

## REVIEWED FIRM ALERT

November 2016

This alert contains three articles:

1. [REMINDER: Peer Review Guidance Changes Effective January 2017](#)
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3. [AICPA Releases Free Resource – Competency Framework: Assurance Services](#)

### **REMINDER: Peer Review Guidance Changes Effective January 2017**

During 2016, the Peer Review Board has approved significant changes to the Peer Review Standards, Interpretations and other related guidance that will become effective for peer reviews commencing on or after January 1, 2017. The following summary of these changes is intended to provide firms the groundwork to help them prepare for their reviews commencing on or after January 1, 2017.

#### **Enhanced Peer Review of the Firm's System of Quality Control**

Beginning in January of 2017, the AICPA will no longer update or maintain the Quality Control Policies and Procedures Documentation Questionnaires (PRP Sections 4300 & 4400 and otherwise known as the 4300 and 4400 checklists). Previously, these checklists could be used by firms to document their system of quality control, however, it was discovered that some firms placed inappropriate reliance on these forms and failed to update or monitor their systems of quality control on a timely basis. *Therefore, firms are highly encouraged to use other tools and resources to develop and maintain their system of quality control.* In response, the AICPA has developed several other tools exist that firms can utilize to develop and maintain their system of quality control. They include the following:

- 1) The Invigorate the Focus on Quality Toolkit
  - Free; no requirement to be an AICPA or PCPS member
  - The toolkit contains numerous resources including, but not limited to:
    - i. Client evaluation tools
    - ii. Proposal and profitability tools
    - iii. Quality control and peer review tools
    - iv. A tone at the top action plan
    - v. Tools related to firm competence
  - These tools and more can be found on the AICPA website:  
[www.aicpa.org/pcps/quality](http://www.aicpa.org/pcps/quality)
- 2) An AICPA Audit and Accounting Practice Aid – *Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*
  - Free; currently no requirement to be an AICPA or PCPS member
  - Two versions – one for sole practitioners and another for small to medium sized firms

- Contains easily customizable illustrative policies and procedures
  - Includes tips, warnings and reminders to help practitioners better implement and maintain their quality control policies and procedures
  - Available on the [AICPA website](#)
- 3) A New CPE Course on Quality Control – *A Firm's System of Quality Control*
- On-demand, eight-hour CPE course
  - Based on the highly successful QC workshops offered during 2015
  - Contains video lectures from one of the nation's top subject matter experts
  - Goes beyond the theory of quality control and discusses best practices in applying the Standards
  - Available on the [AICPA Store](#)

Peer reviewers will be performing a robust review of a firm's system of quality control so we would encourage firms to take advantage of these tools to help them develop and maintain a strong system of quality control.

### **Changes to the Peer Review Process**

Beginning with peer reviews commencing on or after January 1, 2017, there will be differences in how peer reviewers perform their peer reviews. The following is a list of the most important changes that will impact reviewed firms:

- Firms undergoing a System Review will now be required to provide:
  - A list of the key quality control personnel such Human Resources Director, Quality Control Director and the individual responsible for monitoring to their team captain prior to the commencement of the review.
  - A copy of the inspection reports for each of the three years subsequent to the prior peer review and any relevant communications about those inspections such as consultant review reports.
- The team captain or review captain will conduct a closing meeting to discuss the preliminary results of the peer review. The purpose of this meeting is to discuss any preliminary issues (such as matters, findings, deficiencies, significant deficiencies or non-conforming engagements) identified by the review team with senior members of the reviewed firm. The review team will also remind the firm of their requirement to respond to those issues noted.
  - This meeting would typically be on-site (for engagement reviews, the meeting can be held via teleconference), preferably at least 30 days prior to the firm's exit conference. This will allow the firm sufficient time to determine the appropriate remediation for any issues noted by the review team.
  - The exit conference would be held, usually via teleconference, after the firm has responded to any matters, findings, deficiencies or significant deficiencies and the team captain has assessed those responses.
  - The firm should assist the review team in identifying the systemic cause of any matter, finding, deficiency or significant deficiency.
  - The closing meeting and exit conference may be combined if, for example, there are no matter, findings or deficiencies to discuss.

- The team captain or review captain will evaluate, prior to the exit conference, the firm's responses to any MFC forms, FFC forms, deficiencies, significant deficiencies or non-conforming engagements. The team captain will evaluate:
  - The firm's actions taken or planned to remediate any engagements identified nonconforming engagements on an FFC form or in the report
  - The firm's actions taken or planned to remediate any findings or deficiencies noted in the firm's system of quality control
  - The timing of the remediation, either taken or planned

### **Firm Representation Letters**

There are now separate illustrative firm representation letters for System Reviews and Engagement Reviews. Firm representation letters for Engagement Reviews should now be dated the same day as the peer review report, similar to a System Review. Finally, firms should not remove required representations from their letters, however, additional information may be included if deemed appropriate. Some of the required representations are new or have changed, so firms should be careful to ensure they are using the most up to date language. For example, firms undergoing a System Review are required to list which must-select engagement types were performed during the peer review year and represent to the best of their knowledge and belief that at least one of each type was selected and reviewed by the peer reviewer. The types of must-select engagements listed in the representation letter should agree to those listed by the team captain in the peer review report for the firm's System Review. (See [November 2016 Reviewer Alert](#), to be published shortly, for more information on this specific example.)

Representation letters that do not have all the required representations will not be accepted and could potentially delay the acceptance of the firm's peer review report.

### **Reporting Changes**

Beginning with reviews commencing on or after January 1, 2017, there will be some clerical changes to the peer review report including a reorganization of some information and headings for select paragraphs.

It is the firm's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond (via a letter of response). However, the AICPA Peer Review Board encourages the reviewed firm to work with the team captain to develop remedial actions that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the peer review. The technical reviewer and the RAB will review whether the firm responded to the matters, findings, deficiencies or significant deficiencies in an appropriate manner

Additional information regarding these changes can be found on the Peer Review website. This includes the [meeting materials from the May Peer Review Board meeting](#) where these changes were discussed and approved. Included in these materials is an [example timeline](#) (page 173 of the PDF) of when certain procedures should be performed in a peer review that commences after January 1, 2017.

Any questions regarding the revised Standards can be directed to the Peer Review technical hotline at 919.402.4502.

## **Understanding Professional Responsibility and Its Potential Impact on Your Peer Review**

Peer Review staff were recently informed of a continuing professional education (CPE) provider that was distributing inaccurate materials regarding SSARS 21. As a reminder, one of the professional responsibilities for all CPAs is to read and understand any relevant professional standards. Relying on CPE materials, practice aids or any other materials as a replacement for reading and understanding professional standards is not appropriate.

It is critical for you to understand the potential consequences of improperly relying on other materials in place of understanding professional standards. This reliance may increase the likelihood that your peer reviewer identifies your engagements as non-conforming and could potentially keep your firm from receiving a pass peer review report. Firms undergoing engagement reviews are reminded that any non-conforming engagement would at a minimum result in the firm receiving a pass with deficiency peer review report and that if all engagements reviewed are identified as non-conforming, regardless if it is for the same deficiency, the firm will receive a fail peer review report. This change was effective for reviews commencing on or after January 1, 2015. In addition, guidance related to consecutive non-passing peer review reports was changed, effective for reviews commencing on or after January 1, 2015.

Access the [Materials](#) or [Highlights](#) of the November 2014 meeting during which the PRB approved revisions to guidance on consecutive non-passing reports.

Access the [Materials](#) or [Highlights](#) of the August 2014 meeting during which the PRB approved the exposure draft of engagement review reports: pass with deficiencies or fail.

## **AICPA Releases Free Resource - Competency Framework: Assurance Services**

The [AICPA Competency Framework: Assurance Services](#) is designed to help CPAs understand the knowledge and skills necessary to perform high-quality audit, attestation, review, compilation and preparation engagements. The framework is underpinned by the need for objectivity, integrity and ethical behavior and includes a commitment to continuously acquire new skills and knowledge. The technical competencies are organized into five core skill sets: Client Acceptance; Engagement Planning; Engagement Analysis or Testing; Concluding the Engagement; and Guiding Principles. The Framework then identifies specific skills within each of the above core skill sets. The skills for each core skill set are provided for those at the foundational, intermediate, advanced and expert levels.