

FAQs from Ongoing Report Acceptance Body (RAB) Member Training Webcast

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If nonconforming engagements are identified during the peer review, what are the responsibilities of the report acceptance body (RAB)?

For System Reviews, the RAB should discuss:

- whether the SRM contained a discussion of nonconforming engagements, an assessment of the firm’s remediation of such engagements and the impact to the peer review, including scope expansion implications
- whether the deficiencies or significant deficiencies in the report or the FFC form reference all nonconforming engagements resulting from the deficiency, significant deficiency or finding
- whether the firm’s actions, taken or planned, outlined in the firm’s letter of response or FFC, to remediate nonconforming engagements are reasonable
- whether the lack of an appropriate response to a nonconforming engagement by the firm is indicative of other weaknesses in the firm’s system of quality control, such as tone at the top
- requiring an implementation plan, for example, when a finding references a nonconforming engagement and the team captain was not able to review or understand the firm’s remediation, either taken or planned
- the appropriateness of any implementation plans and corrective actions required

Revisions to peer review documentation should be requested when:

- the firm's letter of response or the firm's response to the FFC form does not appropriately address deficiencies, significant deficiencies or findings and nonconforming engagements, including responses that are unacceptably noncommittal, vague or otherwise unclear or not responsive
- the reviewer fails to identify within the report
 - the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific or related to a nonconforming must select engagement
 - any nonconforming engagements that resulted from the deficiency or significant deficiency
- the reviewer's documentation of nonconforming engagements in the SRM is incomplete, vague or otherwise unclear

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Can a RAB require a firm to join an Audit Quality Center?

The RAB can require a firm to join an Audit Quality Center as a *corrective action* when:

- governmental or employee benefit plan audit engagements were identified in the peer review as nonconforming
- other corrective actions have been issued (it can only be used in conjunction with other corrective actions)
- the firm is eligible to enroll in the relevant Audit Quality Center

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Must CPE be required in addition to other corrective actions or implementation plans imposed?

While more than one implementation plan or corrective action can be imposed by the RAB, there is no requirement for the RAB to require CPE in addition to any other corrective actions or implementation plans imposed. Any implementation plan or corrective action should specifically address the issues.

The decision of whether to require corrective actions or implementation plans and deciding on what actions or procedures are appropriate is a matter of professional judgment that each RAB makes based on the applicable facts and circumstances.

For example, if the RAB is considering issuing CPE as a corrective action or implementation plan, the type and amount of CPE should be related to the issue raised in the finding or deficiency.

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If a report contains reviewer recommendations or "closes the loop" should the RAB delay or defer acceptance and require revisions?

For a review that commences on or after January 1, 2017, a report containing reviewer recommendations and/or loop closure should be revised.

RABs should look at the review commencement date to determine which standards apply to the review.

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If a compilation report is not in compliance with SSARS No. 21, is that automatically a nonconforming engagement?

Ordinarily, the peer reviewer should conclude that a firm's failure to adopt SSARS No. 21 or to update the wording in the accountant's report pursuant to SSARS No. 21 would cause the engagement to be nonconforming.

The following scenarios would ordinarily result in a nonconforming engagement:

- The compilation or review report mirrors the illustrative report from SSARS No. 19 when SSARS No. 21 applies.
- The review report does not contain the appropriate headings.

The following scenarios would NOT ordinarily result in a nonconforming engagement:

- The review report contains some of the appropriate paragraph headings, but not all are included.
- The compilation or review report generally follows the illustrative report from SSARS No. 21 application guidance, but omits a few words.

If the firm does not timely or properly implement SSARS No. 21, it could have pervasive nonconforming engagements in this area of its practice. It is important to consider the systemic cause for the issue and if it is isolated to just the accounting services part of the practice or if it is a quality control weakness that may extend to the audit practice as well.

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How can a deficiency be written for a quality control issue when there are no nonconforming engagements?

A system review is not exclusively focused on specific engagements, but on the system of quality control.

A system review is intended to provide the reviewer with a reasonable basis for expressing an opinion on whether the review firm's system of quality control for its accounting and auditing practice has been designed in accordance with the quality control standards and whether the reviewed firm's quality control policies and procedures were being complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

A reviewer might conclude that certain conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects, even when few matters in the work performed by the firm are identified. Interpretation No. 79-1 provides examples of when a design matter or other compliance matter would result in a peer review rating of pass with deficiencies or fail.

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What is the logic behind the reviewer not making a recommendation to the firm to correct a deficiency?

In order to improve audit quality, the Peer Review Board wanted to be very clear about the roles and responsibilities for a firm's system of quality control. While a peer reviewer is able to assist the reviewed firm in determining the appropriate remediation to correct a deficiency, it is the reviewed firm's responsibility to identify and execute the appropriate remediation for any deficiencies identified.

It was decided that including peer reviewer recommendations in the report was creating confusion as to who had the responsibility for remediating deficiencies in the firm's system of quality control.

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Why is there a requirement to review the representation letter from the prior review?

This requirement is being established now for use in the future, specifically because of the new representation regarding confirmation that the firm will remediate nonconforming engagements as stated by the firm on the MFC Form, FFC Firm or Letter of Response, as applicable. For example, if the firm represents they will remediate an engagement in their representation letter from the prior peer review and the reviewer notes that remediation did not occur, this could be indicative of a quality control issue.

Review of the representation letter from the prior review should occur in conjunction with planning and risk assessment procedures performed regarding evaluation of the firm's representations in relation to remediation of nonconforming engagements.

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