PRP Section 3200
Peer Review Alerts

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NEW ALERTS

Determining and Documenting Matters and Findings in a System Review

The objective of a system review is to evaluate the design of, and compliance with, a firm’s system of quality control. As such, the peer review standards emphasize properly identifying and classifying matters and findings, and evaluating the systemic cause of those findings.

Reviewers often have questions about which items should be included on a Matter for Further Consideration (MFC) form. Paragraph .70a of the standards states, “Matters are typically one or more ‘No’ answers to questions in peer review questionnaire(s) that a reviewer concludes warrants further consideration in the evaluation of a firm’s system of quality control.” Not all “no” answers should be included on an MFC form. The peer reviewer should carefully evaluate whether the “no” answer warrants further consideration. The peer reviewer should take into consideration all information available and use his or her professional judgment to evaluate whether a “no” answer warrants further consideration. If a peer reviewer does not elevate the “no” answer to a matter, the peer reviewer should document his or her consideration of the “no” answer in the explanation of “no” answers section of the peer review checklists.

Reviewers have also questioned whether isolated “no” answers should be included on MFC forms. Interpretation No. 84-1 of paragraph .84 in PRP sec. 1000, Standards for Performing and Reporting on Peer Reviews (PRP sec. 2000) states, “The reviewer should consider that a single disclosure matter and a single documentation matter may be isolated when taken individually but they may have resulted from the same underlying systemic cause. They should further consider that an isolated matter may be materially significant in amount or nature or both. Reviewers should document their consideration of an isolated matter and the conclusions reached in the MFC form. The documentation should include the details of the matter noted, how the reviewer expanded scope, if applicable, and why the reviewer concluded the matter was isolated.” The fact that a matter is deemed isolated does not mean it does not need to be included on an MFC form. If a peer reviewer determines that a “no” answer warrants further consideration, and should be elevated to a matter, it should be included on an MFC form, regardless of whether the matter is isolated. As noted previously, the reviewer should document how the matter was determined to be isolated on the MFC form. If the reviewer determines that the “no” answer does not need to be included on an MFC form, the reviewer should
thoroughly document his or her consideration of the “no” answer in the explanation of “no” answers section of the peer review checklists and include why the “no” answer was deemed isolated. Furthermore, the peer reviewer should revisit all items deemed isolated at the conclusion of peer review procedures, including items that were not elevated to matters. The peer reviewer should reevaluate whether the isolated matters were actually isolated and whether they have a common systemic cause. These matters collectively could lead the reviewer to conclude that a finding or deficiency exists in the reviewed firm’s system of quality control.

On system reviews, reviewers should identify the systemic cause of findings. Paragraph .70b of the standards states, “A finding is one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform and/or report in conformity with applicable professional standards.” As such, the Findings for Further Consideration (FFC) form asks for the reviewer to identify the systemic cause of a finding. There is an expectation that the reviewer follow the appropriate guidance to make a good faith effort to identify the underlying cause. Guidance on identifying the cause for a finding can be found at Interpretation No. 83-1 of par. .83 in PRP sec. 1000, Standards for Performing and Reporting on Peer Reviews (PRP sec. 2000). Guidance is also included in chapter 4, section II and III of the Report Acceptance Body Handbook, which is an integral part of the Peer Review Program Manual.

Reviewers in a system review must think of matters on MFC forms as symptoms of weaknesses in a firm’s system of quality control, and try to understand the underlying cause for those matters that rise to the level of a finding. With a finding, the reviewer is considering more than just the “matter,” he or she is considering the condition (that is, systemic cause) that resulted in the matter(s) occurring. Otherwise said, the reviewer must determine why the matters occurred.

Ordinarily it is not sufficient to only repeat the matters (documented on the MFC form[s]) as findings (on the FFC form). The reviewer is expected to evaluate whether the condition or systemic cause (which resulted in the matters) meets the definition of a finding, that is, that more than a remote possibility exists that the reviewed firm would not perform or report in conformity with applicable professional standards. A finding that does not meet the definition of a deficiency or significant deficiency remains a finding. Once the systemic cause is identified, the reviewer is also expected to combine FFC’s with the same systemic cause.

As an example, “no” responses on engagement checklists may lead a reviewer to conclude there is a matter related to the firm’s noncompliance with a new professional standard. The reviewer may then conclude that the cause of that matter is lack of sufficient continuing professional education (CPE) on new professional guidance. The reviewer may then conclude that based on the nature, causes, pattern and pervasiveness, and relative importance to the firm’s system of quality control taken as a whole, the matter does not rise to the level of a deficiency or significant deficiency, but it is a finding. The matters (noncompliance with a new professional standard) and their condition or cause (lack of sufficient CPE on new professional guidance) are documented on the FFC form.

This exercise requires judgment and may be challenging, but it will assist the reviewer in making meaningful recommendations to the reviewed firm that are appropriate to reduce the likelihood of the finding recurring or developing into a deficiency (or significant deficiency) in the future. If a reviewer makes a good faith effort to identify the underlying cause of a finding, and documents the effort and results on the FFC form, it is not expected to result in reviewer feedback.

**Combining Matters for Further Consideration and Findings for Further Consideration for Engagement Reviews**

Based on reviewer comments, some consider the information furnished on MFC forms (section 6500, Instructions for Use of Matter for Further Consideration [MFC] Form for Engagement Reviews) and FFC forms (section 6600, Instructions for Use of Finding for Further Consideration [FFC] Forms) to be repetitive for engagement reviews. MFC forms document engagement and other matters noted in an engagement review. A matter is noted as a result of evaluating whether an engagement submitted for review was performed or reported on, or both in conformity with applicable professional standards. Depending on the resolution of a matter and the process of aggregating and evaluating peer review results, a matter may or may not develop into a finding. The FFC form is prepared in connection with an engagement review if there are one or more matters that the peer reviewer believes results in the financial statements or information, the related accountant’s reports submitted for review, or the procedures performed, including related documentation, not being performed or reported on in conformity with the requirements of applicable professional standards, but the results were not of such relative importance to include in a report with a peer review rating of pass with deficiencies or fail.
The Standards Task Force considered if the two forms could be combined for an engagement review. The task force concluded that it would not be practical to combine the forms because (1) not all MFCs rise to the level of FFCs and (2) multiple MFCs may be combined into one FFC.

Scope of Peer Review Oversights

Paragraph 12 of the standards notes that peer reviews, including the reviewed firm and peer reviewers, are subject to oversight by the administering entity, the AICPA Peer Review Board (PRB), and other bodies agreed upon by the administering entity or the board. The main objectives of peer review oversight are ensuring compliance with the standards and other peer review guidance, and consistency in implementation of the standards and other peer review guidance. In order to meet these objectives, by default all peer review documentation is subject to oversight. A critical part of the peer review oversight process is corroborating the overall results of reviews. In order to do so, it is often necessary for those performing oversight to directly review the working papers of engagements that were peer reviewed (that is, during on-site oversight or desk review oversight). Further, those individuals performing on-site oversight may also deem it necessary to participate in meetings between the reviewed firm and the peer reviewer(s). This level of involvement by AICPA staff, board members, individuals designated by the administering entity, and other individuals designated to perform peer review oversights is considered within the normal scope of oversight. Reviewed firms and peer reviewers that fail to cooperate with oversight are deemed as not cooperating with the AICPA Peer Review Program.

As with other aspects of peer review, individuals that perform peer review oversights are governed by the confidentiality requirements in paragraph 20 of the standards, and they are not permitted to disclose or share any information concerning the reviewed firm, its clients, and its personnel obtained during an oversight.

Revision to Interpretation No. 59-1 and Must Cover Versus Must Select Industries

Interpretation No. 59-1 of par. .59 in PRP sec. 1000, Standards for Performing and Reporting on Peer Reviews (PRP sec. 2000), 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 AICPA PRB approved a revision to Interpretation No. 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 the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and audits of broker-dealers (BDs). 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, BDs). 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 housing and urban development (HUD), school districts, and state and local government. These industries, in addition to the must select industries (as described in Interpretation No. 63-1 of par. .63 in PRP sec. 1000, Standards for Performing and Reporting on Peer Reviews [PRP sec. 2000]), 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 percent or more concentration or the firm’s three largest industry concentrations (if none represent more than 10 percent) 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 or 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 five 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 administering entity (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, report acceptance body (RAB) members, or committee members to determine if the reviewer qualifies to add the industry code to his or her 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 when 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, the name of firm the work was performed for and the actual work performed (that is, financial statement review, working paper review, engagement quality control review, and so on). 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 its 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 he or she only performs work for another firm.

After the effective date of this guidance, August 31, 2011, all reviewers will be required to update their resume within one year of the date they previously updated their resume. If reviewers do not update their resume, they will not be able to schedule reviews.
Enhanced Peer Review Guidance for Reviews of Firms that Audit Broker-Dealers

Carrying Versus Non-Carrying Broker-Dealers

For purposes of the Peer Review Program, broker-dealer audit engagements were categorized as either carrying or non-carrying based on systemic risk. The definition of carrying and non-carrying broker-dealers (BDs) is included in Interpretation 63-2 of par. .63 in PRP sec. 1000, Standards for Performing and Reporting on Peer Reviews (PRP sec. 2000).

Risk Assessment and Engagement Selection

The AICPA PRB has determined that if a firm performs the audit of one of more carrying BDs, at least one such audit should be selected for review. It is also expected that if a firm’s audits of BDs include only non-carrying BDs, the team captain should be aware of and give special consideration to the risks associated with such BD audits in making engagement selections.

Inclusion of carrying BDs as a “must select” engagement elevates these audits to the same prominence as others with a significant public interest, including engagements subject to Government Auditing Standards, compliance audit requirements of engagements subject to Single Audit Act/OMB Circular A-133, engagements conducted pursuant to the Employee Retirement Income Security Act of 1974 (ERISA), and audits of federally insured depository institutions subject to FDICIA. In complying with the engagement selection guidance in the standards, peer reviewers should ensure that engagements selected include a reasonable cross section of the firm’s accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer may need to select greater than the minimum of one engagement from these industries in order to attain this risk weighted cross section. 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 other industries that have a significant public interest.

If a firm audits non-carrying BDs, the team captain’s risk assessment is expected to address the risks associated with those BDs (for example, if the BD has some form of custody and control that may create risk and require additional internal controls). For all BD engagements, the team captain should take into consideration the experience of the partners conducting the BD audit, relative CPE of the partner and staff on the engagement, and communications from regulatory agencies and the size of the BD’s business (for example, does the BD serve one or more non-carrying BDs). Refer to Interpretation No. 59-2 of par. .59 in PRP sec. 1000, Standards for Performing and Reporting on Peer Reviews (PRP sec., 2000), for other examples of factors to consider when assessing peer review risk at the engagement level.

Reviews Selected for the Public Company Accounting Oversight Board Interim Inspection Program

If a firm performs the audit of multiple carrying BDs and the Public Company Accounting Oversight Board (PCAOB) selects one of them, a different BD may be selected for the Peer Review Program. The team captain is still expected to understand the findings on that engagement and the impact to peer review. This understanding should be documented in question II D of the Summary Review Memorandum (SRM) and in the risk assessment.

If a firm only performs the audit of one carrying BD and that audit has been inspected by the PCAOB, the team captain will need to determine if it should be reviewed as part of the firm’s peer review. In order to make such a determination, the team captain will need to understand the scope of the inspection, where the PCAOB had findings and where it did not, the nature of any remediation, and the effect on the peer review or system of quality control. If the PCAOB inspection only focuses on a particular area (for example, 15c3-3 compliance), the team captain should address the risk associated with that area and consider other peer review risks (for example, net capital computation) that were not addressed.

In both instances described previously, because the PCAOB may not be issuing written comment forms, it could result in extra time and effort from the team captain to document information discussed about the PCAOB review. Team captains should reference Interpretation No. 40-1 of par. .40 in PRP sec. 1000, Standards for Performing and Reporting on Peer Reviews (PRP sec. 2000), for further guidance on discussing and documenting the PCAOB inspection. It is not the intention of the AICPA PRB for the reviewer to hold up the planning, performance, or completion of a peer review waiting on the results of the PCAOB inspection. The team captain should perform the
review based on the knowledge he or she has of the inspection through the exit conference date. If the firm only has one carrying BD and it was selected by the PCAOB but the firm has not been informed of the board’s conclusions, it is expected that carrying BD will be selected for the peer review.

**Revised Peer Review Documents**

The SRM and Engagement Statistics Data Sheets have been revised to allow peer reviewers, technical reviewers, and peer review committees to identify and track when a firm performs audits of BDs, if those audits were selected for review, and if the audit was deemed to be not performed in accordance with professional standards. Further, revisions are being made to the peer reviewer’s resume form and the reviewed firm’s background form to properly align firms that perform audits of carrying and non-carrying BDs with peer reviewers with appropriate experience. A BD supplemental checklist focusing on the risks associated with both carrying and non-carrying BDs has been released.

**Report Modification**

The appendices to section 1000, *Standards for Performing and Reporting on Peer Reviews*, with examples of peer review reports have been revised to include carrying BDs in the paragraph regarding engagements selected for review. If a team captain reviewed any of the must-select engagements in a review, the system review report should include the following paragraph: “As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA and audits of carrying broker-dealers.”

**Guidance for Review Administration**

As the result of the expiration of an SEC Order, absent further action by the SEC, financial statements of *non-public broker-dealers* for fiscal years ending after December 31, 2008 must be certified by a public accounting firm that is registered with the PCAOB.

The SEC Order requiring registration had been originally issued in 2003 under Section 17(e) of the Securities Exchange Act of 1934, but was delayed several times via extensions up to January 1, 2009. In a Statement issued January 9, 2009 available at http://www.pcaobus.org/News_and_Events/News/2009/01-07.aspx, the PCAOB provided information on how affected firms should now apply for PCAOB registration (also see FAQs on the process at http://www.sec.gov/divisions/marketreg/faq-pcaobregbdauditors.htm and http://pcaob.org/Registration/Staff_QAs_on_the_Registration_of_Broker-Dealers.pdf).

Under current guidance, a firm is required to have its peer review administered by the National Peer Review Committee (NPRC) if it is required to be registered and inspected by the PCAOB or if it performs audits of non-SEC issuers pursuant to the standards of the PCAOB. Until a permanent scope is identified for the PCAOB inspection program of BDs, firms that are only required to be inspected by the PCAOB due to the performance of audits of BDs, may have their peer reviews administered by a state CPA society, group of state CPA societies, or other entity approved by the PRB to administer peer reviews. They do not have to be administered by the NPRC but may choose to do so.

At least one member of the RAB considering a peer review that includes audits of carrying BDs must have current experience in such engagements. A national list of experienced RAB members will be maintained so that the administering entity has an available pool of RAB members with carrying BD experience.

**Guidance for Technical Reviewers**

To ensure that BDs have been appropriately considered by the review team, the technical reviewer should review the SRM for indication of audits of entities subject to SEC independence rules. If the SRM includes audits of entities subject to SEC independence rules, the technical reviewer should determine if the audits of entities subject to SEC independence rules were audits of BDs; (2) ensure that BDs were addressed in the team captain’s risk assessment; (3) ensure a carrying BD was appropriately selected as a must-select, or if the firm only performs one audit of carrying BDs and such was previously inspected by PCAOB, provide sufficient documentation regarding the PCAOB inspection results as to justify why it was appropriate not to review the carrying BD during the peer review; and (4) ensure that question II D of the SRM addresses the PCAOB inspection, if applicable. Technical reviewers should also ensure the paragraph in the peer review report regarding engagements selected for review also includes carrying BDs.
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

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.

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.

**Sampling.** The PCIE report notes inconsistent numbers of transactions selected for testing of internal control and compliance testing for the allowable costs/cost principles compliance requirement across the audits that they reviewed. Also, many single audits did not document the number of transactions and the associated dollars of the universe from which the transactions were drawn.

**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

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 employee benefit plan 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 service organization control (SOC) 1 reports; lack of testing when SOC 1 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 SOC 1 report 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.

**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.

**Engagement Quality Control Review**

The firm either failed to establish or established inappropriate, vague, or insufficient criteria for the purposes of establishing a threshold for engagement quality control review (EQCR). Statement on Quality Control Standards (SQCS) No. 7 and, subsequently, SQCS No. 8, requires a firm to “…establish criteria against which all engagements covered by this statement are to be evaluated to determine whether an engagement quality control should be performed.” The peer reviewer should address this aspect of the design of the firm’s quality control policy in the peer review.

**Monitoring**

The firm failed to appropriately respond to questions pertaining to performance of post-issuance review, review of compliance with firm QCPP, and/or documentation of firm monitoring procedures. The peer reviewer should require the firm to correct these responses or address this aspect of the design of the firm’s quality control policy within the peer review.

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