

AICPA

PEER REVIEWER'S ALERT 08-01

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Risk Assessment SASs

SASs Nos. 104 through 111 became effective for audits of financial statements for periods beginning on or after December 15, 2006.

Overview

The primary objective of the SASs is to enhance the auditor's application of the audit risk model in practice by requiring, among other things:

- A more in-depth understanding of the audit client and its environment, including its internal control. This knowledge will be used to identify the risk of material misstatement in the financial statements (whether caused by error or fraud) and what the client is doing to mitigate them.
- A more rigorous assessment of the risk of material misstatement of the financial statements based on that understanding.
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Documentation Requirement

The SASs require auditors to document the following matters:

- The levels of materiality and tolerable misstatement, including any changes thereto, used in the audit and the basis on which those levels were determined.
- The discussion among the audit team regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud, including how and when the discussion occurred, the subject matter discussed, the audit team members who participated, and significant decisions reached concerning planned responses at the financial statement and relevant assertion levels.
- Key elements of the understanding obtained regarding each of the aspects of the entity and its environment, including each of the components of internal control, to assess the risks of material misstatement of the financial statements, the sources of information from which the understanding was obtained, and the risk assessment procedures.
- The assessment of the risks of material misstatement both at the financial statement level and at the relevant assertion level and the basis for the assessment.
- The significant risks identified and related controls evaluated.
- The overall responses to address the assessed risks of misstatement at the financial statement level.
- The nature, timing, and extent of the further audit procedures.
- The linkage of those procedures with the assessed risks at the relevant assertion level.
- The results of the audit procedures.

- The conclusions reached with regard to the use in the current audit of audit evidence about the operating effectiveness of controls that was obtained in a prior audit.
- A summary of uncorrected misstatements, other than those that are trivial, related to known and likely misstatements.
- Conclusion about whether uncorrected misstatements, individually or in aggregate, do or do not cause the financial statements to be materially misstated, and the basis for that conclusion.

Peer Review Guidance

Risk Assessment

In performing a peer review, the reviewer should evaluate whether the firm's system of quality control was sufficiently designed to identify and implement the requirements of the new SASs. This evaluation provides a basis for the review team to determine whether the reviewed firm has adopted appropriately comprehensive and suitably designed policies and procedures that are relevant to the size and nature of its practice.

As part of the risk assessment, the reviewer should discuss the new SASs with the firm to get an understanding of the firm's general knowledge of them. The reviewer should focus on the firm's policies and procedures. Are the policies and procedures designed to require the professional personnel to have an understanding of the applicable professional standards necessary to perform engagements assigned to them? If so, did the firm comply with its policies and procedures by providing firm personnel with the knowledge and expertise required to perform engagements assigned to them – specifically in regard to the new standards?

The reviewer should determine if the firm's personnel has a basic understanding and knowledge of these SASs. Based on the discussion, the reviewer should factor this understanding into the assessment of inherent and control risk. This should be documented in the Summary Review Memorandum (SRM).

Impact on Peer Review Report

- *Firm not aware of new SASs*

If the firm was unaware of the risk assessment standards, the peer reviewer should first determine if the firm's system of quality control was not properly designed or if the firm did not comply with its policies and procedures regarding identifying and implementing new professional standards. Next, the reviewer should assess the pervasiveness of the omission of implementing such SASs on the firm's engagements. and identify engagements reviewed as substandard (and that the firm did not perform the engagements in accordance with Generally Accepted Audited Standards (GAAS) in all material respects) if there is an omission of a critical auditing procedure(s), which includes documentation required by the SASs. Although the financial statements may not appear to have material misstatements, if the firm

did not perform the audit procedures, including documentation, required by these SASs, this can result in deficiencies included in a modified or adverse report. When a firm's system of quality control is not designed in accordance with professional standards and as a result, engagements are not performed in accordance with professional standards in all material respects then the peer reviewer would ordinarily be able to conclude that the firm has less than reasonable assurance (or in some cases no assurance) of conforming with professional standards in all material respects which is currently the threshold for issuing a modified or adverse report respectively. Even if the firm had implemented a policy to adhere to the new SASs but completely failed to implement (comply with) the policy, the reviewer could come to the same conclusion.

The reviewer should provide a detailed description of the matter and the firm's response on the Matter for Further Consideration (MFC). In addition, the reviewer should complete Section I of the SRM.

- *Partial compliance or lack of documentation required by the SASs*

The issue would also be compliance rather than design oriented if the firm was aware of the new SASs, including the documentation requirements, and implemented a requirement in its policies and procedures that new SASs be adhered to but the review identified that in certain situations the firm failed to comply with its policies and procedures (and professional standards) in all material respects. Depending on the extent of the required auditing procedures, including documentation, that was not complied with and the pervasiveness of the matter to the firm's system of quality control as a whole, this could result in an unmodified report with an LOC, a modified report (or potentially an adverse report if warranted in conjunction with other engagement deficiencies noted on the peer review).

Verbally verifying that procedures were performed, when the documentation required by professional standards is lacking in all material respects, is now considered an engagement that has not been performed in accordance with GAAS in all material respects and for peer review purposes should be considered a substandard engagement. The peer reviewer's professional judgment must be considered when the firm has demonstrated that some but not all of the required documentation is present or when the issue is not pervasive to the firm's system of quality control as a whole (and that may be when an unmodified report with an LOC is issued).

The reviewer should provide a detailed description of the matter and the firm's response on the MFC. In addition, the reviewer should complete Section I of the SRM.

Independence Impairment for Internal Inspectors, Consulting Reviewers and Pre-Issuance Reviewers Intending to Perform Peer Reviews

Under Interpretations 21-2 and 21-3 of the revised *Standards for Performing and Reporting on Peer Reviews (Standards)*, 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 an internal inspection, pre-issuance review or consulting review for the firm prior to the peer review. The only exception is if the internal inspection, pre-issuance review, or consulting review was performed for the year immediately following the previous peer review year end. Therefore, performing an internal inspection, pre-issuance review or consulting review in the second year after the peer review or during the year of the next peer review would impair independence for peer review purposes. 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 impact is immediate if peer reviewers have already performed or were planning to perform a firm's internal inspection, a pre-issuance review or a consulting review in 2008 and wants to remain eligible to perform the firm's peer review in 2009 (or later).**

Understandably, a peer reviewer can be a valuable source of information to the reviewed firm outside of the peer review process. The Interpretations discuss other relationships/situations that would impair independence and those that wouldn't. However, professional judgment must be used in many cases when during the period between peer reviews, the reviewed firm "consults" with the firm it intends to use as its reviewer. Consulting with the reviewing firm in of itself does not impair that firm's ability to perform a subsequent peer review. However, when the frequency and extent of that consultation becomes an integral part of the reviewed firm's system of quality control (on any type of peer review), independence would then be considered impaired.

What is meant by an integral part of the firm's system of quality control?

- Although professional judgment must be considered, independence would be considered impaired when the frequency and extent of the consultation becomes necessary and essential for the firm's system of quality control, as a whole, to remain designed and in compliance with professional standards in all materials respects. There are many factors to consider such as, but not limited to, the size of the firm in terms of number of partners, engagements and industries.
 - For example, if a sole practitioner who previously only had one omit disclosure compilation engagement (previously had a report review) has been asked to perform an ERISA audit and asks the potential peer reviewer to come in for a day and assist the firm in establishing and maintaining a system of quality control and teach the firm how to perform an ERISA audit, professional judgment would suggest that the reviewer's independence for peer review purposes has been impaired in this instance.

- Had the reviewed firm, in the example above, only called the potential peer reviewer to ask if using a specific audit guide, quality control standards and other materials currently in the reviewed firms library (or other peer reviewed materials that can be added to the library) would be appropriate and if the reviewer had any recommendations on a course or conference that might also be helpful to take prior to performing the audit, independence would not be impaired.

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

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 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.

Selecting a "Surprise" Engagement in a Firm with a Small Audit Practice

The current *Standards for Performing and Reporting on Peer Reviews (Standards)* require that on a system review, the initial selection of engagements to be reviewed should be provided to the reviewed firm no earlier than two weeks before the commencement of the peer review (start of fieldwork). However, at least one engagement from the initial selection to be reviewed should be provided to the firm once the review team arrives at the reviewed firm's offices and not provided to the firm in advance of the start of fieldwork. This engagement ordinarily should be the firm's highest level of

service (an audit where possible) and should not increase the scope of the review. The Consolidated Reviewers Alert has guidance in this area and this article will touch upon some of that guidance including a focus on small firms/small audit practices.

The following steps should be performed in order, prior to making the selection of the surprise engagement, keeping in mind that in some situations it will not be possible to select an audit (and in some cases any engagement) as a surprise:

1. Complete the risk assessment. The review team should use the understanding it has obtained of the reviewed firm's accounting and auditing practice and its system of quality control to assess the risk factors associated with those areas.

2. Select engagements for review which include any "must select" engagements as well as those that provide a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those engagements in the practice with higher assessed levels of peer review risk. When combined with other procedures performed, the number and type of accounting and auditing engagements selected and offices covered by the review team for review should be sufficient to provide the review team with a reasonable basis for its conclusions regarding the reviewed firm's system of quality control.

- The first two steps are performed without regard to surprise engagement selection and are documented in the SRM.

3. Next, determine if a surprise engagement can be selected and which engagement should be the "surprise" engagement from the list of engagements already selected for review (scope should not be expanded).

Question 1: Is it possible that a reviewed firm may not have an *audit* that is eligible to select as a surprise engagement?

Answer 1: Yes, for example, if the:

- Firm only performs one audit (this will be selected so not a surprise)
- Firm only performs one ERISA audit and/or one YB and/or one FDICIA (these will all be must selects so not a surprise)
- Peer Review is performed under current Interpretation #1 (at a location other than a reviewed firm's office)

Question 2: When will a team captain not be required to select *any engagements* as a surprise engagement?

Answer 2: Situations in Question 1 are applicable and/or:

The firm only performs one audit, one AUP engagement and/or one review engagement and or one compilation engagement. Although it is possible when assessing and documenting risk assessment that if a firm performs one of each of these engagements that they may not all be selected for the peer review but realistically all of them being selected would not be a surprise to

the firm. Therefore, for example, where the firm performs only one of each of these, a team captain would not be prohibited from notifying the firm when presenting the original list of engagements to be selected that he/she may select an engagement that wasn't on the original list. This is not required as it really does not constitute a surprise engagement, but is permitted.

Question 3: Will there be a surprise audit engagement selected when a two partner firm performs two manufacturing audits of a similar size (one by each partner) and no other engagements?

Answer 3: A reviewed firm would realistically expect both audits to be selected and therefore picking both would not be a surprise. However, similar to the answer in Question 2, a team captain would not be prohibited from notifying the firm that one audit is selected when presenting the original list of selected engagements and that he/she may select the engagement that wasn't on the original list.

Question 4: Can there ever be a surprise engagement when a sole practitioner (with professional staff) only performs two audits (independent of any other level of service performed)?

Answer 4: There are reasons why a team captain's risk assessment would indicate to pick both audits (maybe one is an initial client and the other a high risk industry) and reasons why in some cases only one of the 2 audits would need to be selected (existing clients in same industry and same size). It is possible that in either case that a reviewed firm would realistically expect both audits to be selected and therefore picking both would not be a surprise to them. Therefore, the team captain must use professional judgment in determining whether there would be a "surprise engagement" in these instances. If risk assessment indicates that only one audit should be selected, then a team captain may inform the firm he/she will select at least one audit upon arrival (without saying which one). If risk assessment indicates that both audits should be selected, the team captain would not be prohibited from notifying the firm that one audit is selected when presenting the original list of engagements and that he/she may select the other audit upon arrival.

The team captain should thoroughly document his/her considerations in the SRM and it would be expected that a RAB should not need to challenge the team captain in the two-audit scenario unless it is somehow very apparent that there should have been a surprise audit selected.

Question 5: When the firm does not have an audit that is eligible to select as the surprise engagement what level of service should be selected?

Answer 5: When the threshold for selecting an audit is not met (as discussed above), then similar logic should then be applied to selecting an engagement performed under the SSAEs and then SSARS as the surprise engagement.

The team captain should thoroughly document his/her considerations in the SRM and it would be expected that a RAB should not need to challenge the team captain unless it is very apparent that there should have been a surprise engagement selected or one of a different level of service than what was selected.

Question 6: May more than one surprise engagement be selected by the team captain?

Answer 6: Yes, as long as this does not increase the scope of the review (Assuming that scope is not expanded due to other appropriate reasons).

Peer Reviewers or Firms that Consider Withdrawing from a Peer Review After the Commencement of Fieldwork

The responsibilities of peer reviewers are detailed in the *Standards for Performing and Reporting on Peer Reviews (Standards)* and Interpretations as are those of the reviewed firm, including when a firm may resign from the AICPA PRP. However, very rare circumstances develop whereby a reviewer determines that he/she must withdraw from the peer review. Although rare, the reasons may vary such as health, not receiving the required documents from the reviewed firm within a reasonable time frame (or other lack of cooperation matters), personality conflicts with the reviewed firm that cannot be overcome, not meeting the requirements to be a peer reviewer after the fieldwork on a peer review has commenced and other reasons.

This is not intended to be an all-inclusive list nor an indication when it is appropriate for a peer reviewer to withdraw from a peer review. However such matters should be discussed with the entity administering the peer review. Some ramifications of withdrawing lead to matters that will need to be resolved solely between the peer reviewer and the firm, whereas other matters (also based on the validity and types of reasons) might also result in firm non-cooperation and/or reviewer performance issues that will need to be addressed simultaneously by the administering entity as well. The peer reviewer needs to be aware that this could impact his/her ability to perform future reviews and the firm also needs to be aware that this could impact its ability to meet licensing and other regulatory requirements as well as AICPA membership requirements.

Also, there are very rare circumstances when a reviewed firm considers withdrawing from its peer review after fieldwork has begun. The reasons vary here as well including health, not receiving timely correspondences from the peer reviewer, personality conflicts with the reviewer that cannot be overcome and other reasons. This is also not intended to be an all-inclusive list nor an indication when it is appropriate for a reviewed firm to withdraw from a peer review. However such matters should be discussed with the entity administering the peer review. Some ramifications of withdrawing lead to matters that will need to be resolved solely between the peer reviewer and the firm, whereas other matters (also based on the validity and types of reasons) might also relate to firm non-

cooperation and/or reviewer performance that will need to be addressed simultaneously by the administering entity as well. The firm should be made aware of the difference between resigning from the AICPA PRP which is specifically addressed in the *Standards and Interpretations* versus possibly withdrawing from an existing review and immediately hiring a new reviewer to perform another peer review by its due date. The firm also needs to be aware that this could impact its ability to meet licensing and other regulatory requirements as well as AICPA membership requirements.

Engagement Reviews – Considerations When there are Several Departures from GAAP that are Immaterial

In reviewing the GAAP basis financials with no report modification, a reviewer may find several departures from GAAP such as amortization of goodwill, marketable securities presented at cost and a small amount of Section 179 depreciation (immediate write off) of fixed assets. It is possible that each of these items are individually and collectively immaterial on one engagement, but are obvious departures from GAAP. In discussing the “No Answers” and/or MFCs, it may become evident that the firm is not aware of the departures, but they claim it is immaterial anyway. Can there be or should there be an LOC item or deficiencies resulting in a modified report under the current *Standards for Performing and Reporting on Peer Reviews (Standards)* on an engagement review with obvious immaterial GAAP departures?

If an individual finding is immaterial and/or findings collectively are immaterial on an engagement, then based on the current objectives of an engagement review, including whether the engagements submitted for review conform with the requirements of professional standards *in all material respects*, it doesn’t meet the threshold of a “deficiency” to be included in a modified Report. However, a reviewer needs to use professional judgment in determining whether collectively “the all material respects” threshold has not been met and whether the current “substandard engagement” definition has been met.

In addition paragraph 104 of the current *Standards* “Letters of Comments on Engagement Reviews” states that an LOC should only be issued in connection with an engagement review if the reviewer notes departures from professional standards that are not deemed to be significant departures but that should be considered by the reviewed firm (in evaluating its QC policies and procedures). This paragraph does not say collective immaterial findings are excluded from LOCs.

Furthermore, the last sentence of the first paragraph of an LOC states “The matters described below were not considered to be of sufficient significance to affect the limited assurance expressed in that report”.

The objective of an engagement review discusses “in all material respects” but the LOC leaves room for “non significant departures to be included in the LOC”. Professional

judgment should be used when making this determination and whereas in this example it might not be inappropriate to include an LOC item due to the number of matters noted on one engagement, a different conclusion may be reached if three engagements were reviewed and each one had a single immaterial departure which ordinarily would not be included in the LOC.

What if a Reviewed Firm Changes its Name During the Peer Review Year or After the Peer Review Year End but Prior to the Peer Review Report being Presented for Acceptance to the Peer Review Committee

A firm should complete the Notification of Change in Firm Structure Form whenever there is merger, dissolution or just a name change and should submit this information to the administering entity and discuss any questions it may have with the administering entity. The AICPA will make a determination whether for peer review purposes it will be treated as solely a name change. The peer reviewer is issuing a report on a period covering one year and should include the name that appeared on the letterhead of the reports issued by the firm during that year.

If subsequent to the peer review year end the firm changed its name, then the new name may appear as well. Ideally these matters should be dealt with such that the report and if applicable, LOC presented to the peer review committee reflect these revisions. For example, ABC firm had a peer review for the year ended 9/30/07 and changed its name to ABCDE firm effective 11/1/07. The peer review took place on 12/1/07 and the peer review report was issued 12/15/07. In this example the report could be addressed to (and all references in the report could refer to “ABCDE firm (formerly known as ABC firm)”. However, at a minimum, the report should contain a reference to ABC firm as that was on the letterhead of the reports issued by the firm during the peer review year.

If the firm underwent a name change in the middle of the peer review year, then the report should be addressed to the firm’s most current name, and could also indicate in the body of the report, “Also Doing Business As”. So in the example above assume ABC firm changed its name to ABCDE firm on 3/31/07. The peer review report would appropriately be addressed to ABCDE firm but the body of the report could refer to ABCDE firm also doing business as ABC firm as during the peer review year, reports were issued on both letterheads for the reports issued by the firm.

A firm would have a name change in the following situations:

- A partner is leaving the firm and taking no accounting or auditing (A&A) clients from this firm to a new firm.
- A partner is joining the firm and bringing no A&A clients into the firm.
- A staff member has been promoted to partner.
- A firm name is changed for commercial purposes (i.e. PLLC, LLC, PC)

If the firm name changed due to a merger, or acquisition, dissolution, or sale, this guidance may not be applicable.

Qualifying for Service as a Team Member/Captain when Only Performing Quality Control Functions for Another CPA Firm

Paragraph 32 of the *Standards for Performing and Reporting on Peer Reviews (Standards)* and related Interpretations discuss the qualifications for serving as a System and Engagement reviewer. Two of those requirements are included here:

- a. Be a member of the AICPA in good standing (that is, AICPA membership in active status) licensed to practice as a certified public accountant with a firm enrolled in the Program or the CPCAF PRP. The firm that the member is associated with should have received an unmodified report on the review of its system of quality control or an unmodified report on its engagement review for its most recent peer review that was accepted within the last three years and six months.¹ If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received an unmodified report on the review of its system of quality control or an unmodified report on its engagement review for its most recent peer review that was accepted within the last three years and six months.
- d. Be currently active in public practice at a supervisory level in the accounting or auditing function of a firm enrolled in an approved practice-monitoring program (that is, a firm enrolled in the Program or in the CPCAF PRP) as a partner of the firm or as a manager or person with equivalent supervisory responsibilities.^{2, 3} To be considered currently active in the accounting or auditing function, a reviewer should be presently involved in the accounting or auditing practice of a firm supervising one or more of the firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.

Would a sole practitioner of an enrolled firm, that has given up his/her own A&A engagements but serves in the capacity of an external quality control/concurring reviewer *for other enrolled CPA firm(s)* meet the qualifications to serve as a team member or a team captain on a System Review? Does this individual meet the “be currently active” threshold in “d” assuming the three year six month peer review threshold in “a” is met?

A sole practitioner in this example would meet the minimum requirements in “d”, except for being a professional employee of the firm the work is being performed for and

¹ If a firm's most recent review was a report review, then the firm's members are not eligible to perform peer reviews.

² The Board recognizes that practitioners often perform a number of functions, including tax and consulting work, and cannot restrict themselves to accounting and auditing work. These standards are not intended to require that reviewers be individuals who spend all their time on accounting and auditing engagements. However, CPAs who wish to serve as reviewers should carefully consider whether their day-to-day involvement in accounting and auditing work is sufficiently comprehensive to enable them to perform a peer review with professional expertise. For instance, a reviewer of auditing engagements should ordinarily be currently reviewing or performing auditing engagements and a reviewer of financial statements with disclosures (reviews and compilations) should also be currently reviewing or performing the same type of engagements.

³ A manager or person with equivalent supervisory responsibilities is a professional employee of the firm who has either a continuing responsibility for the overall planning and supervision of engagements for specified clients or authority to determine that an engagement is complete subject to final partner approval if required.

therefore would not meet the requirements as noted in Footnote 3. The practitioner would therefore not be eligible to serve in the capacity of a team member or team captain.

Firm Cooperation - Guidance for Administering Entities Related to Firms that Receive Consecutive Peer Review Reports that are not Pass (Unmodified) Reports

Paragraph 119 in the *Standards for Performing and Reporting on Peer Reviews* indicates that if a reviewed firm refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate, the Board may decide, pursuant to due process procedures that it has established, to appoint a hearing panel to consider whether the firm's enrollment in the Program should be terminated or whether some other action should be taken. A firm that receives peer reviews with recurring significant deficiencies that are not corrected may be deemed as a firm refusing to cooperate. In addition, a firm that fails to correct significant deficiencies after consecutive corrective actions requested by the committee may also be deemed as a firm refusing to cooperate.

At a minimum, an administering entity's peer review committee should assess every situation where a firm has received consecutive peer review reports that are not unmodified in determining whether to notify the firm via certified mail that a third consecutive failure to receive an unmodified report may be considered a failure to cooperate with the administering entity.

That assessment to consider mailing the notification should include reviewing the previous peer review documents including the report(s) LOC(s), LOR(s) and related follow up actions. Has the firm improved at all? Did the firm implement corrective actions or are the deficiencies the same as before? Did the firm have numerous deficiencies in the previous peer review that were just replaced with different ones? Although the deficiencies met the criteria to include in the peer review report(s), what specifically were they?

It is expected that the assessment whether to send the notification should ordinarily result in the notification being sent, particularly when the most recent review was an adverse report or there are repeat deficiencies. There are usually very rare circumstances as to when the notification would not be deemed necessary.

An example when the notification may not be deemed necessary might be when the firm has demonstrated vast improvement from the last peer review (not just replacing one set of deficiencies with another set of different deficiencies). Another example may be when it received a modified report on its prior system review due to significant audit documentation matters and the firm was required to take corrective actions as a condition of acceptance, complied, and then the firm gave up its audit practice. Then, on its most recent engagement review it was noted that on the firm's only two engagements, which were reviews, the firm failed to obtain management representation letters. Although a follow up action would be warranted the notification letter possibly may not be. There are

no circumstances though, where the peer review committee would be prohibited from sending the notification when the consecutive review threshold is met. It is actually recommended that in all cases the notification should be sent out, since it the actual evaluation of non-cooperation would occur on the subsequent peer review.

Assuming that the notification was sent and the third consecutive review was not unmodified, the peer review committee must assess whether this should be deemed as non-cooperation by the firm. Ordinarily, it would be expected that a firm who cannot receive an unmodified report after receiving two consecutive modified or adverse reports should be deemed as non-cooperating and it would be extremely rare for there to be a different conclusion. However, the matter should be addressed by the peer review committee. A possible example where it may not be deemed as non-cooperation is when a firm receives an adverse system review report, makes vast improvements and then receives a modified system review report on the second peer review. Then, the firm gives up its audit practice and on the third peer review, an engagement review (where the firm has a full and omit disclosure compilation, and review practice) fails to get a representation letter on the firm's review engagement and receives a modified report. It is possible this is a situation where the peer review committee does not believe it is appropriate to treat this as a firm non-cooperation matter.

This is a very important process that needs to be considered on a case-by case basis and if the peer review committee pursues due process for the firm's non-cooperation, it needs to document its considerations such that if the matter is referred to the AICPA Peer Review Board (PRB) for a hearing, the hearing panel will have this information in addition to the other information in making its decisions.

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 (Standards)* 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 CPCAF PRP reviews in the past would now be subject to the AICPA PRP requirements as of 1/1/09, 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 impact 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.**

Documenting the Exit Conference

The exit conference marks the end of fieldwork, in all substantial respects. The review team's primary focus is to discuss the peer review report and letter of comments, if applicable, and to inform the firm that the peer review committee may require the firm to complete follow-action(s) based on the type of report and comments. The exit conference is also the appropriate vehicle for providing suggestions to the firm that do not affect the report or letter of comments.

The following is a recommended outline of matters that should be discussed in the exit conference. A summary should be prepared by the team captain or peer reviewer documenting the items discussed.

1. Results of peer review
 - Type of report to be issued
 - Review all letter of comments findings and recommendations, if applicable
 - Letter of response, if applicable
 - Provide guidance for writing a letter of response
 - Remind the firm to submit a draft of the letter of response to the team captain for review
 - Remind the firm of their responsibility to submit copies of the following documents to the administering entity within 30 days of the issuance of the report, or if earlier, by the firm's established peer review due date
 - report
 - letter of comments, if applicable
 - letter of response, if applicable
 - Potential follow-up actions may be required by report acceptance body
 - Should not publicize results of the review or distribute reports until notification of acceptance received from administering entity
2. Other matters noted, but not included in the letter of comments
3. New accounting and auditing issues to monitor
4. Other observations and suggestions for improvement

Comments from Working Paper Oversight

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 impact 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, and office locations. The *AICPA Consolidation of Peer Reviewers' Alerts*, states [although *Standards* do not require any specific format for documenting risk assessment] "The documentation should include the assessment of inherent risk, control risk and detection risk as it pertains to the firm's accounting and auditing practice etc." in order that the RAB is provided with enough information "to review the risk levels in order to determine if the peer review standards were appropriately applied."

Supplemental Checklists on Engagement and Report 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 twelve-month period ended to which the listing applied or 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.

2008 AICPA Peer Review Program Conference

The 2008 AICPA Peer Review Program Conference will be held on November 12 – November 14, 2008 in Las Vegas, Nevada. This conference will include the latest developments, insights and training regarding the peer review process, including the revised Peer Review Standards effective for reviews commencing on or after 1/1/09, that peer reviewers, technical reviewers, administrators and committee members will encounter. Attendees will receive updated information that affects their role in the peer review process, participate in challenging conference cases and share recent peer review information, ideas and experiences.

Additional conference and registration information will be available at <http://www.aicpa.org/members/div/practmon/index.htm> in the near future.

Federal Single Audit Quality Study Released

A federal study on the quality of audits performed under Office of Management and Budget (OMB) Circular A-133, [Audits of States, Local Governments, and Non-Profit Organizations](#), 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. Overall, the 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 PCIE report shows that improvements are needed in many areas. The AICPA [Governmental Audit Quality Center](#) (GAQC) Executive Committee and the AICPA Peer Review Board have formed 7 special task forces to study in detail the PCIE report findings and recommendations and to work with the OMB, the Inspectors General and other interested parties in order to provide additional guidance to help members achieve the highest standards in performing quality governmental audits. Peer reviewers should review the PCIE report.

Reviewer Feedback to the AICPA

The AICPA Peer Review Team is constantly looking for ways to improve. If you have comments or suggestions about the Program, checklists, conference, or any other topics related to peer review, please let us know. You can email your suggestions to prptechnical@aicpa.org or call 919-402-4502 and ask to speak with a Technical Manager. We look forward to hearing from you!