

# **Peer Review Board Open Session Materials**

**August 11, 2016**

**San Diego, CA**

**AICPA Peer Review Board  
Open Session Agenda  
August 11, 2016  
San Diego, CA**

**Date/Time:** Thursday August 11, 2016 9:30 AM – 12:00 PM (Pacific Time)

- 1.1 Welcome Attendees and Roll Call of Board\*\* – Mr. Kindem/Ms. Ford
- 1.2 Approval of Modifications of Report and Representation Letter Exposure Draft\* - Mr. Parry
- 1.3 Approval of Revisions to Guidance Related to Common SSARS 21 Noncompliance\* - Mr. Parry
- 1.4 Task Force Updates\*
  - A. Standards Task Force Report – Mr. Parry
  - B. Education and Communication Task Force Report – Ms. Kerber
  - C. Oversight Task Force Report – Ms. Seefeld
- 1.5 Federal Audit Clearinghouse Completeness Update\* – Ms. Montague
- 1.6 Operations Director’s Report\*\* – Ms. Thoresen
- 1.7 Report from State CPA Society CEOs\*\* – Mr. Shapiro
- 1.8 Update on National Peer Review Committee\*\* – Mr. Fawley
- 1.9 For Informational Purposes:
  - A. Report on Firms Whose Enrollment was Dropped or Terminated\*
- 1.10 Future Open Session Meetings\*\*
  - A. September 26-27, 2016 Open/closed sessions – Conference call
  - B. January 31, 2017 Open/closed sessions – Naples, FL
  - C. May 12, 2017 Open/closed sessions – Durham, NC
  - D. August 17, 2017 Open/closed sessions – Nashville, TN
  - E. September 28-29, 2017 Open/closed session – Conference call

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\*- Document Provided

\*\*-Verbal Discussion

\*\*\*-Will be provided at a later date

**Exposure Draft for System Peer Review Reports and Firm Representation Letter**

**Why is this on the Agenda?**

As we continue our efforts to better identify firm and engagement populations subject to peer review (as discussed in the 6-Point Plan to Improve Audits), we find firms that have not enrolled in peer review as required by AICPA by-laws and certain “must select” engagements omitted from the scope of peer review. Firms that are not enrolled in peer review when required are referred to the AICPA Professional Ethics Division or other appropriate regulatory or enforcement bodies. When we determine that firms omitted must select engagements from the scope of peer reviews previously accepted by report acceptance bodies, the acceptance letters for those reviews are recalled. In addition, when we determine that firms with a current review that has not yet been accepted omitted must select engagements from their background information we will, depending on the status of the review, contact administering entities, team captains, or technical reviewers to ensure that a must select engagement is selected for review.

During a recent Federal Audit Clearinghouse (FAC) completeness project to determine whether firms that performed engagements subject to the Single Audit Act (Single Audits) were in compliance with peer review requirements, we identified each of the scenarios mentioned above. However, we also noted that some of our data on firms that performed Single Audits could not conclusively identify that such engagements were selected for review in the firm’s most recently accepted peer review. Due to workpaper retention guidelines, the workpapers for those reviews are usually no longer available. In addition, even though peer review reports disclose the fact that engagements subject to *Government Auditing Standards* were selected, the specific disclosure of the selection of Single Audit engagements is not. Therefore, staff could not rely on peer review reports to determine if Single Audits were selected.

During the May 2016 Peer Review Board meeting, the board discussed this issue and recommended:

- Modify the must-select paragraph in the illustrative reports for a system review to specify that a Single Audit was selected for review and included in the peer review, when applicable.
- Modify the representation letter requirements and illustrative representation letters for system reviews to indicate that the reviewed firm performed certain must-select engagements and the peer reviewer selected and reviewed such engagements in the scope of the peer review, when applicable.
- Require an attachment to the representation letters for system reviews similar to the “Scope of Work Performed” in PRP 4800 Summary Review Memorandum. This attachment would provide additional evidence with respect to must-select engagements performed by the firm and selected and reviewed in the scope of the peer review. The inclusion of such an attachment would also necessitate reference in system review representation letters whereby the reviewed firm would acknowledge that they have reviewed the attachment prepared by the peer reviewer and agree with the statistics presented.

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During its July 15, 2016 meeting, the Peer Review Board's Standards Task Force (STF) considered the Board's recommendations and is proposing an Exposure Draft to reflect changes to the Peer Review Standards:

- Modification of illustrative reports for system peer reviews Required Selections and Considerations (must-select) paragraph to specify that the audit of compliance requirements of a Single Audit was Included in the scope of the review. This will be reflected as revisions to Illustrations of System Review Reports:
  - Appendix C (Standards par. 209)
  - Appendix D (Standards par. 2010)
  - Appendix E (Standards par. 211)
  - Appendix G (Standards par. 213)
  - Appendix I (Standards par. 215)
  - Appendix K (Standards par. 217)
- Modification of the Firm Representation Letter reflected as revisions to, Appendix B paragraph .208 Considerations and Illustrations of Firm Representations of the Peer Review Standards to:
  - Address Must-Select Engagements Performed by the Firm and Reviewed by the Reviewer

#### **Feedback Received**

Peer Review Board members in May 6, 2016 closed session as indicated above.

#### **PRISM Replacement Impact**

TBD

#### **AE impact**

Administering entity (primarily technical reviewers) will evaluate the working papers submitted by team captains to ensure that the peer review reports and firm representation letters reflect the updated and proper wording and request revisions when necessary.

#### **Communications Plan**

The Exposure Draft will be posted to the Peer Review Home page on [www.aicpa.org](http://www.aicpa.org) on August 11, 2016 or soon thereafter and a reviewer alert will be sent to alert reviewers and reviewed firms.

#### **Effective Date**

- The exposure draft will be issued for comment on August 11, 2016 or soon thereafter. The comment period will end on September 10, 2016. Pending approval of the revision to the illustrative peer review reports and the illustrative firm representation letter, they will be effective for reviews commencing on or after January 1, 2017.

#### **Board Considerations**

1. Discuss the proposed change in the peer review report must-select paragraph and recommend revisions.
2. Discuss the proposed changes to the must-select paragraph in the firm representation letter and recommend revisions, if appropriate.

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# EXPOSURE DRAFT

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## PROPOSED CHANGES TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS

- **Modifications to Peer Review Report to Specifically Disclose the Selection and Review of Single Audits as Must-Select Engagements**
- **Modifications to Representation Letter to Reflect Scope of Engagements Performed and Selected**

**August 11, 2016**

**Comments are requested by September 10, 2016**

**Prepared by the AICPA Peer Review Board for comment from persons interested in the AICPA Peer Review Program**

**Comments should be received by September 10, 2016 and addressed to David S. Andrews, Technical Manager – Peer Review  
AICPA Peer Review Program  
American Institute of Certified Public Accountants  
220 Leigh Farm Road, Durham, NC 27707-8110  
or [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)**

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August 11, 2016

The AICPA Peer Review Board (Board) approved issuance of this exposure draft, which contains proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)*.

Written comments or suggestions on any aspect of this exposure draft will be appreciated and must meet the following criteria:

- Be received by September 10, 2016
- Should be sent to David S. Andrews at [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org)
- Should refer to the specific paragraphs and include supporting reasons for each comment or suggestion
- Should be limited to those items presented in the exposure draft

The exposure draft includes the following:

- An explanatory memorandum of the proposed revisions to the *Standards* and Interpretations. The current *Standards* and Interpretations referenced herein includes revisions approved by the Board through August 11, 2016 that are not effective until reviews commencing on or after January 1, 2017.
- Explanations, background and other pertinent information
- Marked excerpts from the current *Standards* and Interpretations to allow the reader to see all changes
  - Items that are being deleted from the *Standards* and Interpretations are struck through
  - New items are underlined

A copy of this exposure draft and the current *Standards* are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

Anita M. Ford  
Chair, AICPA Peer Review Board

## AICPA Peer Review Board

### Peer Review Board Members 2015 – 2016

Anita M. Ford, Chair  
Jeannine Birmingham  
Brian Bluhm  
Dawn Brenner\*  
William Calder\*  
James Clausell\*  
Albert Denny  
Michael Fawley  
Karen Kerber  
William Lajoie

Michael LeBlanc  
Barbara Lewis\*  
G. Alan Long\*  
Thomas Parry\*  
Andrew Pope\*  
Keith Rowden  
Debra Seefeld  
Martin Shannon  
Todd Shapiro  
Thomas W. Whittle III

*\*Member—Peer Review Board Standards Task Force*

### Non-Peer Review Board Standards Task Force Members 2015 – 2016

Jerry Cross

Heather Trower

### AICPA Staff

Susan S. Coffey  
Senior Vice President  
Public Practice and Global Alliances

James Brackens, Jr.  
Vice President  
Ethics and Practice Quality

Gary Freundlich  
Technical Director  
AICPA Peer Review Program

Frances McClintock  
Associate Director  
AICPA Peer Review Program

Susan Lieberum  
Associate Director  
AICPA Peer Review Program

LaVonne Montague  
Senior Technical Manager  
AICPA Peer Review Program

David S. Andrews  
Technical Manager – Peer Review  
AICPA Peer Review Program



# Explanatory Memorandum

## Introduction

This memorandum provides background on the proposed changes to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)* issued by the AICPA Peer Review Board (Board). The proposed changes:

- Modifies the illustrative peer review reports for System Reviews to specifically state that a single audit was selected and reviewed in the scope of a peer review, if applicable
- Modifies firm representation letter to identify the performance of must-select engagement(s) by the firm and the selection and review of such must-select engagements in the scope of the peer review.

This memorandum solicits input on the proposal from all interested parties.

## Background

CPAs take pride in their long-standing commitment to excellence. That commitment includes continued vigilance in delivering accounting and auditing services and protecting the public interest. The AICPA Peer Review Program (Program) monitors the quality of the accounting and auditing practices of the firms enrolled in the Program. This monitoring relies on the integrity of all firms to comply with the peer review enrollment and the peer review scope requirements of the Program.

As we continue our efforts to better identify firm and engagement populations subject to peer review (as discussed in the 6-Point Plan to Improve Audits), we find firms that have not enrolled in peer review as required by AICPA by-laws and certain “must select” engagements omitted from the scope of peer review. Firms that are not enrolled in peer review when required are referred to the AICPA Professional Ethics Division or other appropriate regulatory or enforcement bodies. Firms that omit must select engagements from the scope of peer review have their acceptance letter for that review recalled. In addition, when we determine that firms with a current review that has not yet been accepted omitted must select engagements from their background information we will, depending on the status of the review, contact administering entities, team captains, or technical reviewers to ensure that a must select engagement is selected for review.

During a recent Federal Audit Clearinghouse (FAC) completeness project to determine whether firms that performed engagements subject to the Single Audit Act (Single Audits) were in compliance with peer review requirements, we identified each of the scenarios mentioned above. However, we also noted that some of the data on firms that performed Single Audits could not conclusively identify that such an engagement was included in the firms’ most recently accepted peer review. Due to workpaper retention guidelines, the workpapers for those reviews usually are no longer available. In addition, even though peer review reports disclose the fact that engagements subject to *Government Auditing Standards* were selected, the specific disclosure of the selection of Single Audit engagements is not. Therefore, staff could not rely on peer review

reports to determine if Single Audits were selected. Also, proposed changes to the firm representation letters for system peer reviews provide enhanced accountability by requiring the firm to specify the types of must-select engagements performed by the firm and selected by the peer reviewer for review. .

This Exposure Draft recommends several measures to align with Interpretation 63-1 and provides additional accountability for the performance, selection, and identification of all must-select engagements during peer review. The proposed revisions are as follows:

- The “Required Selections and Considerations” (must-select) paragraph in the system peer review reports should be modified to specify, when appropriate, the selection and review of a Single Audit in the scope of the review.
- The representation letter provided by the firm should be modified for consistency to address all must-select engagements, including single audits, when performed by the firm and selected by the peer reviewer.

## Explanation of Proposed Changes

### Revisions to *Standards* re: Modification of Required Selections and Considerations Paragraph in System Peer Review Reports

The proposed changes to the must-select paragraph in the Illustrative System Peer Reports:

- Appendix C (Standards par. 209)
- Appendix D (Standards par. 210)
- Appendix E (Standards par. 211)
- Appendix G (Standards par. 213)
- Appendix I (Standards par. 215)
- Appendix K (Standards par. 217)

#### Required Selections and Considerations

Engagements selected for review included (engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and SOC 2 engagements].)

- Appendices C, D, E, G, I, and K related footnotes relative to the Required Selections and Considerations paragraphs of the Illustrative System Peer Review Report

If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-

dealers, examinations or service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations 63-1, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under Government Auditing Standards (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate the compliance audit requirements under the Single Audit Act, this portion of the sentence should read as follows “Government Auditing Standards, audit(s) of compliance requirements under the Single Audit Act,” etc. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

### **Revisions to *Standards* re: Modification in the body of the firm representation letter regarding must-select engagements**

The proposed changes include revisions to:

- Paragraph .208 Appendix B, to add paragraph 8b to the peer reviewer considerations to specifically address must-select engagements performed by the firm and reviewed by the peer reviewer.
- Paragraph .208 Appendix B, to modify the illustrations of firm representation letters to specifically address must-select engagements performed by the firm and reviewed by the peer reviewer.
- Paragraph .208 Appendix B, to modify the illustrations of firm representation letters to refer to and require acknowledgement of “Scope of Work Performed” attachment to the representations letter.

### **Revisions to Interpretations**

None

### **Comment Period**

The comment period for this exposure draft ends on September 10, 2016.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA’s website after September 10, 2016, for a period of one year.

## Guide for Respondents

The Board welcomes feedback from all interested parties on this proposal. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording.

Comments and responses should be sent to David S. Andrews, Technical Manager – Peer Review, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by September 10, 2016. Respondents can also direct comments and responses to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by September 10, 2016.

## Effective Date

Final revisions to the *Standards* will be effective, if approved by the Board, for reviews commencing on or after January 1, 2017.

DRAFT

## Proposed Revisions

To aid understanding, *Standards* are presented in this section if they contain a proposed revision.

### Peer Review Standards

**Note:** For reasons of simplicity and brevity, the Illustration of Reports in a System Review below only shows the Required Selections and Considerations paragraph containing proposed revisions which is identical in each of the referenced Appendices.

- **Appendix C (Standards Paragraph .209) Illustration of a Report With a Peer Review Rating of *Pass* in a System Review**
- **Appendix D (Standards Paragraph .210) Illustration of a Report With a Peer Review Rating of *Pass (With a Scope Limitation)* in a System Review**
- **Appendix E (Standards Paragraph .211) Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies* in a System Review**
- **Appendix G (Standards Paragraph .213) Illustration of a Report With a Peer Review Rating of *Pass With Deficiencies (With a Scope Limitation)* in a System Review**
- **Appendix I (Standards Paragraph .215) Illustration of a Report With a Peer Review Rating of *Fail* in a System Review**
- **Appendix K (Standards Paragraph .217) Illustration of a Report With a Peer Review Rating of *Fail (With a Scope Limitation)* in a System Review**

### Illustrations of Reports in a System Review

#### Required Selections and Considerations

Engagements selected for review included (engagements performed under *Government Auditing Standards*, [including compliance requirements under the Single Audit Act](#), audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [Service Organization Control (SOC) 1 and SOC 2 engagements]).

**Appendices C, D, E, G, I, and K related footnotes to the Required Selections and Considerations paragraphs**

If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of depository institutions with total assets of \$500 million or greater at the beginning of its fiscal year, audits of carrying broker-dealers, examinations or service organizations (Service Organization Control [SOC] 1 and SOC 2) or other engagements required to be selected by the board in interpretations 63-1, the engagement type(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under Government Auditing Standards (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate the compliance audit requirements under the Single Audit Act, this portion of the sentence should read as follows “Government Auditing Standards, audit(s) of compliance requirements under the Single Audit Act,” etc. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

**Note: For contextual purposes the considerations sections of paragraph .208 of Appendix B are shown in their entirety. In addition, only Illustrations of Firm Representations for system reviews are included. Changes are not being proposed to Firm Representations for Engagement Reviews.**

## **Appendix B**

### **Considerations and Illustrations of Firm Representations**

#### **.208**

1. The team captain or review captain obtains written representations from management of the reviewed firm to describe matters significant to the peer review in order to assist in the planning and performance of and the reporting on the peer review.
2. The written representations should be obtained for the entire firm and not for each individual engagement the firm performs. Firm management’s refusal to furnish written representations to the team captain or review captain constitutes a failure to cooperate with the peer review program, and the firm would be subject to fair procedures that could result in the firm’s enrollment in the program being terminated (see interpretations). If termination occurs, it may result in an investigation of a possible violation by an appropriate regulatory, monitoring, and enforcement body.
3. On System Reviews, the written representations should be addressed to the team captain (for example, “To John Smith, CPA”). Because the team captain is concerned with events occurring during the peer review period and through the date of his or her peer review report that may require an adjustment to the report or other peer review documents, the representations should be dated the same date as the peer review report.
4. On Engagement Reviews, the representations should be addressed to the review captain (for example, “To John Smith, CPA” or on committee-appointed review team reviews where

appropriate, it may be addressed “To the Review Captain”) and dated the same date as the peer review report.

5. The written representations should be signed by individual members of management whom the team captain, review captain or the administering entity believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. Such members of management normally include the managing partner and partner in charge of the firm’s system of quality control (this should not be a firm signature).
6. If a representation made by management is contradicted by other information obtained, the team captain or review captain should investigate the circumstances and consider the reliability of the representations made and any effect on the report.
7. The firm is required to make specific representations, as noted in the text that follows. The firm is not prohibited from making additional representations and may tailor the representation letter as it deems appropriate, as long as the minimum applicable representations are made to the team captain or review captain (see interpretations). The team captain or review captain may request additional representations based on the circumstances and nature of the peer review.
8. As of the date of the representation letter and for the peer review year, the firm should do the following:
  - a. Compliance with Rules and Regulations
    - Acknowledge responsibility for complying with the rules and regulations of state boards of accountancy and other regulations
    - Confirm, to the best of its knowledge and belief, that there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.
      - If there are known situations of noncompliance, the confirmation should first summarize the situation(s) where management is aware that the firm or its personnel has not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) and, if applicable, how the firm has or is addressing and rectifying situations of noncompliance (see interpretations). The confirmation should be written such that other than the summarized situation(s), to the best of its knowledge and belief, there are no known situations in which the firm or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.
  - b. Completeness of the Engagement Listing
    - State the list of engagements provided to the reviewer:

- Included all engagements with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued
  - Included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements, as applicable
  - For System Reviews, where applicable, state that the firm performed the following must-select engagements for the period covered by the peer review and at least one of each type of must-select engagement that was performed was selected and reviewed by the peer reviewer: engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements.
  - For Engagement Reviews, state that the firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to PCAOB permanent inspection
  - Acknowledge that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body
- c. Firm Remediation of Nonconforming Engagements, if applicable
- Confirm it will remediate nonconforming engagements as stated by the firm on the Matter For Further Consideration Form, Finding for Further Consideration Form, or Letter of Response, as applicable.
- d. Communications From Regulatory, Monitoring, or Enforcement Bodies
- State that the firm has discussed significant issues from reports and communications (see interpretations) from regulatory, monitoring and enforcement bodies (see interpretations), with the team captain or review captain, if applicable.
  - State that the firm has provided the team captain or review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
  - Confirm, to the best of its knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by



regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end OR

- Include a summary of the restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

e. Quality Control Materials

- State that it understands the intended uses and limitations of the quality control materials it has developed or adopted.
- For System Reviews, state that it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting and auditing practice.
- For Engagement Reviews, state it has tailored and augmented the materials as appropriate such that the quality control materials encompass guidance which is sufficient to assist it in conforming with professional standards (including the Statements on Quality Control Standards) applicable to its accounting practice.

f. Other Representations

- Include other representations requested by the team captain or review captain based on the circumstances and nature of the peer review.

### **Illustration of a Representation Letter That Has No Significant Matters to Report to the Team Captain for a System Review**

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.)

October 31, 20XX

To the [Name of Team Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of this the date of this letter. This list appropriately identified and

included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, 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 SOC 2 engagements), as applicable. We understand that failure to properly include ~~these~~ engagements on the list subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[For system reviews; customized where applicable] We have completed and issued the following must-select engagements and the peer review team has reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Audits of compliance requirements under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Audits of carrying broker-dealers
6. Examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the team captain, if applicable. We have also provided the team captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, to the best of our knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,

[Signature]

### **Illustration of a Representation Letter That Has Been Tailored for Significant Matters to Report to the Team Captain for a System Review**

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.)

October 31, 20XX

To [Name of Team Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. Other than the firm not having a practice unit license during the year under review in one state where the firm practices (which has been subsequently obtained), we confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance requirements under the Single Audit Act, 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 SOC 2 engagements), as applicable. We understand that failure to properly include ~~these~~ engagements ordinarily subject to the scope of the peer review on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[For system reviews; where applicable] We have completed and issued the following must-select engagements and the peer review team has reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Audits of compliance requirements under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Audits of carrying broker-dealers
6. Examinations of service organizations Service Organizations Control (SOC) 1 and SOC 2 engagements

We confirm that we will implement the remedial plans for nonconforming engagements stated in our response to Finding for Further Consideration Forms 1 and 3.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the team captain, if applicable. We have also provided the team captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. Other than the single partner restriction to perform employee benefit plans as determined by the AICPA Professional Ethics Division, we confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,

DRAFT

## Revisions to Guidance Related to Common SSARS No. 21 Noncompliance

### Why is this on the Agenda?

Statement on Standards for Accounting and Review Services (SSARS) No. 21 is effective for reviews, compilations, and engagements to prepare financial statements for periods ending on or after December 15, 2015. Peer reviewers are beginning to review engagements performed in accordance with SSARS No. 21 during their peer reviews. Staff has received numerous questions regarding the impact to the peer review report (particularly in an Engagement Review) if the changes to the accountant's report introduced by SSARS No. 21 have not been implemented.

Appendix E of PRP Section 6200, *Instructions to Reviewers Performing Engagement Reviews*, gives numerous examples of items commonly found in Engagement Reviews that would generally result in a matter, finding, deficiency or significant deficiency. However, this section does not specifically address when a firm fails to update their accountant's report for a new or updated set of standards.

The differences in the report between SSARS No. 19 and SSARS No. 21 are summarized as follows.

The changes to the compilation report include:

- (1) the removal of the title,
- (2) the inclusion of the accountant's city and state, and
- (3) the format has been condensed to one paragraph.

The changes to the review report include:

- (1) the addition of titles to the paragraphs,
- (2) minor wording changes throughout, and
- (3) the inclusion of the accountant's city and state.

Historically, the lack of proper implementation of applicable professional standards has resulted in engagements being considered as not performed or reported on in conformity with applicable professional standards in all material respects (i.e. "nonconforming"). Typically, if a firm does not prepare the report in conformity with the language and format required by the applicable professional standards, the engagement should be considered nonconforming. The STF is requesting the PRB review and approve the changes proposed in PRPM 6200 Appendix E to provide consistency and clarity to administering entities, peer reviewers, and technical reviewers when revisions are made to professional standards.

Finally, the STF has approved other conforming changes to the Manual for PRB consideration that are listed in more detail in the 'Board Consideration' section of this agenda item.

### Feedback Received

This topic was discussed with the ARSC staff liaison and ARSC Chair. Based in part on their feedback, the STF concluded that the changes made by SSARS No. 21 are substantial and any omission would display a lack of understanding of the SSARS. Further emphasizing compilations reports were purposefully made visually different than audit and review reports.

Additionally, Staff receives frequent questions from peer reviewers, technical reviewers and administering entities about how these situations should be assessed.

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**PRISM Impact**

None

**AE Impact**

Communicate to the AE's to ensure consistency.

**Communications Plan**

Create a Reviewer Alert article upon approval of PRP Section 6200 Appendix E to provide additional clarity. Provide an overview of the Reviewer Alert for inclusion in the TIC Alert. Additionally, provide a communication for state societies to distribute to their members.

**Manual Production Cycle (estimated)**

August PRPM update.

**Effective Date**

Upon approval.

**Board Consideration**

The Board is being requested to review and approve the changes proposed in Agenda Item 1.3A for PRP Section 6200 Appendix E. These include:

- 1) The aforementioned change to have the failure to conform the language and format of the accountant's report to current applicable professional standards listed as a matter or finding that would generally result in a deficiency or significant deficiency.
- 2) A proposed addition to PRP Section 6200 Appendix E to include a specific example for preparation engagements that failure to disclose that substantially all disclosures have been omitted when applicable. An example covering this matter has previously been in the 'Reports' subsection and preparation engagements are not required to have reports similar to compilation and review engagements.

Additionally, the Board is being requested to review and approve conforming changes in PRP Section 2000, *Peer Review Standards Interpretations*, related to some interpretations that reference SSARS No. 19, but do not mention SSARS No. 21. See Agenda Item 1.3B.

PRP Section 6200 Appendix E Proposed Revisions

**Appendix E**

**AREAS OF COMMON NONCOMPLIANCE WITH APPLICABLE PROFESSIONAL STANDARDS**

**.52**

The following is a list of noteworthy areas of common noncompliance with applicable professional standards. This is not an all-inclusive list, and the reviewer must decide if the noncompliance is a matter, finding, deficiency, or significant deficiency by using the following guidance.

On an Engagement Review, as with System Reviews, determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. The following list provides examples of instances of noncompliance with professional standards. Unless stated otherwise, each item within the following list pertains to all types of engagements relevant to an Engagement Review. A *finding* is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, then a report rating of *pass* is appropriate. See section 1000, *Standards for Performing and Reporting on Peer Reviews*, paragraphs .110–.115.

**List of Matters and Findings That Generally Would Not Result in a Deficiency**

**Reports**

- Omission of phrases or use of phrases not in conformity with the appropriate standards for the report issued.
- Compilation reports that failed to include the paragraph regarding the omission of supplemental information as applicable in the circumstances.
- Reports reflected financial statement titles and terminology not in accordance with professional standards.
- Failure to explain the degree of responsibility the accountant is taking with respect to supplementary information.

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## Financial Statement Measurement

- Particular types of revenues and expenses not presented and disclosed in accordance with professional standards (for example, freight revenue and related shipping and handling expenses).
- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) that are properly reported on but contain inconsistencies between the report and the financial statements, where the actual basis is readily determinable.

## Presentation and Disclosure

- Supplementary information not clearly segregated or marked as supplementary and departures from standard report presentation with respect to supplementary information.
- Reviewed financial statement presentation inappropriate for the type of nonprofit organization being reported.
- Compiled financial statements prepared using a special purpose framework <sup>fn</sup><sub>1</sub> reflecting titles normally associated with financial statements prepared under GAAP when the applicable financial reporting framework is not clearly identified.
- Failure to disclose the accounting policy related to advertising costs in the notes to the financial statements.
- Omission of the disclosure of the method of income recognition as required by professional standards.
- Misclassification of items on the statement of cash flows.
- Omitted or inadequate disclosures related to account balances or transactions (for example, disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long term debt, related party transactions, concentrations of credit risk, and so on).
- Bank overdrafts not properly presented on the balance sheet, failure to accrue income taxes where the accrual and provision are not expected to be significant to the financial statements taken as a whole and missing insignificant disclosures in the financial statements.
- Financial statement titles that were inconsistent with the accountant's report.
- Failure to refer to the accountant's report on each page of the financial statements or financial statements inconsistently titled with the applicable reports.

## Statement on Standards for Accounting and Review Services (SSARS) Procedures (Including Documentation)

- The engagement letter on a management use only compilation engagement did not refer to supplementary information, which was presented along with the basic financial statements.



- The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of SSARS No. 19, "Framework for Performing and Reporting on Compilation and Review Engagements" (AICPA, *Professional Standards*, AR sec. 60) or, when applicable, SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*) (with the exception of the signature requirement which is discussed in the following section).

## List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency

### Reports

- Issuance of a review report when the accountant is not independent.
- Inappropriate references to GAAP in the accountant's report when the financial statements were prepared using a special purpose framework. <sup>fn2</sup>
- Failure to disclose the lack of independence in a compilation report.
- Failure to appropriately modify a report for a scope limitation or significant departure from the basis of accounting used for the financial statements.
- The accountant's report does not contain the critical elements of the applicable standards.
- Failure to disclose, in the accountant's report, significant departures from professional standards (examples include omission of significant income tax provision on interim financial statements, omission of significant disclosures related to defined employee benefit plans, or omission of required supplemental information for a common interest realty association).
- The accountant's report does not indicate the periods covered by the report and they cannot be determined from reading the financial statements.
- Failure to include a separate paragraph for departures from the financial reporting framework, including dollar amounts or a statement that the impact was not determined.
- A compilation report that fails to include all the reasons why the accountant is not independent when such reasons are presented (for example, only provides one of three reasons).
- A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions.
- For a compilation engagement, Failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (if applicable) required by the applicable financial reporting framework.
- Failure to conform the language and format of the accountant's report to current applicable professional standards.
- For a compilation or review engagement performed in accordance with SSARSs, failure to appropriately modify the report in accordance with professional

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standards, when the financial statements are prepared in accordance with a special purpose framework.

- For preparation engagements, failure to issue a disclaimer report, in accordance with SSARS No. 21, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided.”

### **Financial Statement Measurement**

- Investments in marketable securities presented at cost and not fair market value, resulting in a material misstatement to the balance sheet.
- Inclusion of material balances that are not appropriate for the basis of accounting used.
- Failure to include material amounts or balances necessary for the basis of accounting used (examples include omission of accruals, failure to amortize a significant intangible asset, failure to provide for losses or doubtful accounts, or failure to provide for deferred income taxes).
- Improper accounting of a transaction (for example, recording a capital lease as an operating lease).
- Use of inappropriate method of revenue recognition.

### **Presentation and Disclosure**

- Disclosure of omission of substantially all disclosures (in a compilation without disclosures) in fact when substantially all disclosures have been included.
- Misclassification of transactions or balances and omission of significant required disclosures related to financial statement balances on transactions.
- Failure to disclose that compiled financial statements that omit substantially all disclosures were prepared using a special purpose framework <sup>fn3</sup> and the basis of accounting is not readily determinable from reading the accountant’s compilation report.
- For a preparation engagement, failure to include, either on the face of the financial statements or in a note to the financial statements, a description of the financial reporting framework when the financial statements have been prepared in accordance with a special purpose framework.
- For a preparation engagement, failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (if applicable) required by the applicable financial reporting framework.
- For a preparation engagement, failure to disclose a material misstatement(s) in the financial statements when the accountant prepares financial statements that contain a known departure or departure(s) from the applicable financial reporting framework.

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- Significant departures from the financial statement formats prescribed by industry accounting and audit guides.
  - Omission of the disclosure(s) related to significant accounting policies applied (GAAP or special purpose framework). <sup>fn.4</sup>
  - Failure to include a summary of significant assumptions in a financial forecast or projection.
  - Failure to segregate the statement of cash flows into the components of operating, investing, and financing.
  - Failure to disclose the cumulative effect of a change in accounting principles.
  - Failure to disclose significant related party transactions.
  - Omission of actual financial statement(s) that is (are) referred to in the report.
  - Failure to include one or more statements of cash flows when comparative results of operations are presented in financial statements prepared in accordance with GAAP.

### **SSARS Procedures (Including Documentation)**

- Failure to establish an understanding with management regarding the services to be performed through a written communication (for example, an engagement letter).
- Performance of a management use only compilation engagement with a period end subsequent to December 15, 2015.
- Failure to document significant findings or issues.
- For compilation engagements performed under SSARS No. 19 and all review engagements, failure to document communications to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- For review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures.
- For review engagements, failure to document the matters covered in the accountant's inquiry and analytical procedures.
- For review engagements, failure to document significant unusual matters and their disposition.
- For review engagements, failure to obtain a client management representation letter.
- Engagement letters on management use only compilation engagements that omit the required descriptions or statements documenting the understanding with the client.
- For engagements performed in accordance with SSARS No. 21, failure to obtain all required signatures on the engagement letter (or other suitable written agreement).

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Footnotes (PRP Section 6200 — Instructions to Reviewers Performing Engagement Reviews):

<sup>fn.1</sup> All “no” answers should be resolved before the report is finalized.

<sup>fn.1</sup> All “no” answers should be resolved before the report is finalized.

<sup>fn.1</sup> For Engagement Reviews administered by the National Peer Review Committee, include all other working papers incorporated by reference, as applicable (See Interpretation 94-1).

<sup>fn.1</sup> The cash, tax, regulatory, and other bases of accounting that utilize a definite set of logical, reasonable criteria that are applied to all material items appearing in financial statements are commonly referred to as other comprehensive bases of accounting.

<sup>fn.2</sup> See footnote 1.

<sup>fn.3</sup> See footnote 1.

<sup>fn.4</sup> See footnote 1.

**SSARS No. 21 Conforming Changes – PRP Section 2000**

***Interpretation No. 6-8***

Question—Is an engagement performed under the ISAs, any other standards issued by the IAASB or any other audit or assurance standards outside of the U.S. (“international standards”) included in the scope of the peer review?

Interpretation—Yes, an engagement performed under international standards would be included in the scope of the peer review. Under U.S. professional standards, the engagement would comply with elements of both the international standards and U.S. professional standards. However, the peer reviewer should only test compliance with the U.S. professional standards described in paragraph .06 of the peer review standards (that is, engagements performed under SAs, SSARS, SSAEs, Government Auditing Standards, and PCAOB standards not subject to PCAOB permanent inspection). Testing of compliance with any international standards is not included in the scope of the review.

The peer reviewer should inquire of the firm during planning about whether any engagements were performed under international standards. If yes, the peer reviewer should inquire if the firm understands professional guidance for reporting on statements for international use, specifically addressing the following issues:

- For audit engagements AU-C section 910, Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country (AICPA, Professional Standards), indicates that if a U.S. auditor reports on U.S. entity financial statements that are used only outside of the United States, he or she should comply with generally accepted accounting standards (GAAS), except for requirements related to the form and content of the report. He or she should determine whether the application of GAAS requires special consideration in the circumstances of the engagement. However, when the audited financial statements of the entity are intended for use in the United States, then all GAAS standards must be followed, including the reporting standards.
- For review and compilation engagements prepared in accordance with SSARS No. 19. Interpretation Nos. 13–15 of AR section 80, Compilation of Financial Statements (AICPA, Professional Standards, AR sec. 9080 par. .49) and Interpretation Nos. 8–10 of AR section 90, Review of Financial Statements (AICPA, Professional Standards, AR sec. 9090 par. .29), conformed for SSARS No. 19, Framework for Performing and Reporting on Compilation Engagements (AICPA, Professional Standards), provide paralleling guidance to AU-C section 910. Any distribution in the United States would lead to the requirement to follow SSARS No. 19 reporting standards.
- For engagements prepared in accordance with SSARS No. 21. Paragraph A24 of AR-C Section 60 indicates that the accountant may also conduct the compilation or review in accordance with both SSARSs and
  - International Standard on Related Services 4410 (Revised), Compilation Engagements.
  - International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements, or
  - compilation or review standards of a specific jurisdiction or country.

In such cases, in addition to complying with each of the AR-C sections relevant to the engagement, it may be necessary for the accountant to perform additional compilation or review procedures in order to comply with the other compilation or review standards.

- For any other types of engagements. If not directly addressed in the applicable professional standards, reference should be made to the SAS or SSARS guidance.

In all cases, the peer reviewer should conclude whether the firm's classification for an engagement's report of "distribution in the U.S.," "distribution only outside of the U.S.," or "limited distribution in the U.S." was appropriate and reasonable. Then, the peer reviewer should determine that the appropriate general, fieldwork, and reporting (if applicable) aspects of U.S. professional standards were followed. A misunderstanding of U.S. professional guidance for reporting on statements for international use increases the risk of an engagement not performed and reported on in accordance with professional standards (for instance, financial statements made available on the Internet may not reasonably be considered 'limited' distribution in the U.S.). The peer reviewer should consult with AICPA program staff for further guidance, if necessary.

#### **Interpretation No. 67-1**

Question—Paragraphs .67 and .109 of the standards notes that the team captain or review captain should promptly inform the firm when an engagement is not performed or reported on in conformity with applicable professional standards in all material respects and remind the firm of its responsibilities under professional standards to take appropriate actions. How is this communication made and what other responsibilities does the team captain or review captain have in regard to the affected engagements?

Interpretation—If the reviewer concludes that an engagement is not performed or reported on in conformity with applicable professional standards in all material respects, the team captain or review captain should promptly inform an appropriate member of the reviewed firm on a MFC form. The team captain or review captain should remind the reviewed firm of its responsibilities under professional standards to take appropriate actions as addressed in AU-C section 560, Subsequent Events and Subsequently Discovered Facts, ~~or~~ SSARS No. 19, Compilation and Review Engagements, or SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification, as applicable, or, if the firm's work does not support the report issued, as addressed in AU-C section 585, Consideration of Omitted Procedures After the Report Release Date (AICPA, Professional Standards). The reviewed firm should investigate the issue questioned by the review team and determine what timely action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports. The reviewed firm should then advise the team captain or review captain of the results of its investigation, including parties consulted, and document on the MFC form the actions planned or taken or its reasons for concluding that no action is required.

Reviewers or administering entities should not instruct reviewed firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the reviewed firm and its client to make. However, the administering entity can require the reviewed firms to make and document appropriate considerations regarding such engagements as a condition of

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acceptance of the peer review. The firm's response may affect other monitoring actions the administering entity's peer review committee may impose, including actions to verify that the reviewed firm adheres to the intentions indicated in its response.

If the reviewed firm has taken action, ordinarily the review team should review documentation of such actions (for example, omitted procedures performed, reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the action is appropriate.

## Standing Task Force Updates

### Why is this on the Agenda?

Each of the standing task forces of the PRB will provide this information to the Board at each open session meeting as a way to garner feedback and input on the nature and timing of agenda items that will be considered in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to feedback received.

### Standards Task Force

#### Accomplished since last PRB meeting:

The STF focused on the following items, which have been presented during the August 2016 PRB open session:

- Modifications to Peer Review Report to Specifically Disclose the Selection and Review of Single Audits as Must-Select Engagements and Modifications to Representation Letter to Reflect Scope of Engagements Performed and Selected Exposure Draft
  - Proposed must-select language in peer review reports will specifically mention the review of an engagement subject to the Single Audit Act.
  - Proposed changes to the language in firm representation letters will require the firm's statement about the completeness of their engagement listing to specifically mention engagements subject to the Single Audit Act. Firms will also be required to include a statement, when appropriate, that the firm performed and the reviewer reviewed specified must-select engagements.
- Revisions to guidance related to common SSARS No. 21 noncompliance
  - Added guidance in PRPM 6200 Appendix E specifically identifying the following as a deficiency or significant deficiency;
    - a failure to conform the language and format of the accountant's report to current applicable professional standards
    - In a preparation engagement, a failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (clarification since there is not a report in a preparation engagement, this is addressed within Presentation and Disclosure)
  - Conforming changes to Standards Interpretations 6-8 and 67-1 that reference SSARS No. 19 to include a reference to SSARS No. 21.

In addition to the topics the STF has presented at this meeting, the STF has recently discussed the following items;

- National Peer Review Committee (NPRC) requirements; specifically considering a change to Interpretation 11-1 to use the year end of the audit in lieu of using when the audit is performed to determine if a firm is subject to have their review administered by the NPRC.
- Regulation Crowdfunding and the small business capital-raising rules (Regulation A+) has been identified as an EAQ Emerging Industries and Risk Areas Peer Review Area of Focus. In response, the STF is considering enhanced guidance and materials to highlight risks surrounding audit and review reports issued that may be filed with the SEC for use in risk assessment process
- Conforming changes from the Transparency ED for Alternative Practice Structure QC P&P checklists; PRP Sections 5100 *Quality Control Policies and Procedures*



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*Documentation Questionnaire Supplement for Non-CPA Owned Entities Closely Aligned With a CPA Firm, 5200 Supplemental Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm, and 5300 Staff Interview Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm*

### **Other Future Topics**

- Issuers of Municipal Securities - discussion item regarding enhancements to guidance and materials targeting this EAQ - Emerging Industries & Risk Area, Peer Review Area of Focus.
- Due to the feedback received from the Enhanced Oversight project, issues surrounding nonconforming engagements are a top priority. The STF is considering a variety of approaches to assist reviewers and firms;
  - Training and clarification to assist reviewers with identification of nonconforming engagements
  - Training and clarification to assist reviewers and firms with proper assessment and remediation, in collaboration with the ASB.
  - Disincentives for reoccurring nonconforming engagements; such as an "Implementation Plan" like RAB option
  - Defining not performed or reported in conformity with applicable professional standards in all material respects
- Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program Exposure Draft conforming changes to the RAB Handbook
- Guidance needed in response to the implementation of a new peer review platform;
  - Initial review guidance to assist in timing of the year end and due date when a firm reestablishes performance of A&A
  - Reinstatement after hearing
  - Noncooperation guidance for not completing the Annual Reporting Form
  - Completion of a peer review online
  - Risk Assessment Toolkit in narrative form
- Consideration of standards impact from the recently issued ARSC ED; scheduled for vote August 2016.
- National RAB guidance
- Consideration of risk-based engagement reviews
- Consideration of clarified review standards (e.g. including definitions, capitalize "Board", referencing QC10 in lieu of SQCS 8, etc.)
- Consideration of a new deep dive regarding "use of a specialist" (sufficiency of audit evidence)
- Consideration of a new exit conference and report date when a technical reviewer or the RAB requests changes to a peer review.
- Consideration of QCM review of AICPA materials
- Development of guidance addressing firms operating under more than one name or legal entity (e.g. when is it appropriate that only one peer review occurs vs. when there should be separate peer reviews, reporting considerations, etc.).
- Update definitions of "personnel" and "professionals" used in various forms, practice aids, and guidance.
- Modify, expand and finalize guidance in Interpretations 6-7 and 6-8 for engagements performed under international standards.
- Consideration of whether past history of firms and reviewers should be part of the reviewer process.

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- Consideration of whether surprise engagements are necessary in an electronic working paper environment.
  - Consideration of subsequent events and the impact on the peer review.
  - Removal of references to SSARS 19
  - Consideration of allowing a peer reviewer to assist with pre-issuance review in the 2<sup>nd</sup> year after the peer review

### **Education and Communications Task Force**

#### **Accomplished since last PRB meeting:**

- Planned and prepared for the 2016 Peer Review Conference, including general session agenda, conference cases, and concurrent session materials
- Developed materials for the must-select trainings for the EBP Conference and the NFP Industry Conference and the team captain ongoing trainings for Practitioner's Symposium and Tech Conference and NAAATS
- Developed a live seminar presentation provided to State Societies which meets the ongoing training requirement for team captains and review captains
- Publicized the "Hiring a Quality Reviewer" brochure
- Presented and rebroadcasted the "Are You Ready" webcast
- Enhanced the Peer Review website

#### **Upcoming tasks:**

- Assess feedback received from the 2016 AICPA Peer Review Program conference and begin to plan for the 2017 conference
- Develop materials for the Technical Reviewers training requirement
- Develop materials for the RAB members training requirement.
- Update on-demand training.

### **Oversight Task Force**

#### **Accomplished since last PRB meeting:**

- Accepted RAB Observation reports
- Reviewed responses from AEs to RAB Observation reports
- Reviewed schedule of AE oversight visits
- Monitor the Enhanced Oversight results
- Discussed type of feedback issued by AEs as a result of the Enhanced Oversight
- Reviewed progress on open reviews

#### **Upcoming tasks:**

- OTF members will conduct AE oversight visits
- Monitor results of Enhanced Oversight
- Approve RAB Observation reports
- Monitor open reviews
- Monitor hearings backlog

## Firm and Engagement Tracking “Population Completeness” Update

### Why is this on the Agenda?

To provide the board an update on the efforts to verify that:

- all firms that should be enrolled in peer review are enrolled; and
- all engagements that are within peer review scope are included in the population subject to peer review.

### Status/Accomplishments

- Goal: Obtain federal employer identification numbers (EINs) to increase efficiency and accuracy of comparing publicly available information to information provided for peer review.
  - In February 2016, staff began a massive effort to request EINs from all enrolled firms if we did not already have EINs.
  - As of July 2016 we have obtained EINs for approximately 62% of the 37,000 enrolled firms and request efforts are continuing.
  - Firms will not be able to schedule their firm’s next peer review without providing their EIN.
  - Failure to provide complete scheduling information is considered noncooperation for which a firm’s enrollment can be dropped from the program.
- Goal: Identify source data for certain types of engagements performed by firms to assist in determining compliance with peer review requirements.
  - Staff has recently completed evaluation of single audit data filings with 2013 fiscal year ends in the Federal Audit Clearinghouse (FAC) to determine compliance with peer review requirements
  - There were approximately 4,600 unique CPA firms in the FAC database.
    - Of the 4,600 unique firms, approximately 3,700 were able to be identified and investigation closed without additional research by electronically matching those records using EINs and other information with the PRISM database.
    - As of July 31, 2016 the additional research of the remaining 900 firms yielded the following results:
      - Approximately 100 firms were referred or are in the process of being referred to Ethics for failure to be properly enroll or have a peer review;
      - Approximately 100 firms did not appear to be in compliance. However there was insufficient definitive evidence to warrant recall of a peer review report. Alternatively staff sent educational or preventative communications to the appropriate parties (firm, team captain, technical reviewer, and administering entity) depending on the phase of firm’s current peer review. In some cases the firm’s record was flagged for consideration during scheduling of the firm’s next peer review.
      - Approximately 30 peer review reports are being recalled and state boards of accountancy are being notified of the change in acceptance date and peer review year end as allowed per

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paragraph .146 of the *Standards for Performing and Reporting on Peer Reviews*.

- In accordance with the recall guidance issued in January 2014:
  - For reviews that commenced after April 1, 2014: 20 firms will go to a hearing panel to determine if firm's enrollment will be terminated or allowed to have a replacement review due within 60 days of decision.
  - For reviews that commenced prior to April 1, 2014: 10 firms, will be allowed to have a replacement review due in 90 days without a hearing.

**Firms Dropped from the AICPA Peer Review Program for Non-Cooperation  
between April 12, 2016 and July 29, 2016**

<b>Firm Number</b>	<b>Firm Name</b>	<b>State</b>	<b>Admin By</b>
10080271	MKT CPA Group, Inc.	AL	AL
10081249	Braun P.C.	CA	CA
10082527	Lehman & Associates	CA	CA
10092488	Winard & Stone, LLP	CA	CA
221850	Robert J. Dwyer	CA	CA
10106622	Raphael & Associates	CA	CA
10111478	Michael Maastricht	CA	CA
10121775	Roeser Accountancy Corporation	CA	CA
10129371	Harvey K. Hihara	CA	CA
10141605	Diebert & Associates	CA	CA
10150145	Cindy Bullard CPA	CA	CA
5255057	Dee Ann Brower, CPA	CA	CA
1193976	David A. Zippie	CO	CO
10115201	Priscilla J. Porter	CO	CO
6897682	Grabau & Company, PC	CO	CO
10093651	Ellspermann & Harris, CPAs	FL	FL
10116294	Pastran, P. A.	FL	FL
10130486	Puissegur PA	FL	FL
81510585	Gary David Brady	FL	FL
1164106	Miles K. Thoroman CPA, P. C.	GA	GA
1060451	Jerry S. Adams	GA	GA
1069329	The Jackson Firm, LLC	GA	GA
1141971	Sanford Loyd	GA	GA
10109680	Zimmerman & Associates P. C.	GA	GA
4108840	B. Rodney Crowe, CPA, P.C.	GA	GA
4681476	Stoltz Business Services, Inc.	GA	GA
5084290	Ogbomo CPA, LLC	GA	GA
10080284	Dietz, Donald & Company	IA	IA
5629092	Reliant Group, Inc.	ID	ID
10105155	Greeson & Greeson	IN	IN
7451887	Edgewater Tax Group, Inc.	IN	IN
10113327	J. Mark Adams	KY	KY
10141471	James H. Jennings, CPA	KY	KY
10139983	Rizzo & Restuccia, P C	MA	MA
1096192	Lori Huston-Vadnais	MN	MN
10105184	Linda J. Hausermann CPA, PC	NH	NH
10107515	Robert O. Clemens CPA	NH	NH
10110081	ML Miller CPA & Associates	NJ	NJ

<b>Firm Number</b>	<b>Firm Name</b>	<b>State</b>	<b>Admin By</b>
1154024	Robert L. Mantz CPA, P.C.	NM	NM
10130774	Kirk Howell, CPA	NV	NV
7234353	Howard Fuller, CPA	NV	NV
10025839	Manger & Associate CPAs P.C.	NY	NY
10056747	Urmston Forshee Plain & Amelio CPAs PLLC	NY	NY
10072055	Sokolski, Sutherland & Lyons	NY	NY
1194380	Alan Wolfson CPA	NY	NY
10125195	Lorentzen & Trifari, CPA's, P.C.	NY	NY
10125818	Daniel D. Gagnon CPA, P.C.	NY	NY
5266843	Kustal & Kustal	NY	NY
10094857	Earman and Wood, CPA's	OH	OH
10143261	Wm. J. Zaylor	OH	OH
10149494	Patricia A. McQuillan	OH	OH
5133036	Andre P. LaSalle, CPA, Inc.	OH	OH
5896222	Kevin L McGuire CPA, PLLC	OK	OK
10142907	Coladonato & Company, P C dba Coladonato CPA	PA	PA
10150498	Paul J Amoroso & Assoc. Inc.	PA	PA
8601693	JN CPA Advisors PSC	PR	PR
8659844	Graydon Thompson, LLC	SC	SC
10110431	David Doyle Miller	TN	TN
10128139	McFarland and Gann, P. C.	TN	TN
5902205	Christopher Wm. Mahler, CPA PC	TN	TN
8099605	Cameron Spivey CPA PLC	TN	TN
10056220	Price, Long & Co.	TX	TX
1112635	Leonard M. Koblenz, CPA, PLLC	TX	TX
688203	Doug Proffitt P. C.	TX	TX
10118648	James W. Bland P. C.	TX	TX
10145466	Britts & Associates, LLP	TX	TX
4618986	Mickey Petty & Associates, PC	TX	TX
5411185	David Lindemann, CPA	TX	TX
5746056	EBruce, CPA	TX	TX
6079533	Wendy Ezell PLLC	TX	TX
10148032	Johnson CPA, PLLC	VA	VA
5200077	ASK International, Inc.	VA	VA
5294065	Carpenter, Francisco & Associates, LLC	VA	VA
5381487	Corbin H. Pulliam	VA	VA
6999751	SAK Management Consulting LLC	VA	VA
10108799	Michael R. Thiel	WI	WI
5566149	Allman & Associates, PLLC	WV	WV
8543393	Matheny & Company AC	WV	WV

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## **Firms Whose Enrollment Was Terminated from the AICPA Peer Review Program Since Reporting at May 2016 Meeting**

### Failing to complete its peer review after it has commenced

The AICPA Peer Review Program terminated the following firms' enrollment in the AICPA Peer Review Program for failure to cooperate. The firm did not timely submit to its administering entity documents required to complete the acceptance process of its peer review.

T. Rohde & Associates, LLC – Hartford, CT  
Joe H Shollenbarger P C – Amarillo, TX

### Failure to complete a corrective action

The AICPA Peer Review Program terminated the following firms' enrollment in the AICPA Peer Review Program for failure to cooperate. The firm did not complete corrective actions designed to remediate deficiencies identified in the firm's most recent peer review.

Pieper & Associates, P. C. – Blue Springs, MO  
Schmidt & Company LLC – Lee's Summit, MO  
David M. Chinaka, CPA, Inc. – Honolulu, HI  
Marvin D. Chamberlain – Twin Falls, ID

### Consecutive non-pass reports in engagement reviews

The AICPA Peer Review Program terminated the following firm's enrollment in the AICPA Peer Review Program for failure to cooperate by continually failing to perform and report on engagements selected for peer review in conformity with applicable professional standards in all material respects, such that the firm received consecutive pass with deficiency or fail reports.

Edwin Alan Maxcy – Houston, TX

### Consecutive non-pass reports in system reviews

The AICPA Peer Review Program terminated the following firms' enrollment in the AICPA Peer Review Program for failure to cooperate by failing to design a system of quality control, and/or sufficiently complying with such a system, that would provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, such that the firm received consecutive pass with deficiency or fail reports.

Echols & Associates, P.C. – Mendota, IL  
David O. Tate – Mangum, OK

### Failing to submit signed acknowledgement letter

The AICPA Peer Review Program terminated the following firm's enrollment in the AICPA Peer Review Program for failure to cooperate. The firm did not timely submit evidence of agreement to perform remedial actions as required as a condition of completion of its peer review.

Joseph Scansaroli – Johnstown, PA

Firm terminations are also published on our website at:

<http://www.aicpa.org/ForThePublic/PRFirmTerm/Pages/2016PeerReviewFirmTerminations.aspx>

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## Peer Review Program