

Enhanced Audit Quality – the Peer Review Focus

The AICPA’s Enhancing Audit Quality (EAQ) initiative was first launched in May of 2014. The goal of the initiative was to improve audit performance; with a focus on specialized industries such as employee benefit plans and governmental entities. In August 2014, the AICPA published a discussion paper seeking feedback from practitioners and other stakeholders on ways to accomplish that goal. The paper, [Enhancing Audit Quality: Plans and Perspectives for the U.S. CPA Profession](#), outlined ideas and plans for driving improved performance through all aspects of the audit process.

More than 860 comments were received in response to the discussion paper. In addition, many groups shared their input as they discussed the issue with the AICPA during conferences, meetings and other forums. The proposed actions and recommendations from respondents were brought to the appropriate AICPA board, committee or task force for consideration and, if appropriate, approval to move forward. On May 14, 2015, the AICPA released an [Enhancing Audit Quality, A 6-Point Plan to Improve Audits](#) which summarizes the outcomes of all those efforts and provides the CPA profession’s roadmap to improved audits.

The 6-Point Plan includes:

- Pre-licensure
- Standards and Ethics
- CPA Learning and Support
- Peer Review
- Practice Monitoring of the Future
- Enforcement



In This Issue

Enhanced Audit Quality - the Peer Review Focus	1-3
Enhancing Audit Quality Practice Aid	3
Preparing for SSARS-21	4
The NHSCPA Decision	4
Yellow Book Independence	5
Voluntary Public File	5
AICPA Enhanced Oversight –	
Engagement-level Oversight	6
The Technical Review Process	6
Administrative Steps in a Peer Review	7
Changes to the Timing of Overdue	
Scheduling Requests	7
Issue Resolution Hotline	8
2015 NEPR Roster	8

The peer review element will include greater risk industries/areas, including employee benefit plans and Single Audits; more significant remediation including pre-issuance reviews and aggressive follow-up; root cause analysis (for poor and good quality); and termination from peer review after repeat quality issues.

Peer Review Areas of Focus

One tool to improve the consistency of quality is an increased focus by firms and peer reviewers on new industries, industries with new or rising risks, audit areas of increased risk or areas with increased inspection matters in the past.

The AICPA Peer Review Board (PRB) has approved the below areas of focus:

- Independence as it relates to non-attest services provided to attest clients

- Sufficiency of audit evidence - risk assessment, internal controls, and sampling
- Employee benefit plans, including both ERISA and government pensions
- Municipal security issuers
- Single audit
- Crowdfunding

Read more about the [emerging industries and risk areas](#) and find [resources](#) for each.

In-process and Near-term Enhancements

There are several enhancements to the AICPA Peer Review Program as it relates to the EAQ underway as described below.

Improving peer reviewer quality

Enhanced and increased oversight

The AICPA introduced a new enhanced oversight model in 2014 that includes: AICPA Must-select Engagement Oversight, RAB Observations and Administrative Entity Monitoring. The number of must-select oversights and RAB Observations is expected to double in the 2015-2016 AICPA fiscal year.

Increasing reviewer qualifications

The revised review qualifications begin with reviews commencing on or after December 31, 2015. The Revisions include:

1. The reviewer must have spent the LAST five years in public accounting in the A&A function. The previous guidance was *at least* five years.
2. Reviewers or team members of must-select engagements must have resume experience code "A" for all must-select industries/practice areas, representing that the reviewer or team member is currently involved in those types of engagements in their own firm.
3. Reviewers or team members of must-select engagements must be associated with an Audit Quality Center, if it exists.

Expedite remediation and removal of poor performers

A new category of reviewer performance weaknesses has been added and identified as significant deficiencies:

- Failure to identify nonconforming engagements
- Failure to properly conclude on a peer review report rating by 2 or more levels

If 2 or more significant deficiencies (single peer review or



cumulative) are identified, the administering entity's peer review committee is expected to require remedial action or recommend the reviewer for removal from the list of qualified peer reviewers.

Strengthening Firm Quality

Reduced consecutive non-passing reports

The Peer Review Board has approved revised guidance related to a firm's receipt of consecutive non-passing peer review report ratings. The revised guidance requires notification of firms upon receiving a peer review report rating of pass with deficiencies or fail via certified mail or its equivalent. Prior to the revised guidance the notification would be sent after the firm received two consecutive pass with deficiencies or fail reports.

Firms that receive a consecutive peer review report rating of pass with deficiencies or fail will be evaluated by their administering entity's peer review committee and may be deemed to be non-cooperative. Firms deemed non-cooperative will be notified and the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm's enrollment in the AICPA Peer Review Program should be terminated.

Root cause analysis

The AICPA is using data collected during peer reviews to learn about trouble spots and is developing resources that will allow firms to have a more focused remedy for their findings. Their ultimate goal is to assist firms with the hurdles they've faced in the past, provide them with tools to drive up their quality and overall "up the game on quality" in the profession. Refer to the [Examples of Matters in Peer Reviews](#) webpage for the most recent trends identified.

Focus on high risk industries and areas

Deep dive reviews of certain specialized industries and areas of practice, including audits of EBPs and Single Audits have been occurring and will increase with Must-select Engagement Oversights.

Confirming Population Completeness

Failure to report engagements is grounds for termination

Firms failing to report engagements subject to peer review jeopardize their enrollment in the program and may be referred to Ethics. Firms terminated from the Peer Review Program (PRP) may be subject to additional actions by their state boards of accountancy, including loss of their license to practice.

Collecting Employer Identification Numbers (EINs)

EINs are now required on Scheduling and Enrollment Forms. Providing a valid EIN is a condition of cooperation with the PRP.

Developing technology to interface with publicly available databases

The AICPA will be using firms' EINs to explore options to compare that data with other available databases (e.g., Department of Labor's EFAST2 and the Single Audit Clearinghouse) to help ensure all firms that should be enrolled in peer review are enrolled.

Conclusion

The PRP has been continuously evolving since it began over twenty-five years ago and will continue to do so. NEPR will continue to monitor and be involved in future changes with the PRP and the CPA profession. As always, we will provide communication, education and support to our enrolled firms.

Enhancing Audit Quality Practice Aid

As described in the article above, the AICPA recently launched its Enhancing Audit Quality initiative to assist practitioners in maintaining and improving audit excellence. As part of the initiative, the Institute is providing an e-version of the Practice Aid Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice, at no charge:

<http://www.aicpa.org/InterestAreas/FRC/Pages/EnhancingAuditQualityPracticeAid.aspx>

This publication is designed to help CPAs better understand and apply Statement on Quality Control Standards (SQCS) No. 8, A Firm's System of Quality Control (Redrafted) (AICPA, Professional Standards, QC sec. 10). SQCS No. 8 is included as appendix A of this Practice Aid.

The complete Practice Aid presents four hypothetical firms:

- a multi-office firm;
- a single-office firm;
- a sole practitioner; and
- a firm organized in an alternative practice structure.

The Practice Aid outlines the quality control policies and procedures each firm implements to establish and maintain its system of quality control. Condensed versions of the Practice Aid for multi-office firms, single office firms and sole practitioners are also available, to meet your firm's needs. Each condensed version features one hypothetical firm. Note that sole practitioners who perform audit and examination engagements should refer to both the sole practitioner and the single office firm version.

The AICPA is encouraging individuals to use the materials in developing their own system of quality control and as such they grant users permission to copy and incorporate portions of the work as necessary. This permission is for internal use only except for educational purposes



Preparing for SSARS-21

Five years ago SSARS-19 became effective replacing SSARS-1 in its entirety. According to the AICPA, the results of peer reviews for the following three years were very disappointing. There were very high levels of findings and deficiencies because firms did not know about the significant changes in standards.

Now the SSARS have been re-written again. SSARS-21 replaces SSARS-19 in its entirety and will be effective for periods ending after December 15, 2015. That means all compilations and/or reviews for the year ended December 31, 2015 must be performed under the new standard. The report and engagement letter formats and contents have been changed. In addition, the SSARS-8 compilation is now obsolete. A new level of non-attest service, preparation of financial statements, has been created with its own SSARS section and prescribed set of rules.

If you have not taken a compilation and review CPE course during 2015 we suggest that you consider taking one before starting any December 31, 2015 work.

In addition to changes to the SSARS, ethics standards with respect to independence are significantly tightened. Non-attest services, including tax return preparation, preparation of the financial statements, cash to accrual adjustments, and calculation of adjusting entries now require that a client representative with sufficient skills, knowledge and experience oversee the non-attest services. Without such oversight, the accountant's independence is impaired and a review may not be performed by the firm. If a compilation is performed, the report must include a statement that the firm is not independent. Documentation of your independence considerations and communications with the firm is required.

This is the time to update your library of practice aids. Most CPE courses relating to compilation and review will include the text of SSARS -21 in the course materials. If not, all firms should have the standard in their library. If you use practice aids such as PPC and CCH, it is imperative that you purchase the 2015 editions. Study the levels of service, especially the preparation service, the engagement letters, the reports and the effect of non-attest services on your engagements.

If you have any questions, please contact us.

"Adapted with permission of the Washington Society of CPAs Peer Review Technical Review Team."

The NHSCPA Decision

In the Spring of this year, the New Hampshire Society of CPAs communicated to their enrolled NH firms that they had decided to contract with the Massachusetts Society of CPAs to provide the administration of peer review services beginning on May 1, 2016.

While it remains unclear why the NHSCPA made that decision, we are pleased to report that the overwhelming majority of NH firms have elected to remain with NEPR as their administering entity.

The Maine, Rhode Island and Vermont Societies will continue to choose to have NEPR provide peer review services for their societies as they have done for the last 25 years.

Yellow Book Independence

During technical reviews and oversights the AICPA has noticed inconsistencies in the peer reviewer's assessment of auditor compliance with independence requirements of *Government Auditing Standards* (Yellow Book). Failure to identify and properly address noncompliance with professional standards could impact peer review results.

Peer reviewers and firms should be aware that the failure to document one or more of the required elements of Yellow Book independence should ordinarily result in a nonconforming engagement. These elements include:

- Documentation of the auditors understanding with management about the specific nonaudit service to be performed and management's responsibility. General verbiage of management's responsibilities over "all nonaudit services" in the engagement letter or representation letter is not considered sufficient if it does not identify the specific nonaudit service.
- Documentation of the audited entity management's ability to effectively oversee the on audit service. This should include a critical evaluation of the responsible individual's skills, knowledge and experience related to the nonaudit service and not just the individual's name and title or certification.
- Documentation of the assessment of significant threats that require the application of safeguards along with the safeguards applied by the audit firm.

Red flags on Yellow Book engagements of which peer reviewers and firms should be aware:

- If the engagement profile indicates that the auditor prepared or assisted with the preparation of the financial statements, the engagement profile question that asks if any significant threats are identified is expected to be marked "yes."
 - The Government Accountability Office has indicated that, in its view, other than in very limited circumstances, preparing financial statements for an auditee would result in a significant threat for which safeguards should be applied and documented.

- PRP Section 22110 [Supplemental Checklist for Review of Audit Engagements Performed in Accordance With Government Auditing Standards (Yellow Book) December 2011 Revision] question GA108 (version April 2014) asks:
- If the auditor is performing the preparation of the financial statements, if significant threats were not identified, does this seem reasonable? [AAG-SLA 2.10]
 - Peer reviewers may need to make inquiries regarding the degree of assistance with the financial statements. Although the auditor is not required to document the rationale why threats are not considered significant, the auditor should be prepared to justify the judgment regarding threats not deemed to be significant.

Refer to Peer Review Program 3100 Supplemental Guidance for further discussion about the independence requirements of the 2011 Yellow Book.

AICPA "Yellow Book Independence", *Reviewer Focus*, April, 2015:
<http://www.aicpa.org/InterestAreas/PeerReview/NewsAndPublications>

Voluntary Public File

Your firm now has the option to voluntarily disclose to the public its peer review results on the AICPA's Public File website, along with the –

- Peer review report
- Peer review acceptance letter
- Letter of response (if applicable)
- Signed acceptance letter agreeing to corrective actions (if applicable)
- Notification of completed corrective actions (if applicable)

If the box on the scheduling form is checked, the firm's peer review documents will be made available. You may also contact us to make this request.

If you do not exercise this option, the publicly available information outlined in paragraph .146 of the AICPA Peer Review Standards will appear. If your firm is a member of PCPS, EBPAQC or GAQC, your peer review results are already included.

Access the public file at:

<https://peerreview.aicpa.org/publicfile/DocDefault.aspx>

AICPA Enhanced Oversight - Engagement-level Oversight

An engagement-level oversight is the review of must-select engagements (engagements performed under Government Auditing Standards; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organizations Control {SOC} 1 and 2 engagements]) and includes peer reviewer materials as well as the reviewed firm's financial statements and working papers on the engagement.

These oversights are being performed by an AICPA consultant prior to presenting the peer review documents to the peer review committee to allow the committee to consider all the facts and any findings by the oversight member prior to acceptance of the review.

Once we are notified by the AICPA of a chosen oversight, the peer review is put on "hold" until the oversight has been completed. All oversight scheduling, notification and monitoring to completion are coordinated by the AICPA. Any disagreements that the reviewer or the firm may have are discussed with the oversight consultant. When NEPR receives the oversight report and there are findings and/or disagreements, the assigned technical reviewer will then work with the peer reviewer and the AICPA technical reviewer team to resolve any disagreements and any additional actions that may need to be taken as results of the oversight.

The Technical Reviewer Process

The technical reviewer's responsibility is to ensure that the workpapers clearly document the scope and results of the peer review, that the conclusions and findings are consistent and confirm that the review meets applicable standards. The technical reviewer's work may include comments to the Report Acceptance Body (RAB) to assist them in properly evaluating the review, but they do not participate in any part of the acceptance process. Technical reviews are required to be performed by the administering entity on all peer reviews.

The role of the technical reviewer is to assist the RAB in its report acceptance and oversight functions by performing the following functions (not all inclusive):

- Anticipating the committee's or RAB's questions
- Providing the possible answers to these questions or related recommendations along with all pertinent review documents
- Advising the committee or RAB of significant matters that may not be apparent from the review documents
- Dealing with evident problems before the review is sent to the committee or a RAB
- Recommending corrective actions related to a deficiency or deficiencies in the peer review report or implementation plans related to findings on FFC forms, where appropriate
- Consulting with administering entity staff, peer reviewers, and reviewed firms on matters relative to the review or its results
- Recommending feedback to reviewers.
- Recommending oversight

At NEPR, we are fortunate to have four highly experienced technical reviewers, three who have been involved in peer review for over two decades. All of our technical reviewers are peer reviewers, are active in A&A work in their own firms as owners or partners and all undergo peer review with their own firms through NEPR.

Administrative Steps in a Peer Review

Because peer review typically occurs every three years, we realize that it is sometimes challenging to navigate through all of the steps that occur in a peer review. Below is a list of administrative steps that may occur during your review. We have also created a handy infographic flowchart which can be downloaded at <http://nepr.org/peer-review-flowchart>

1. Firm contacts NEPR (new firm or reenrolling firm) – discusses enrollment and peer review needs. Firm downloads enrollment form, completes and sends to us. We enroll the firm in the Peer Review Program and send enrollment letter and scheduling information, if applicable. For firms already enrolled, we send scheduling information in advance of due date.
2. NEPR sends reminders, if necessary, until firm completes and submits the scheduling form. We then process the information and ensure that the reviewer is qualified to perform the review.
3. If firm has not chosen a reviewer when submitting above form, we send reminders until a reviewer is chosen and firm sends Exhibit 1 (reviewer information) to us.
4. Once the reviewer is scheduled, NEPR sends confirmation to the reviewer and, along with an invoice for the scheduling & evaluation fee.
5. We oversee the review to completion; ensuring the review is completed in a timely manner.
6. When the review is completed, the reviewer submits paperwork to NEPR. The firm submits copies of the report and the firm's letter of response, if the peer review report is not a pass. Note that if the report is a pass, a copy of the report is not required to be submitted.
7. The review goes through the administrative process, ensuring that required documents have been submitted.
8. The review goes through technical review, ensuring that the review was completed in accordance with the Standards.
9. The technical reviewer may accept the review on behalf of the Executive Committee if the review report is a pass and there are no MFCs or FFCs.
10. The review is presented to a Report Acceptance Body and the Executive Committee for acceptance.
11. The review may be deferred, delayed, accepted, accepted provided-that (with corrective actions) or chosen for oversight.
12. If accepted, acceptance letter stating next review due date is then sent to firm.
13. If follow-up is assigned, NEPR sends letter and ensures that follow-up is completed timely.

Changes to the Timing of Overdue Scheduling Requests

Administering entities, state boards of accountancy, and other stakeholders have expressed that the firm hearing process is too lengthy and that the length of the process does not further encourage compliance. In order to support the efforts implemented through the Enhancing Audit Quality Initiative, the AICPA has implemented a process which will expedite firm drops and hearings.

Effective May 1, 2016, the timing of scheduling requests, reviewer information (Exhibit 1) and other scheduling requests will be accelerated.

Prior to May 1, the initial request was sent to firms with a 30 day response request – this will not change. However, the second and third request will provide only a 15 day response to 21 days.

The referral to the AICPA, the warning letter and the drop notification to the firm have also been accelerated, so that a firm may be dropped from the Peer Review Program within 79 days rather than the current 133 days.

Please be sure to respond to scheduling requests promptly!

NEW!**Issue Resolution Hotline**

The Issue Resolution Hotline is being established for the primary purpose of resolving differences of opinion between a peer reviewer and a reviewed firm regarding the application of established accounting and auditing guidance. That is, if an issue arises during a peer review as to whether the reviewed firm appropriately applied authoritative guidance on a selected engagement, the peer reviewer and the reviewed firm will be able to call the Hotline together and discuss the issue with a member of the AICPA Accounting & Auditing team. The objective of this discussion is to determine how the standard was intended to be applied. Once the Accounting & Auditing team member has provided further explanation regarding the intended application of the standard, it will be the peer reviewer's responsibility to use their professional judgment as to whether the reviewed firm complied with the standard in respect to the selected engagement being reviewed.

The Issue Resolution Hotline will be monitored by members of the AICPA's Accounting & Auditing team. These individuals have a strong working knowledge of authoritative accounting and auditing guidance and will provide the callers with further information regarding the proper interpretation and application of this guidance.

To access the Issue Resolution Hotline, call (919) 402-4650.

New England Peer Review

1750 Elm St, Ste 403A
Manchester, NH 03104

Phone:
603.623.3513

Fax:
603.645.9877

E-Mail:
pamela@nepr.org

NEPR Meeting Schedule

November 6, 2015
January 22, 2016
March 18, 2016
May 27, 2016

(Dates are subject to change
- check the NEPR website for
any revised dates)

2015 NEPR Roster

Maine

Scott E. Edwards (*2017)
Edwards, Faust & Smith
716 Union Street
Bangor, Me 04401
(207) 947-4575
(207) 947-7892 - Fax
scott@efsca.com

Wayne C. Smith (*2018)
Smith & Associates, CPAs
500 US Route One, Suite 203
Yarmouth, ME 04096
(207) 846-8881
(207) 846-8882 - Fax
wayne@smithassociatescpa.com

New Hampshire

Ronda J. Kilanowski (*2017)
Malone, Dirubbo & Co., PC
9 West Street
Lincoln, NH 03251
(603) 934-2942
(603) 934-5384 - Fax
rjk@mdccpas.com
Clerk

Robert L. Vachon (*2016)
Vachon, Clukay & Company PC
608 Chestnut Street, FL 2
Manchester, NH 03104
(603) 622-7070
(603) 622-1452 - Fax
rvachon@vachonclukay.com

†

Rhode Island

John M. Mathias (*2016)
Piccerelli, Gilstein & Company, LLP
144 Westminster Street
Providence, RI 02903
(401) 831-0200
(401) 331-8562
johnm@pgco.com

Leo R. Moretti (*2017)
YKSM, Ltd.
56 Wells Street
Westerly, RI 02891
(401) 596-9500
(401) 348-9908 - Fax
lmoretto@yksmcpa.com
Chairman/President

Vermont

David C. Grippin (*2018)
Grippin Donlan Pinkham
3 Baldwin Avenue
S. Burlington, VT 05403-7317
(802) 846-2000
(802) 846-2001 - Fax
dgrippin@qdp-cpa.com
Treasurer

Michael L. Segale, CPA (*2016)
Fothergill, Segale & Valley, PC
143 Barre Street
Montpelier, VT 05602
(802) 223-6261
(802) 223-1550 - Fax
mike@fsv-cpas.com

Executive Director

Pamela M. Lemire
pamela@nepr.org
Recording Secretary

Technical Reviewers

Abby T. Dawson
F. G. Briggs, Jr., CPA, PA
98 Salmon Street
Manchester, NH03101
(603) 668-1340
(603) 668-6751 - Fax
abby@fqbriggsjrca.com

Barbara McGuire
Chester M. Kearney
PO Box 744
Houlton, Maine 04730
(207) 532-4271
(207) 532-4589 - FAX
barbara@cmkcpa.com

Paul E. Moran
YKSM, Ltd.
27 Dryden Lane
Providence, RI 02904
(401) 273-1800
(401) 331-0946 - Fax
pmoran@yksmcpa.com

Charles A. Prigge
Oster & Wheeler PC
PO Box 623
Keene, NH 03431
(603) 352-4500
(603) 352-8558 - FAX
cprigge@ostercpa.us.com

* Denotes year in which term expires