



# RAB Member Ongoing Training - 2017

## Richard W. Hill, CPA, CGMA

Richard is a shareholder with Mitchell Emert & Hill, P.C. in Knoxville, Tennessee, where he serves as the firm's managing partner. He performs peer reviews for approximately 25 CPA firms annually and has performed peer reviews since 1992.

Richard graduated from Tennessee Technological University in Cookeville, Tennessee with a BS in Business Administration, Accounting Major.

Richard is currently a member of the AICPA Peer Review Board, chair of its Oversight Task Force and a member of the Planning Task Force. He is a member of the Peer Review Committee of the Tennessee Society of CPAs (committee chair from 2008 to 2011 and chair of the East Tennessee Report Acceptance Body from 1998 to 2008 and June 2016 to present).

He is a lifelong member of Washington Pike United Methodist Church in Knoxville. Away from work, he and his wife Deanna are diehard Packers fans, enjoy traveling and cruising in their 1971 Buick Riviera.

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## Brian R. Bluhm, CPA

Brian serves as the Director of Assurance Services for Eide Bailly. He has more than 25 years of public accounting experience providing services to a variety of clients. In addition, Brian has more than 15 years of experience in performing peer reviews.

Brian is a member of the AICPA's Peer Review Board and serves as Vice Chair of its Oversight Task Force. He is also a member of the National Peer Review Committee and previously served on the Auditing Standards Board and the PCPS Technical Issues Committee.

Brian is a member of the Minnesota Society of CPAs. He is a current Peer Review Committee member and former Committee Chair. He also previously on the North Dakota Society of CPAs Peer Review Committee and Board.

Brian is an avid University of North Dakota hockey fan who also keeps up with Minnesota high school hockey.

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## Agenda

- RAB Observations – What are we seeing
- RAB Observations – How to address common issues
- Enhanced Oversight
- Review Acceptance Considerations
- Deferred Acceptance vs. Delayed Acceptance
- Reviewer Performance
- Monitoring Actions – Corrective Actions and Implementation Plans
- Other Items of Note



# RAB Observations

## What are we seeing

### RAB Observation Statistics

Statistics summary and comparison to prior year

	January 1, 2017 – September 30, 2017	January 1, 2016 – September 30, 2016
RAB meetings	50	80
AEs	29	39
Peer reviews	161	361
Peer reviewers	136	279
<b>Based on observers' comments:</b>		
Acceptance delayed or deferred	26	45
Feedback forms issued	12	23
Monitoring letter issued	-	1
OTF requested AE response due to results of RAB observation	5	4

## Recurring RAB Observation comments – Items not initially identified by the RAB

- Potential issue regarding auditor compliance with independence requirements of Yellow Book
  - Risk assessments not comprehensive
  - Firm's FFC responses did not address all required items
  - Missing or inappropriate systemic causes
  - MFC forms included specific reviewer, firm or client names
  - Inappropriate modifications to the firm representation letters
  - Reviewer feedback not recommended
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## Recurring RAB Observation comments – Other Comments & Administrative Matters

- Reviews are presented to the RAB with unidentified open technical issues;
  - RAB members should review criteria for “delayed acceptance” and “deferral of a review” as set forth in the RAB Handbook
  - Deferral letters not sent timely or at all
  - All required documents not included in the RAB package.
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# RAB Observations

## How to address common issues

### Inappropriate Risk Assessments

- Risk assessment documentation should include:
  - the environment of the firm and its system of quality control.
  - the number of offices and engagements selected for review
  - the basis for that selection in relation to the risk assessment
- Factors to consider when assessing risk are included in Interpretation No. 52-1.

## Inappropriate Risk Assessments

- When to defer acceptance
  - If the RAB questions the extent of testing performed by the reviewer and the risk assessment does not provide sufficient support
- When to delay acceptance
  - Typically, the acceptance of a peer review would not be delayed because of an inappropriate risk assessment

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## Inappropriate Risk Assessments

- When to issue feedback
  - Feedback is most likely appropriate when the risk assessment fails to address one of the following, even if the extent of testing performed by the reviewer is deemed adequate:
    - the environment of the firm and its system of quality control.
    - the number of offices and engagements selected for review
    - the basis for that selection in relation to the risk assessment

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## Inappropriate FFC Responses

- Firms should include the following in their response to an FFC:
  - The firm's actions taken or planned to remediate findings in the firm's system of quality control
  - The firm's actions taken or planned to remediate the engagements identified on the FFC form as nonconforming, if any
  - The timing of any remediation, either taken or planned

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## Inappropriate FFC Responses

- When to defer acceptance
  - When revisions are needed to the FFCs and the potential impact to the report is unknown
- When to delay acceptance
  - When revisions are needed to the FFCs, but they do not impact the nature of the report, or any corrective actions or implementation plans

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## Inappropriate FFC Responses

- When to defer acceptance
  - For example, the firm has not indicated how they plan to remediate the related nonconforming engagements.
- When to delay acceptance
  - For example, the reviewer has obtained adequate information from the firm via inquiry, but that information has been omitted from the form.

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## Inappropriate FFC Responses

- When to issue feedback
  - Feedback is most likely appropriate when the firm's response to the FFC form does not adequately address the required elements
  - Judgment can be used if adequate responses were obtained by the reviewer during the course of the review, but omitted from the form.

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## Inappropriate Systemic Causes

- Reviewers, in collaboration with the firm should determine the systemic cause of matters identified.
- A systemic cause is a weakness in the firm's system of quality control that allowed a matter to occur or remain undetected.
- Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control.

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## Inappropriate Systemic Causes

- The Guidelines for Review and Testing of Quality Control Policies and Procedures is a helpful resource in assessing the systemic cause
- Reviewers should not accept “oversight” or “isolated” as the firm's response without further investigation.
  - For example, the failure to follow the firm's practice aid for a particular area may be isolated; however, failure to follow the practice aid would still be identified as the systemic cause resulting in the matter and would need to be addressed by the firm.

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## Inappropriate Systemic Causes

- When to defer acceptance
  - When the aggregation and evaluation of matters is either inappropriate or in question due to an inappropriate systemic cause
- When to delay acceptance
  - When the aggregation and evaluation of matters is not in question, but the systemic cause is omitted or otherwise unclear from the documentation provided.

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## Inappropriate Systemic Causes

- When to issue feedback
  - Feedback is most likely appropriate when the systemic cause is either omitted or is not clear based on the documentation provided by the reviewer.

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## Other Items Noted

- Feedback is also most likely appropriate and acceptance of the peer review should be delayed when:
  - MFC forms include specific reviewer, firm or client names
  - There are inappropriate modifications to the firm representation letter

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# Enhanced Oversight

## Enhanced Oversight Results

- Summary published in the AICPA Peer Review Program Annual Report on Oversight
  - High level updates are typically provided during Open Session of the Peer Review Board meetings
  - Also see the May 2017 Reviewer Alert articles:
    - Enhanced Oversight Findings
    - Enhanced Oversight Sample Selection

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## Enhanced Oversight – Consideration of Reports and Letters of Response

- Overview of the process prior to issuing final reports with nonconforming engagements
- Avoiding possible threats to the process
  - For example, reviewer bias
- Expectations for peer review documentation
  - Reporting implications
  - MFCs/FFCs
  - Firm remediation of nonconforming engagements
- Evaluation of reviewer performance

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# Review Acceptance Considerations

## Reference Materials for RAB Meetings

- *AICPA Peer Review Program Manual*
  - *AICPA Peer Review Program RAB Handbook*  
(Section 3300 of the *AICPA Peer Review Program Manual*)
- *Peer Review Alerts* and other guidance issued by the board
- *AICPA Peer Review Program Administrative Manual*
- *AICPA Peer Review Program Oversight Handbook*

## Consultation Considerations

- Clarification of issues
- Questions
- Discussions among other RAB members
- Additional inquiries by the RAB

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Deferred Acceptance vs.  
Delayed Acceptance

## Defer Acceptance vs. Delay Acceptance

- Delay Acceptance
  - If upon its consideration of the review documents the RAB determines revisions are necessary but a decision can be made, the RAB may send an appropriately tailored “delayed acceptance” letter.
- Defer Acceptance
  - If the review is presented to the RAB and the unresolved questions are significant enough that no decision can be made by the RAB until further information is received from the reviewer or reviewed firm, a “deferral letter” should be sent.

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## Examples of When to Delay Acceptance

- Minor changes to documents
  - Report
  - Representation Letter
  - MFC, FFC Wording
- Clarification of systemic cause to an FFC
- Clarification of how a no answer was resolved

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## Examples of When to Defer a Review

- RAB requests oversight of the reviewer/review
- RAB disagrees with evaluation of issues and/or peer review rating
- Remediation of nonconforming engagements was not sufficient
- Responses to FFCs and/or deficiencies not sufficient
- Insufficient scope requiring review of additional engagements
- Reviewer not qualified to perform the review

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## Reviewer Performance



## Reviewer Performance

- All reviewer performance issues will be classified as:
  - Reviewer performance findings
  - Reviewer performance deficiencies
- Revised Reviewer Feedback Form

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## Reviewer Performance Findings - Examples

- Reviewer Cooperation and Qualifications
- Planning
- Engagement Selection and Review
- Assessment and Disposition of Matters
- Completeness of FFC Forms
- Reporting
- Completion and Submission of Working Papers

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## Reviewer Performance Deficiencies - Examples

- Engagement Selection and Review
- Assessment and Disposition of Matters

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## More examples of when to issue Reviewer Feedback Forms

- Documentation not completed comprehensively and/or documents required revisions
- Deficiencies not written clearly
- Reviewer performance feedback forms should be issued in lieu of requesting revised documents for
  - System review report deficiencies when they contain a reference to the specific number of engagements where matters were noted rather than using general terms such as few or some
  - Multiple deficiencies comments could have been combined

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## Reviewer Performance Monitoring

- Reviewer Performance Database
- Multiple performance deficiencies or a pattern of performance findings can either:
  - 1) Issue a performance deficiency letter OR
    - requires the reviewer to complete one or more corrective actions
  - 2) Recommend to the board that the reviewer be prohibited from performing reviews in the future
- Judgment is required when determining whether
  - a pattern of findings exist
  - to issue a deficiency letter or providing the recommendation to the board

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## Monitoring Actions – Corrective Actions and Implementation Plans

## Monitoring Actions

- Implementation Plan and Corrective Actions are designed, in part, to
  - Help a firm correct systemic problems with its system of quality control
  - Help a firm correct understand and correct situations that led to non-conforming engagements
  - Evaluate the effectiveness of the actions taken to correct systemic problems with QC or nonconforming engagements

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## Monitoring Actions - continued

- Corrective Actions (CA)
  - Issued as a result of deficiencies or significant deficiencies
  - Must be completed prior to review acceptance

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## Monitoring Actions - Continued

- Implementation Plan (IP)
  - Generally not required if the firm's response on the FFC form is genuine and comprehensive
  - RABs are encouraged to require an IP if there is a nonconforming must-select engagement

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## Monitoring Actions - Continued

- RAB Handbook Exhibit 4-2 (System Reviews) and Exhibit 5-2 (Engagement Reviews) contain:
  - Suggested corrective actions and
  - Allowable implementation plans
- Timing of the corrective actions and the assessment of action is important:
  - Firms need sufficient time to implement actions and demonstrate effectiveness
  - Due dates for submission to RABs should be timed accordingly

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## Available Corrective Actions – Engagement Performance Deficiency

- Team captain revisit
- Targeted CPE
  - Allow firm to pass the related AICPA Advanced Certificate Exam (for reviews commencing on or after December 1, 2017)
- Join AICPA AQC (only in conjunction with other corrective action)
- Review remediation of a nonconforming engagement

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## Available Corrective Actions – Engagement Performance Deficiency

- Review completion of firm's remedial actions outlined in their LOR
- Pre- or post-issuance reviews of certain engagements or portions of engagements
- Third-party performance of internal inspection with a report to the PRC.

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## Available Corrective Actions – Deficiency related to design or other noncompliance with QC

- Pre-issuance review of engagements
- Submit monitoring or inspection report

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## Available Implementation Plans – Non-conforming engagement and initial finding on must-select industry or repeat findings for any industries

- Pre- or post-issuance review of engagements
- Review internal monitoring or inspection report
- CPE
- Submit monitoring or inspection report
- Review remediation of nonconforming engagements
- Review completion of firm's remedial actions outlined on FFC forms

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## Implementation Plans - continued

- Repeat Findings
  - CPE
  - Submit monitoring or inspection report
- Failure to possess firm license(s)
  - Submit proof of valid license

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## Monitoring Actions - Continued

- RABs should not accept a CA or IP without additional actions if the firm is not showing adequate improvement

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## Monitoring Actions - Continued

- RAB members should carefully assess any documentation submitted in response to CA or IP
  - Assess the significance of any third-party findings
  - Compare the possible systemic reasons for the findings to the peer review report and/or FFCs
  - Has the firm shown improvement?
  - Can the firm continue to improve on its own?
  - Are additional or different corrective actions required?

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## Monitoring Actions – Determining Noncooperation

- Not correcting deficiencies/significant deficiencies after consecutive corrective actions can be deemed non-cooperation
- RAB members should carefully evaluate the results of additional corrective actions
  - Do the results show that deficiencies weren't corrected?
- Review is not complete until there is sufficient evidence that deficiencies or findings have been remediated
  - Do not close review just because firm's next review is pending

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## Monitoring Actions – Determining Noncooperation

- If a RAB concludes that a firm is not cooperating, the matter should be considered by the entire PRC
- The PRC assesses the facts and circumstances and may:
  - impose additional requirements for remedial or corrective actions are adequate responses to the situation and/or
  - deem that the firm is not cooperating (two-thirds majority vote required) and should be referred for non-cooperation termination hearing for failure to improve after consecutive corrective actions
- Firm must receive notification through fair procedures that it is being referred to hearing

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## Other Items of Note

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## Peer Review Oversight Committees (PROCs)

- Oversight committees formed by state boards of accountancy
- Qualifications and responsibilities may be in law
- If law is silent, AICPA Peer Review Program guidance should be followed
  - PROC members should not be members of the state board or perform any enforcement work
  - Must sign a confidentiality agreement annually

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## Conflicts of Interest

- Committee or RAB member's firm performed the most recent or immediately preceding review
- Committee or RAB member's firm served on the review team in the most recent or immediately preceding review
- Committee or RAB member believes they can not be impartial or objective; err on side of caution
- Independence is impaired

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# Questions?

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# Thank you

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