 115, in turn, aligns the definitions and related guidance for evaluating deficiencies in internal control with the definitions and guidance in SSAE No. 15.

The SAS contains revised definitions of the terms *material weakness* and *significant deficiency* and revises the list of deficiencies in internal control that are indicators of material weaknesses. The SAS is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

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