

June 2014 Peer Review Update

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Peer Review Alert 14-03

[Revisions to Recall Guidance](#)

June 2014 Reviewer Focus

[Replacement Review Considerations When a Peer Review Documents are Recalled \(Impact to reviewer independence, engagements performed under *Government Auditing Standards and the firm's system of quality control*\)](#)

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Peer Review Alert 14-03 (June 2014)

Revisions to Recall Guidance

In 2012, the Peer Review Board (PRB) approved guidance for the recall of peer review documents when information is subsequently discovered that may have impacted the planning, performance, evaluation or acceptance of a firm's peer review. Recent developments required revisions to guidance specifically related to omissions and errors.

To address these recent developments about omissions and errors, on April 25, 2014 the PRB approved revisions to the recall guidance when subsequently discovered evidence indicates that errors or omitted information about a firm's accounting and auditing practice results in a material departure from the standards and requires a change to the peer review report. Further conforming changes were approved by the PRB on May 28, 2014.

Summary of major revisions to recently approved recall guidance:

- Explicitly indicates that if the discovery of information about an error or omission does not originate from AICPA peer review staff, staff should be notified and consulted immediately before proceeding with recall considerations.
- Defines a material departure from peer review standards as errors or omissions that result in a change in the type of peer review, period covered or must-select categories (engagements required to be selected by the reviewer as defined in Interpretations 63-1). Such a departure results in a peer review that is not properly performed or reported on in all material respects thus necessitating a significant change in the peer review report.
- Emphasizes that it is the firm's responsibility to notify users relying on the peer review documents to discontinue reliance.
- Indicates that the reviewer should (presumptively mandatory) recall the peer review report if the previously accepted peer review report was not correct in all material respects. If such a report was accepted more than three years and six months prior or a more recent peer review has been accepted, then recall reconsiderations are not necessary.
- Indicates that the administering entity (AE) should communicate the discovery of the information (with evidence) and the resolution of the matter in writing simultaneously to

the firm and reviewer (Notification of Discovery and Resolution Letter). The firm should sign and return the letter to the AE within 15 days from the date of the letter.

- Eliminates peer review committee deliberation about recalling the acceptance letter if an engagement that would have required a system review or an engagement in a must-select category was not included in a system review. Recall of the acceptance letter is automatic in these instances. The recall of the acceptance letter invalidates the related peer review report and letter of response, if applicable, because it creates a situation in which the firm's peer review documents are no longer accepted by the administering entity. Therefore the reviewer is not required to recall the peer review report but may do so.
- Indicates that the period to be covered by a replacement review is the firm's and reviewer's decision. Provides clearer examples of resolutions for a replacement review depending on whether the firm continues to perform the previously omitted engagement(s). The firm and reviewer should consult with the administering entity to determine the period to be covered by a replacement review.
- Indicates that the reviewer for the replacement review must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further Consideration (MFC) form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC) or deficiency in the report.
- Provides guidance on the method and content of information that may be communicated by the administering entity to state boards of accountancy if peer review documents are recalled.
- Removes the reference to the disagreement guidance related to recall procedures when there is evidence that errors or omitted information about a firm's accounting and auditing practice represents a material departure from the standards of the program resulting in a significant change to the peer review report.

Other changes to the guidance

- Removes extraneous and duplicative information.
- Adds a definition of presumptively mandatory ("should") and mandatory provisions ("must") to the guidance overview as a footnote. Departures from provisions require consultation with AICPA staff.

These changes to the recall guidance can be found as Agenda Item 1.4 in the [Peer Review Board Open Session Materials](#) for May 28, 2014 and will be included in the next revision of the Peer Review Program Manual. The guidance was effective upon PRB approval on May 28, 2014. However, this revised guidance is not applicable to discoveries of information that were communicated to the administering entity, reviewed firm, or reviewer prior to the approval of this revised guidance. The procedures for those instances should follow the recall guidance that was in effect at the time of the communication.

Reviewer Focus

Welcome to the June 2014 edition of ***Reviewer Focus***. We designed this communication to focus your attention on current issues to assist you in more effectively performing your peer reviews and enhancing the quality of the work performed by your peer review clients. The information contained herein has ***not*** been approved by the AICPA Peer Review Board and thus does not constitute other guidance as defined in the *AICPA Standards for Performing and Reporting on Peer Reviews*.

This edition of Reviewer Focus contains two articles:

1. [Replacement Review Considerations When Peer Review Documents are Recalled \(Impact to reviewer independence, engagements performed under Government Auditing Standards and the firm's system of quality control\)](#)
2. [Save the Date - Upcoming Webcasts and Conferences](#)

Replacement Review Considerations When Peer Review Documents Are Recalled

On May 28, 2014, the AICPA Peer Review Board (PRB) approved revised guidance related to the recall of peer review documents. The revised guidance can be accessed [here](#), in addition to the [Peer Review Alert](#). In summary, the revised recall guidance indicates that if a material departure from peer review standards is subsequently discovered and directly impacts the peer review report, the reviewer should (presumptively mandatory) recall the peer review report and the administering entity must recall the acceptance letter. The firm has the primary responsibility to notify users of the peer review report to discontinue reliance on recalled peer review documents. In addition the firm should have a replacement review performed within 90 days from notification of the acceptance recall. Firms, reviewers, and administering entities should be aware of the implications that a recalled peer review may have on the replacement review.

The Firm's System of Quality Control

Reviewers performing replacement reviews should consider the potential weaknesses in the firm's system of quality control that led to the recalled peer review report. The guidance approved by the board states that the reviewer must evaluate the systemic cause for the error or omission and, at a minimum, prepare a Matter for Further Consideration (MFC) Form. Further evaluation of the systemic cause could lead to a Finding for Further Consideration (FFC), deficiency or significant deficiency in the report.

For situations where the report is recalled due to excluded engagements, the reviewer should discuss the omission with the managing partner to determine systemic cause. Based on the discussion, if the reviewer determines the engagements were intentionally excluded, the reviewer should consider the systemic cause to be tone at the top. If the exclusion was not intentional, the reviewer should determine if there is a system design or compliance matter. The reviewer should then determine if the omission leads to a Finding for Further Consideration or a deficiency to be included in the report.

Tone at the top deficiencies, and specifically considerations for recalled peer review reports, will be discussed further by the Peer Review Board and its Standards Task Force in the coming months.

Reviewer Independence

Reviewers performing a replacement review are reminded that they must still adhere to peer review independence requirements contained in Standards paragraph .21 and related Interpretations. Depending on the year-end of recalled review, and year end to be covered by the replacement review of a subsequent period, the reviewer may not be independent. Based on Interpretation 21-2, a reviewer is not independent if he or she performed the monitoring (peer review included if it serves as firm's inspection) of a firm's accounting and auditing practice for the year immediately preceding or during the peer review year. For example: Original period

was 12/31/11, error discovered in 2013, replacement review is for a subsequent period. Original reviewer is not independent to perform the replacement review for 12/31/12. However, the reviewer would be independent if the replacement review was for 12/31/13 or 12/31/14.

Engagements Performed Under Government Auditing Standards

Reviewers performing replacement reviews should be aware of the implications that a recalled peer review may have on the engagements performed under *Government Auditing Standards*. *Government Auditing Standards* Section 3.82 (b) states: "Each audit organization performing audits in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years." When a peer review is recalled, this causes a lapse in the 3 year peer review requirement.

PRP Section 3100 Supplemental Guidance indicates that if a firm is performing governmental engagements and the firm does not have a quality or peer review done on the firm every three years, or the required personnel did not complete the CPE required by GAS, the engagements should be classified as not conforming with professional standards for purposes of the AICPA Peer Review Program.

In the case of a recalled peer review, since the firm likely did not have a peer review within the three years prior to performing the engagement, logic would dictate the engagements performed during the period of lapse would be considered not performed in accordance with GAGAS. However, if the only reason for nonconformity with professional standards is due to the recalled review, and the recall was not related to omission of GAGAS engagements, the engagements performed during the lapsed period will be considered in compliance with the GAGAS requirement for peer review purposes.

In addition, *Government Auditing Standards* Section 2.24b, indicates that an auditor may modify its GAGAS compliance statement in the auditor's report by stating either that—

(1) the auditor performed the audit in accordance with GAGAS, except for specific applicable requirements that were not followed, or (2) because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the audit in accordance with GAGAS. Situations when auditors use modified compliance statements also include scope limitations, such as restrictions on access to records, government officials, or other individuals needed to conduct the audit. When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the reasons for not following the requirement(s), and how not following the requirement(s) affected, or could have affected, the audit and the assurance provided.

From the date a firm is notified that its peer review (report and/or acceptance letter) is recalled until such time as the replacement review is accepted, firms should follow the guidance in *Government Auditing Standards* Section 2.24b to communicate the lack of a timely peer review. If a GAGAS engagement is selected for peer review the reviewers should consider whether the firm made the proper report modifications to disclose noncompliance. If the firm made the necessary report modifications, the engagement would not be considered nonconforming, if solely for the lack of a timely peer review. If the GAGAS auditor's report is issued after notification of recall and the firm did not disclose the peer review noncompliance, then the engagement should be considered nonconforming.

Save the Dates – Upcoming Webcasts and Conference

June 23 or July 23, 2014 – Rebroadcasts of the Peer Review Update Webcast

If you didn't get the chance to attend the June 2 event, we're offering rebroadcasts on June 23 and July 23. You'll hear a high level overview of changes to Standards and Guidance that have occurred in the last year. You'll also hear about short- and long-term enhancements to audit quality being planned by the PRB. The rebroadcasts also count toward meeting the peer reviewer training requirement. After June 15, check [here](#) for registration details.

July 17, 2014 – Getting Back to Basics Webcast

In an ongoing effort to enhance reviewer performance, this webcast will cover the key areas of a Peer Review that cause the most problems. Hear tips to help eliminate any confusion in these areas. Our speakers will be course instructors Ray Nowicki and Jim Woy. The webcast counts toward meeting the peer reviewer training requirement. After June 15, check [here](#) for registration details.

June 17 or July 9, 2014 – Rebroadcasts of the Are You Ready for Your Peer Review Webcast

This webcast will benefit CPA firms undergoing peer reviews in 2014. Please forward the details to your new peer review clients or your current clients you believe could benefit from the webcast. The webcast will provide firms with an overview of the AICPA Peer Review Program and what they can expect during their review. Firms can click [here](#) to register.

2014 Peer Review Conference and How To Course



The AICPA Peer Review Team will host our annual conference from August 4-5, 2014, with optional sessions on August 3, in Denver, Colorado. Please join us in Denver for the annual conference and to celebrate Peer Review's 25th Anniversary! [Register](#) for the 2014 Peer Review Conference and be sure check out our [conference web page](#) for more details.

How-To Course

Co-sponsored by the Colorado Society of CPAs, the AICPA is hosting its annual "How To Conduct a Review Under the AICPA Practice-Monitoring Program" course at the Peer Review Conference in Denver, Colorado on August 4-5, 2014. You can network and meet with experienced peer reviewers during meals, breaks and at the reception. Click [here](#) to register for the How-To Course.