Impact of Developments in the Profession on Peer Review

Rick Reeder, CPA, CGMA, Chair – Peer Review Board; Managing Partner – Reeder and Associates
Jim Brackens, CPA, CGMA, VP – Ethics and Practice Quality

Introduction and Overview

► Near-Term Quality Enhancements
► Recently Adopted Peer Review Guidance Changes
► Peer Review Manual Update
Near-Term Quality Enhancements

- Changes to professional standards and related implementation guidance
- New tools, development and resources (including Future of Learning, AQC activities, and CPEA)
- Amendments to the existing peer review program
Recently Adopted Peer Review Guidance Changes

Completeness of Peer Review Scope

- Recent public evidence of firms omitting engagements from peer review scope
- Examples include
  - Limited scope DOL ERISA engagements
  - Engagements with period ends within the peer review year, but have yet to be completed
- Results in misleading peer review reports
Completeness of Peer Review Scope

**Guidance changes – noncooperation**
- Potential consequences for omitted or misrepresented information about an accounting and auditing practice
  - Dropped enrollment from the Program
  - Termination from the Program
  - Referral to AICPA Professional Ethics Division
- Effective for reviews commencing after April 1, 2014.

**Guidance changes (continued)**
- Representation letter
  - Expanded representations regarding engagement completeness specifically mention all must select engagements
  - Required to be sent to AE, and is maintained until the acceptance of the firm’s next peer review
- No A&A letter
  - Now includes a statement that the firm recognizes their enrollment may be dropped automatically for failing to accurately represent their A&A practice
Recalling Erroneous Peer Review Reports

- A material departure from the peer review standards is defined as errors or omissions that result in a change in:
  - Type of peer review
  - Period covered
  - Must-select categories

- Material departures directly impacting peer review report
  - Engagement review performed when system review was required
  - “Must-select” category omitted in peer review

Material Departures Directly Impacting Peer Review Report

- Updated recall guidance
  - Facts confirmed
  - AE, reviewer and firm notified
  - Acceptance letter is automatically recalled
  - Describes method and content of information that AE should communicate to State Boards
Subsequent Peer Review Considerations

► **Impact of misrepresentation of A&A Practice:**
  - MFC could be escalated to FFC, Deficiency or Significant Deficiency
  - Evaluate systemic cause

► **Independence considerations**
  - Self-review threat

Coordination of Peer Review and PCAOB Inspection

► **SEC Broker-Dealer Rules – all audits to be performed under PCAOB Standards**
  - Effective for period-ends on or after June 1, 2014
  - Not yet covered by PCAOB permanent inspection plan
Reporting on Engagement Reviews

► Current guidance
  • Leads to inconsistent results if the same deficiency is found on all engagements reviewed

<table>
<thead>
<tr>
<th>Number of Engagements Reviewed</th>
<th>Type of report</th>
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<tbody>
<tr>
<td>One</td>
<td>Fail</td>
</tr>
<tr>
<td>More than One</td>
<td>Pass with Deficiencies</td>
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Reporting on Engagement Reviews

► Proposed standards change
  • Promotes consistency of report ratings to meet needs of the user
  • Firm will receive a *Fail* report if any deficiency is found on all engagements submitted for review

► Comment period ended July 5, 2014
  • Exposure Draft
Guidance Changes on the Horizon

- Reassessment of Must Select and Must Cover Engagements
- Exposure Draft for peer review treatment of preparation services performed under SSARS
- Coordination of noncooperation and recall guidance

Peer Review Manual Update
Peer Review Manual Update

 ► **Electronic focus**
   - Starting in 2015, Manual will be available via an online subscription
   - January 2015 will see a dual release of a paper version of the Manual as well as online version
   - April 2015 version of the Manual will be the last to have a paper version distributed to reviewers

 ► **Benefits**
   - Economic
   - Technological
   - Efficiency

Questions?