

Peer Review Board Open Session Materials

May 13, 2014

Las Vegas, NV

**AICPA Peer Review Board
Open Session Agenda
May 13, 2014 11:00 AM – 12:00 PM; 12:30 PM – 3:00PM (Pacific Time)
Las Vegas, NV**

Date/Time: Tuesday, May 13, 2014 11:00 AM – 3:00 PM (Pacific Daylight Time)

- 1.1 Welcome Attendees**- Mr. Reeder
- 1.2 Approval of Exposure Draft Related to Engagement Review Reports: Pass with Deficiency vs. Fail*- Ms. Ford
- 1.3 Approval of Enhanced Quality Initiative – Emerging Industries and Risk Areas*- Ms. Ford
- 1.4 Approval of Revisions to the Approved Peer Review Recall Guidance*- Mr. Reeder
- 1.5 Approval of QCM Representation Letter* - Ms. Ford
- 1.6 Approval of Revisioning Oversight Task Force Proposal*- Mr. Hill
- 1.7 Update on Impact of ARSC Exposure Draft on Peer Review*- Mr. Freundlich
- 1.8 Update on the DOL Research Project**-Ms. Lieberum
- 1.9 Update on Task Forces of Enhancing Quality Initiative**
 - A. Peer Reviewer Quality - Mr. Mayes
 - B. Focus Reviews on Risky Industries and Areas of Concern- Ms. McClintock
 - C. Improve Engagement Tracking- Ms. McClintock
 - D. Make Peer Review Results More Informative- Ms. Drummond
 - E. Revisioning Oversight- Ms. McClintock
- 1.10 Operations Director's Report**-Ms. Thoresen
- 1.11 Report from State CPA Society CEOs**-Mr. Ahler
- 1.12 Update on National Peer Review Committee**-Ms. Charles
- 1.13 Update on Electronic Peer Review Program Manual** - Ms. Lieberum
- 1.14 For Informational Purposes:
 - A. Report on Firms Whose Enrollment was Dropped or Terminated* - Ms. McClintock
 - B. Update on the MFC Project*- Mr. Drummond
 - C. Approved Peer Review Web Events** - Ms. Lee-Andrews
 - a. June 2 – Peer Review Update
 - D. Standards Task Force Future Agenda Items*-Ms. Ford
 - E. Education and Communication Task Force Future Agenda Items*-Ms. Lee-Andrews
 - F. Oversight Task Force Future Agenda Items*-Mr. Hill
- 1.15 Future Open Session Meetings** -Ms. Thoresen
 - A. Monday, May 12-13, 2014 Task force meetings/open/closed sessions – Las Vegas, NV
 - B. Wednesday, August 6, 2014 Open/closed sessions (AM) – Denver, CO
 - C. Monday, September 29-30, 2014 Task force meetings/open/closed sessions – Conference Calls
 - D. Monday, January 26-27, 2015 Task force meetings/open/closed sessions – Puerto Rico
 - E. Monday/Tuesday, May 4-5, 2015 Task force meetings/open/closed sessions – Durham, NC

*- Document Provided

**-Verbal Discussion

Engagement Review Reports: Pass with Deficiencies vs. Fail

Why is this on the Agenda?

The peer review community has been expressing concerns regarding the guidance for Engagement Review reports and when it is appropriate for a firm to receive a pass with deficiencies vs. a fail report. Of particular concern is the treatment of deficiencies when the same deficiency is identified on more than one engagement. The Peer Review Standards state that when there is more than one engagement submitted for review, the same exact deficiency occurs on each of the engagements submitted for review, and there are no other deficiencies, the firm would receive a pass with deficiencies report. However, if the firm only performs one engagement, the firm would receive a fail report for the same deficiency. The community has indicated that the application of the guidance results in inconsistencies in peer review report ratings.

When the Peer Review Standards were revised in 2009, the Peer Review Board created the above guidance in response to feedback received. The Board originally proposed that the same deficiency on multiple engagements, with no other deficiencies, would result in a fail report. However, the community didn't believe that was fair to the firm as it was the same deficiency on multiple engagements. In response to the feedback, the Board created the exception as it believed it was a fair and appropriate method of handling this situation. The Board acknowledged the exception does result in inconsistent report rating but was believed to be the best guidance at the time.

The Standards Task force has considered the concerns raised by the community regarding the inconsistencies created as a result of the current guidance and also considered this exception from the perspective of the report user. In this regard, the Task Force concluded that this exception is not apparent from the current report or likely to be meaningful to the user even if it were disclosed. Therefore, in order to address the inconsistencies as well as improve the transparency of reports, the STF is proposing an Exposure Draft such that the exception is removed and that the same deficiency on multiple engagements, with no other deficiencies, would result in a fail report. Refer to Agenda Item 1.2A for the Exposure Draft.

Feedback Received

Peer Review Conference attendees have suggested this is an area where the Board needs to reconsider the Standards. It has also been an area of concern raised by administrators.

PRISM Impact

Not applicable. The inclusion of report ratings in PRISM will not change.

AE Impact

Correlating changes will be needed for the administrative manual and forms. Technical reviewers will need to ensure that reviewers are following the new guidance, if approved. Transitional guidance regarding reviewer feedback may be necessary.

Communications Plan

Refer to Agenda Item 1.2B for the Peer Review Alert to be issued on May 20, 2014. The Exposure Draft will also be posted to the Peer Review Home page on www.aicpa.org on that date. Communication of the exposure draft will also be made through several other AICPA channels.

The Board will consider comments at its August 2014 open session meeting. The Board's decision in August about the guidance will be communicated at that time.

Manual Production Cycle (estimated)

If the proposals in the exposure draft are approved, the guidance would be included in the January 2015 manual.

Effective Date

The Exposure Draft proposes a September 1, 2014 effective date. The proposal is based on report date, not commencement date.

Board Consideration

Discuss and approve Agenda Items 1.2A and 1.2B.

EXPOSURE DRAFT

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

Reporting on Engagement Reviews

May 20, 2014

Comments are requested by July 5, 2014

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

**Comments should be received by July 5, 2014 and addressed to
Rachelle Drummond, Technical Manager
AICPA Peer Review Program
American Institute of Certified Public Accountants
220 Leigh Farm Road, Durham, NC 27707-8110
or PR_expdraft@aicpa.org**

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May 20, 2014

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. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Please limit your comments to those items presented in the exposure draft. Comments and responses should be sent to Rachele Drummond, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by July 5, 2014. Electronic submissions of comments or suggestions should be sent to PR_expdraft@aicpa.org by July 5, 2014.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program, and will be available on the AICPA website after August 11, 2014 for a period of one year.

The exposure draft includes an explanatory memorandum of the proposed revisions to the current *Standards*, explanations, background and other pertinent information, as well as marked excerpts from the current *Standards* to allow the reader to see all changes (i.e. items that are being deleted from the *Standards* and Interpretations are struck through)

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2009) are also available on the AICPA Peer Review website at <http://www.aicpa.org/InterestAreas/PeerReview/Pages/PeerReviewHome.aspx>.

Sincerely,

[Insert Rick's Signature]

Richard W. Reeder
Chair
AICPA Peer Review Board

**AICPA Peer Review Board
2013 – 2014**

Richard W. Reeder, Chair*
James Ahler
Betty Jo Charles
Michael Fawley
Anita Ford*
Scott Frew
Lawrence Gray
Richard Hill
Richard Jones
Michael LeBlanc

Toni Lee-Andrews
G. Alan Long*
Michael McNichols
Randy Milligan*
Thomas Parry*
Thad Porch
Jodi Rinne
Robert Rohweder*
Steven Stuckey

**Member—Standards Task Force*

**Non-Board Standards Task Force Members
2013 – 2014**

Jerry Cross

Heather Reimann

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

Susan Lieberum
Senior Technical Manager
AICPA Peer Review Program

Frances McClintock
Senior Technical Manager
AICPA Peer Review Program

Rachelle Drummond
Technical manager
AICPA Peer Review Program

Explanatory Memorandum

Introduction

This memorandum provides background to 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 would change the impact to an Engagement Review report when there is more than one engagement submitted for review, the same exact deficiency occurs on each of the engagements submitted for review, and there are no other deficiencies. Currently, firms would receive a pass with deficiencies in this scenario. The proposed changes would instead result in a fail report.

Background

Effective January 1, 2009, the Peer Review Standards were changed to provide more transparency on the conclusions that were being conveyed by the peer reviewer and make the report easier to understand. The Peer Review Board originally proposed guidance for Engagement Reviews that indicated when the same exact deficiency occurs on all engagements submitted for review, it would result in a peer review rating of *fail*. This guidance applied whether the firm performed one or multiple engagements. Feedback received at that time indicated the peer review community did not believe the guidance was fair to a firm that performs multiple engagements. In response to the feedback received, the Board created an exception whereby when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of *pass with deficiency* should be issued rather than with a peer review rating of *fail*. The Board acknowledged the exception did result in inconsistent report ratings for Engagement Reviews but believed the exception to be the best guidance at the time.

The Peer Review Board has considered the concerns raised by the peer review community regarding the inconsistencies created as a result of the current guidance and also considered this exception from the perspective of the report user. In this regard, the Board concluded that this exception is not apparent from the current report or likely to be meaningful to the user even if it were disclosed. Therefore, in order to address the inconsistencies as well as improve the transparency of reports, the Board is proposing that the exception be removed and that the same deficiency on multiple engagements, with no other deficiencies, would result in a fail report.

Comment Period

The comment period for this exposure draft ends on July 5, 2014.

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 August 11, 2014, for a period of one year.

Explanation of Proposed Changes

Revisions to *Standards*

The proposed changes would revise the following to remove the exception described above:

- *Standards* Paragraphs .110, .118, and .119

Corresponding changes to the Peer Review Program Manual will be made as necessary based on the final guidance approved by the Peer Review Board.

Guide for Respondents

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 Rachelle Drummond, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by July 5, 2014. Respondents can also direct comments and responses to PR_expdraft@aicpa.org by July 5, 2014.

Effective Date

Revisions to the *Standards* adopted as final by the Peer Review Board will be effective for reviews with a report date on or after September 1, 2014.

Proposed Revisions

Peer Review Standards

Performing Engagement Reviews

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.110 Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) to document these items, are intended to assist in determining the nature of the peer review report to issue:

- a. A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports, and the adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A matter is documented on a Matter for Further Consideration (MFC) form.
- b. 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, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.
- c. A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information and/or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, ~~or when the exact same deficiency occurs on each of the engagements submitted for review and there are no other deficiencies,~~ such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- d. A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review ~~(with the exception of when more than one engagement has been submitted for review, the exact same deficiency occurs on each of those engagements, and there are no other deficiencies, which ordinarily~~

would result in a report with a peer review rating of *pass with deficiencies*). When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.

Reporting on Engagement Reviews

Forming Conclusions on the Type of Report to Issue in an Engagement Review

Engagement Review Report With a Peer Review Rating of Pass

.117 A report with a peer review rating of *pass* is issued when the reviewer concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects. There are no deficiencies or significant deficiencies that affect the nature of the report and, therefore, the report does not contain any deficiencies, significant deficiencies, or recommendations. In the event of a scope limitation, a report with a peer review rating of *pass (with a scope limitation)* is issued.

Engagement Review Report With a Peer Review Rating of Pass with Deficiencies

~~.118 A report with a peer review rating of *pass with deficiencies* is issued when the review captain concludes that nothing came to his or her attention that caused him or her to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects except for the deficiencies that are described in the report. The deficiencies are one or more findings that the peer reviewer concludes are material to the understanding of the report or financial statements or represents omission of a critical procedure, including documentation, required by applicable professional standards. A report with a peer review rating of *pass with deficiencies* is issued when at least one but not all of the engagements submitted for review contain a deficiency. However, when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies, a report with a peer review rating of *pass with deficiency* should be issued rather than with a peer review rating of *fail*. In the event of a scope limitation, a report with a peer review rating of *pass with deficiencies (with a scope limitation)* is issued.~~

Engagement Review Report With a Peer Review Rating of Fail

.119 A report with a peer review rating of *fail* is issued when the review captain concludes that, as a result of the deficiencies described in the report, the engagements submitted for review were not performed and/or reported on in conformity with applicable professional standards in all material respects. A report with a peer review rating of *fail* is issued when deficiencies are evident on all of the engagements submitted for review. ~~However, a report with a peer review rating of *pass with deficiency* should be issued when more than one engagement has been submitted for review, and the exact same deficiency occurs on each of the engagements, and there are no other deficiencies.~~ The review captain should not expand scope beyond the original selection of engagements in an effort to change the conclusion from a peer review rating of *fail* in these circumstances. In the event of a scope limitation, a report with a peer review rating of *fail (with a scope limitation)* is issued.

Exposure Draft: Engagement Reviews - Pass with Deficiencies vs. Fail

The Peer Review Board has issued an Exposure Draft [<link>](#) that proposes changes to eliminate an exception made for firms that undergo an Engagement Review. The current guidance states that when there is more than one engagement submitted for review, the same exact deficiency occurs on each of the engagements submitted for review, and there are no other deficiencies, the firm would receive a pass with deficiencies report. However, if the firm only performs one engagement, the firm would receive a fail report for the same deficiency.

The Peer Review Board has considered the concerns raised by the peer review community regarding the inconsistencies created as a result of the current guidance and also considered this exception from the perspective of the report user. In this regard, the Board concluded that this exception is not apparent from the current report or likely to be meaningful to the user even if it were disclosed. Therefore, in order to address the inconsistencies as well as improve the transparency of reports, the Board is proposing that the exception be removed and that the same deficiency on multiple engagements, with no other deficiencies, would result in a fail report.

Comments and responses about the Exposure Draft should be sent to Rachelle Drummond, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 and must be received by July 5, 2014. Electronic submissions of comments or suggestions should be sent to PR_expdraft@aicpa.org by July 5, 2014.

The Board will consider the proposed changes and the comments received during open session on August 6, 2014. The proposed changes, if approved, will be effective for peer reviews with a report date on or after September 1, 2014.

Enhanced Quality Initiative – Emerging Industries and Risk Areas

Why is this on the Agenda?

As discussed during the January 2014 Open Session of the Peer Review Board meeting, the AICPA's continuing commitment to raising the audit quality bar has led to this initiative, which intends to focus firms and peer reviewers on high priority areas to improve the consistency of quality across the profession. A combination of training and robust reviews will affect a measureable difference in quality.

The process involved in developing the list of potential emerging industries and risk areas includes:

- careful analysis of matter for further consideration data;
- evaluation of recent and upcoming changes in standards;
- environmental scans of regulatory, legislative, and business reporting; and
- information gathered from audit quality centers, practice centers; AICPA internal teams, and other stakeholders.

Once developed, the list is evaluated by a work group consisting of members from firms of various sizes in public and private practice. Accordingly, a list of suggested emerging industries and risk areas is being presented.

Upon approval, the outreach phase related to emerging industries and risk areas will include:

- Communication – Upon approval, a peer review alert will be tailored to communicate the areas of emphasis to members, firms, and reviewers and the AICPA will begin a year-long focus on training of firms and peer reviewers (see training section below). Peer review courses will be tailored to include the upcoming focus areas so that reviewers know exactly what they will be looking for. Further collaboration with internal teams will be conducted to ensure that a uniform message about the focus on the identified emerging industries and risk areas is being delivered during presentations to stakeholders.
- Training – Collaboration with the internal teams that direct the development and production of member learning and competency materials (publications, courses, and events) to ensure sufficient resources and opportunities in the emerging industries and risk areas for members, firms, and reviewers are available.
- Emphasis – Peer review materials will be developed and tailored to address the emerging industries and risk areas, allowing a more robust review in these areas.
- Examples – Peer review conference cases will be developed to highlight the focus areas in advance of the affected peer review season.

Feedback Received

As stated above, a number of sources of information were considered in developing the list of emerging industries and risk areas. Further feedback on emerging industries and audit areas is anticipated and will be considered in future development. In addition, this initiative is included in the Enhancing quality Initiative Concept Paper, which will be released in summer of 2014.

PRISM Impact

At this time, no PRISM impact is anticipated. However, it is possible that emerging industries identified in the future may require additional must-select categories.

AE Impact

At this time, little AE impact is anticipated. However, it is possible that emerging industries identified in the future may require additional must-select categories.

Communications Plan

As stated above, a Peer Review Alert, materials, checklists, publications, courses, and presentations will be developed or amended, as appropriate. Refer to Agenda Item 1.3A for a Peer Review Alert to be issued on May 20, 2014.

Manual Production Cycle (estimated)

As indicated below.

Effective Date

Immediately upon approval.

Board Consideration

Approval is sought for the following initial emerging industries and risk areas developed by the work group:

- Evaluation of independence as it relates to nonattest services
- Evaluation of client and specialist SKE
- Sufficiency of audit evidence, in particular sampling, risk assessment, and internal controls
- Employee Benefit Plans, including ESOPs and government pensions
- Municipal security issuers

**Peer Review Alert
Enhanced Quality Initiative – Emerging Industries and Risk Areas**

As discussed during the January 2014 Open Session of the Peer Review Board meeting, the AICPA's continuing commitment to raising the audit quality bar has led to this initiative. The purpose of it is to improve the consistency of quality across the profession by focusing firms and peer reviewers on new industries, industries with new or rising risks, audit areas of increased risk or areas that have shown to have increased inspection matters in the past. An AICPA-wide approach of enhanced materials, targeted training and robust peer reviews is planned to enhance audit quality.

Further details regarding this initiative are included in the Enhancing Quality Initiative Concept Paper (Concept Paper) which will be available in the summer of 2014. While the formal program will not be finalized until the responses to the concept paper can be evaluated, the Peer Review Board (PRB) has approved a partial implementation of the Emerging Industries and Risk Areas Initiative.

The initial proposed emerging industries and risk areas are as follows:

- Evaluation of independence as it relates to nonattest services
- Evaluation of client and specialist SKE
- Sufficiency of audit evidence, in particular sampling, risk assessment, and internal controls
- Employee Benefit Plans, including ESOPs and government pensions
- Municipal security issuers

As initially proposed, this initiative will encompass the following outreach plan:

- Communication – A peer review alert will be tailored to communicate the areas of emphasis to members, firms, and reviewers followed by an AICPA-wide focus on training of firms and peer reviewers (see training section below). Peer review courses will be tailored to include the upcoming focus areas so that reviewers are knowledgeable about the areas expected to be inspected. Further collaboration with internal AICPA teams, such as audit quality centers and others, will be conducted to ensure that a uniform message about the focus on the identified emerging industries and risk areas is being delivered during presentations.
- Training – Collaboration with the internal teams that direct the development and production of member learning and competency materials (publications, courses, and events) to ensure sufficient resources and opportunities in the emerging industries and risk areas for members, firms, and reviewers are available.
- Emphasis – Peer review materials and checklists will be developed and tailored to address the emerging industries and risk areas, fostering a more robust review in these areas.
- Examples – Peer review conference cases will be developed to highlight the focus areas.

Further detail related to the emerging industries and risk areas proposed for the 2015 peer review season will be announced via a Peer Review Alert in the summer of 2014.

Revisions to the Approved Peer Review Recall Guidance

Why is this on the Agenda?

The Peer Review Board (PRB) approved the original peer review recall guidance in August 2012. Since that time, developments have occurred requiring revisions specific to omissions and errors.

Failure to include consideration of any EBP audits in a peer review is considered a material departure from peer review standards because such an engagement is a must-select. Peer review staff became aware that firms have failed to inform their peer reviewers and administering entities (AEs) that they performed employee benefit plan (EBP) audits. The information became available when staff was copied on DOL referrals to Ethics and the “DOL project” which began in 2013.

Staff began researching each referral and if it was determined through reliable evidence (copy of publicly available audit report) that such an engagement was not properly included in the peer review, prior recall guidance indicated that the peer reviewer and peer review committees should make a determination as to whether the peer review documents should be recalled. Staff became aware that reviewers were not recalling peer review documents. In addition, administering entities (AEs) were not requesting reviewers to recall the peer review report, nor were administering entities recalling acceptance letters themselves.

The decisions made by reviewers and the administering entities to resolve the issues did not meet the expectations of the PRB. In addition, staff also became aware that the guidance may not have been sufficiently clear that AEs should notify the state boards of accountancy (SBOAs) when peer review documents were recalled. The revised recall guidance better reflects the PRB's intent for recall situations.

This recall guidance addresses situations where there is evidence that errors or omissions directly result in a material departure from peer review standards that change the peer review report. Other types of errors or omissions will be handled differently when the impact on the peer review report is not obvious and requires judgment, such as communications of allegations and investigations and other situations that may have impacted the planning, performance, evaluation, reporting or acceptance of the peer review.

Feedback Received

- On March 25, 2014 a conference call was held with some PRB members to discuss the major points and confirm direction of the proposed recall guidance revisions.
- On March 27, 2014, e-mail communications were sent to the Chief Executive and Deputy Officers of each state society indicating the high-level proposed revisions to the guidance as discussed by the PRB. This communication was also sent to Peer Review Administrators.
- Due to the urgency to address state board notification concerns and ongoing DOL project investigations, the PRB voted to approve revisions to the recall guidance by email ballot on April 25, 2014. During the approval process, several Board members, though voting in favor of the guidance, suggested additional clarifications in some areas, which are included in the attached.
- On April 30, 2014, e-mail communications were sent to Administrators and Chief Executive and Deputy Officers of each state society describing the high-level revisions to

the recall guidance approved by the PRB. No additional feedback has been received from these parties as a result of those communications.

PRISM/Technology Impact

The revisions to the recall guidance will not impact PRISM. The revisions indicate that if the report and acceptance letter are not recalled, reliance on those documents should discontinue and be removed from public view. In these cases, existing technology will allow the peer review documents to be removed from the Public File and Facilitated State Board Access (FSBA), without removing the publicly available peer review information allowed by standards paragraph .146 (including date of acceptance and period covered by the firm's most recently accepted peer review).

AE Impact

- The peer review committee, technical reviewer, and administrator will no longer be involved in the decision about whether to recall peer review documents when there is evidence of a material departure from peer review standards resulting in a change in the peer review report. The peer reviewer may decide to recall a peer review report.
- If the reviewer does not recall the report and the firm agrees and complies with certain conditions (defined in the guidance), peer review acceptance will not be recalled, but the related peer review documents previously available through FSBA or the Public File will no longer be viewable. The firm will be subject to a voluntary replacement review due in 90 days from the date of the notification.
- However, if the firm does not agree and comply with those certain conditions, the peer review acceptance letter should be recalled immediately. If the peer review report or acceptance letter is recalled, all recalled documents and related information previously available through FSBA or the Public File will no longer be viewable. The firm will be subject to an involuntary replacement review due in 90 days from the date of the notification.
- If neither the peer review report nor acceptance is recalled due to the firm's agreement to those certain conditions, the AE is still required to notify applicable SBOAs that a replacement review is due in 90 days and the reason for the replacement review. The AE will be responsible for notifying the applicable SBOAs in accordance with the revised guidance. The communications with SBOAs are detailed further in the related administrative guidance.
- AEs will be responsible for sending communications to all applicable parties timely and in accordance with guidance. These are manual processes and administering entities must develop a system to monitor each situation. This includes determining if the firm has responded within 15 days has elapsed, identifying when the acceptance letter should be recalled, and notifications to the SBOAs.

Communications Plan

- AEs are the bodies most directly affected by the change in guidance and were notified on April 30, 2014 of the revisions to the guidance approved on April 25, 2014. Peer Review Alert reflecting the revisions to the guidance will be sent as soon as practicable, but no later than May 2014.
- This will be discussed with administering entities during biweekly calls held May 7, May 14, and future, if necessary.
- This will be included in the Peer Review Update webcast on June 2.

Manual Production Cycle (estimated)

Revisions to the paper and CD version of the Report Acceptance Handbook (section 3300) are expected no later than the January 2015 edition to the Peer Review Program Manual. However, the revisions to the guidance will be available in the online version of section 3300 as soon as practicable.

Effective Date

Upon approval by the PRB. However, this revised guidance is not applicable to discoveries of information that were communicated to the administering entity, reviewed firm, or reviewer prior to the approval of this revised guidance. The procedures for those instances should follow the recall guidance that was in effect at the time of the communication.

Board Consideration

Review and approve the changes to the recently approved revised recall guidance in the RAB Handbook (Agenda item 1.4B), the Peer Review Alert (Agenda item 1.4A) and the administrative letter (Notification of Discovery and Resolution letter- Agenda item 1.4C).

Conforming changes were made the April 25, 2014 approved version of the guidance. Significant changes from the April 25, 2014 approved version of the guidance are as follows:

- If the firm has voluntarily agreed to have a replacement review within 90 days, it is acceptable for the reviewer to conclude that it is not necessary to recall the firm's peer review report. This represents an exception to the presumptively mandatory requirement to recall the peer review report upon the receipt of a copy of the Notification of Discovery and Resolution letter.
- If the firm has not agreed to have a voluntary replacement review, and the reviewer decides not to recall the peer review report, the reviewer should document the basis for that decision after consultation and concurrence by AICPA staff. This should be submitted to the firm and AE.
- Introduction of new term "involuntary replacement review". If the firm does not agree or comply with the terms of the voluntary replacement review, the firm should be subject to an involuntary replacement review due in 90 days from the date of the discovery notification. If the firm is subject to an involuntary replacement review, the acceptance letter should be recalled promptly, the peer review documents and related information should be removed from public view, and the AE should notify the applicable SBOAs of information allowed by the program guidance.
- The AE should notify the applicable SBOAs when a replacement review is accepted.

**Peer Review Alert
Revisions to Recall Guidance**

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

To address these recent developments about omissions and errors, on April 25, 2014 the board approved revisions to the recall guidance when subsequently discovered evidence indicates that errors or omitted information about a firm's accounting and auditing practice results in a material departure from the standards and requires a change to the peer review report. Further conforming changes were approved by the Board on May 13, 2014.

Summary of major revisions to recently approved recall guidance:

- Explicitly indicates that if the discovery of information about an error or omission does not originate from AICPA peer review staff, staff should be notified and consulted immediately before proceeding with recall considerations.
- Defines a material departure from peer review standards as errors or omissions that result in a change in the type of peer review, period covered or must-select categories (engagements required to be selected by the reviewer as defined in Interpretations 63-1). Such a departure results in a peer review that is not properly performed or reported on in all material respects thus necessitating a significant change in the peer review report.
- Gives the firm the opportunity to have a voluntary replacement review if the firm agrees to and complies with certain conditions to prevent the recall of the peer review acceptance letter. These conditions include the firm's agreement to—
 - (1) have a replacement review submitted to the Administering Entity (AE) within 90 days from the date of notification; and
 - (2) provide a limited waiver of confidentiality to allow the AE or AICPA staff to immediately notify the applicable state board(s) of accountancy that the firm is expected to have a replacement review within 90 days (or by specific due date) and the reason for the replacement review.
- Emphasizes that it is the firm's responsibility to notify users relying on the peer review documents to discontinue reliance.
- Indicates that the reviewer should (presumptively mandatory) recall the peer review report if the previously accepted peer review report was not correct in all material respects, unless the firm has agreed to have a replacement review. If such a report was accepted more than three years and six months prior or a more recent peer review has been accepted, then recall reconsiderations are not necessary.
- Indicates the communication of the discovery of the information (with evidence) and the resolution of the matter should be communicated in writing simultaneously to the firm and reviewer. The reviewer and the firm are requested to respond in writing to the communication from the AE within 15 days. If the firm does not respond within 15 days, the peer review acceptance letter will be immediately recalled, and the firm will be required to undergo an involuntary replacement review within 90 days from the communication of the discovery.
- Eliminates peer review committee deliberation about recalling the acceptance letter if an engagement that would have required a system review or an engagement in a must-select category was not considered by the peer reviewer in a system review. Recall of

the acceptance letter is automatic if the reviewer recalls the peer review report or the firm does not agree to a voluntary replacement review.

- Indicates that the period to be covered by a replacement review is the firm's and reviewer's decision. Provides clearer examples of resolutions for a replacement review depending on whether the firm continues to perform the previously omitted engagement(s).
- Provides guidance on the method and content of information that may be communicated to state boards of accountancy if peer review documents are recalled or if the documents are not recalled, but are no longer viewable.
- Removes the reference to the disagreement guidance related to recall procedures when there is evidence that errors or omitted information about a firm's accounting and auditing practice represents a material departure from the standards of the program resulting in a significant change to the peer review report.

Other changes to the guidance

- Removes extraneous and duplicative information.
- Adds a definition of presumptively mandatory ("should") and mandatory provisions ("must") to the guidance overview as a footnote. Departures from provisions require consultation with AICPA staff.
- Requests that the reviewer provide a written response to the firm and administering entity if he or she decides to recall a peer review report. While the response is requested within 15 days of the notification letter, the reviewer may decide to recall their peer review report with just cause at any time. Previously, a reviewer's failure to communicate a decision about recall in the time periods allotted may have resulted in a reviewer noncooperation matter.

These changes to the recall guidance can be found as Agenda Item 1.4 in the Peer Review Board Open Session Materials for May 13, 2014 and will be included in the next revision of the Peer Review Program Manual. The guidance was effective upon board approval on April 25, 2014. However, this revised guidance is not applicable to discoveries of information that were communicated to the administering entity, reviewed firm, or reviewer prior to the approval of this revised guidance. The procedures for those instances should follow the recall guidance that was in effect at the time of the communication.

VII. Considerations for the Recall of Peer Review Documents

Overview

Peer reviewers or reviewing firms (reviewer) and reviewed firms (firm) are responsible for complying with the standards and guidance issued by the AICPA Peer Review Board (board) throughout the entire peer review process. This includes communicating with all appropriate parties involved in the program regarding information that could affect the performance or results of the peer review. Fulfilling all reviewer and firm responsibilities is required as a matter of cooperation with the administering entity, peer review committee (committee), the board, and AICPA staff (staff). After the date of acceptance by the committee, the administering entity (including the administrator, committee, and technical reviewer) or reviewer generally have no obligation or expectation to make any further inquiry or perform any other peer review procedures with respect to the peer review report, acceptance letter, or letter of response, if applicable (referred to hereafter in this section as peer review documents), unless information that may affect an accepted peer review comes to the parties' attention.

This section describes actions that should¹ be considered by the reviewer, committee, or staff who, subsequent to the date of peer review acceptance, becomes aware of facts that existed as of the date of the peer review report or acceptance that might have affected the performance or acceptance of the peer review had such information been known. Instances for recall consideration include, but are not limited to, situations in which there were errors or omissions or when the reviewer was not qualified or eligible to perform the peer review.

When peer review documents are being considered for recall, staff should be notified and consulted early in the process. ***For discoveries of information not covered by this guidance or discoveries that do not originate from staff, staff should be notified before proceeding with any recall considerations.*** During recall considerations all parties involved in the peer review process should continue to adhere to the confidentiality guidelines in paragraph .20 of the standards.

Generally, recall considerations should not be made for fee disputes, disagreements that occur after acceptance by the report acceptance body, or other situations that did not have a direct impact on the underlying peer review period, procedures performed, or peer review documents. Additionally, the reviewer, firm, or committee should not consider recalling

¹ This section uses the term *should* to indicate a presumptively mandatory requirement in all cases in which such a requirement is relevant. However, in rare circumstances, the reviewer, firm, or committee may depart from a presumptively mandatory requirement, provided there is consultation with and concurrence by staff and the parties document the justification for the departure and how the alternative decisions or actions in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. Use of the term *must* in this section indicates an unconditional requirement in all cases in which such a requirement is relevant.

peer review documents if a subsequent peer review report has been accepted, for situations outside of the scope of peer review, or situations not addressed within the standards of the program.

Before making any recall decisions, the facts of the situation must be confirmed. The recall considerations should be documented and retained until the firm's subsequent peer review has been completed.

Potential Reasons for Recall of Peer Review Documents

Recalling previously accepted peer review documents should be considered in instances including, but not limited to, the following situations.

Errors or Omissions

Errors or omissions that may have caused a significant change in the planning, performance, evaluation of results, peer review documents, or acceptance of the review are as follows:

- **Material Departures Directly Impacting the Peer Review Report:** *(See section A)*
 - The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known to the administering entity or reviewer
 - The firm performed an engagement in a must-select category during the period covered by the peer review, and the reviewer did not consider or select a comparable must-select engagement during the system review.
- **Other Departures That May Change the Peer Review Report:** *(See section B)*
 - The firm had an engagement review and failed to inform the administering entity or reviewer that the firm performed a particular level of service required to be selected, and the reviewer did not consider or select a comparable engagement during the engagement review. For instance, compilations with disclosures were included in the engagement review, but none of the compilations without disclosures were included in the engagement review.
 - The firm omitted or misrepresented information relating to its accounting and auditing practice, other than instances covered in section A.
 - The firm failed to inform the reviewer of communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported on by the firm or limitations or restrictions on the firm's ability to practice public accounting related to the firm or its personnel within the three years preceding the firm's current peer review year-end and through the date of the exit conference.

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- The firm provided erroneous information in response to inquiries from the administering entity, staff, or reviewer in relation to the peer review.

Reviewer Disqualifications (See section C)

- The reviewer or reviewing firm was not qualified (ineligible) to perform or issue the peer review report because certain peer reviewer qualifications were not met at the time of the review and this was not made known to staff or the administering entity during the scheduling, performance, or acceptance of the review.
- The reviewer or reviewing firm failed to inform staff or the administering entity when there were limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting. Considerations for recalling peer review documents should not be made if there are allegations or investigations of deficiencies in the conduct of an accounting, auditing, or attestation engagement performed and reported by the reviewer or reviewing firm that are discovered subsequent to the acceptance of the peer review, but that have not resulted in limitations or restrictions on the reviewer or reviewing firm's ability to practice public accounting.

The preceding examples are not intended to be all-inclusive or indicate when peer review documents should be recalled. The reviewer needs to be aware that reviewer noncompliance could affect his or her ability to perform future reviews, and the firm needs to be aware that firm noncompliance could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

General Guidance

When the reviewer or administering entity becomes aware of information that relates to previously accepted peer review documents but was not known to the reviewer, firm, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. The reviewer and committee should consider whether the information may have caused a significant change in the peer review.

The board considers errors or omissions that result in a change in the peer review report for the type of peer review, period covered, or must-select categories to be material departures from the *AICPA Standards for Performing and Reporting on Peer Reviews*. Such a departure results in a peer review that is not properly performed or reported on in conformity with the standards in all material respects. Generally the reviewer should recall the peer review report if the previously accepted peer review report was not properly performed or reported on in all material respects. If such a report was accepted more than three years and six months prior to discovery of the information or a more recent peer review has been accepted, then recall considerations are ordinarily not necessary. When the peer review was not performed or reported on in conformity with the standards in all material respects, there is no need for deliberation by the committee about the recall of the acceptance letter and the guidance in section A should be followed.

After the confirmation of evidence supporting the facts and considerations discussed in the following guidance, if the reviewer determines that the peer review report should be recalled, then both the peer review report and acceptance letter should be recalled.

For instances covered in section B, if a reviewer decides not to recall a peer review report, the committee should independently consider whether or not to withdraw acceptance of the peer review report. The committee's reconsideration of peer review acceptance should take into account the reviewer's considerations, but is not fully dependent on the reviewer's recall of the peer review report. The committee's decision to recall an acceptance letter invalidates the related peer review report and letter of response, if applicable, because it creates a situation in which the firm's peer review documents are no longer accepted by the administering entity.

When the decision is made to recall peer review documents, the administering entity should notify the firm about the need for a replacement review. A replacement review is another peer review that takes the place of a recalled peer review that addresses the concerns related to the previously omitted engagement(s) or information or reviewer disqualification. The resolutions depend upon the timing of the discovery, because the peer review working paper retention period must be considered, which is 120 days after the peer review is completed. Resolutions for a replacement review further discussed in this guidance include revising the peer review report (ordinarily considered if within 120 days of peer review completion), full reperformance of the peer review of the same period, or performance of a peer review of a subsequent period.

A. Considerations Related to Errors or Omissions Directly Impacting the Peer Review Report

1. Confirmation of Facts and Evidence

Awareness of errors or omissions that result in material changes in the peer review report could come from various sources, such as the administering entity, publicly available information, reviewers, staff, or other substantiated and reliable sources. When the reviewer, administering entity, or staff becomes aware of information that relates to previously accepted peer review documents but may not have been known to the reviewer, or administering entity as of the date of the peer review report or acceptance thereof, the situation should be documented in writing and provided to the administering entity. Any parties presenting such information to the administering entity must undertake measures to determine whether the information is reliable and whether the facts existed during the period covered by the peer review or as of the date of the peer review report and provide verifiable evidence to support the facts.

2. Communication With the Administering Entity

Once the information and evidence is confirmed as factual and reliable, the administering entity should promptly communicate the discovery and resolutions to the firm and reviewer. The administering entity should document the situation in the Notification of Discovery and Resolution letter from the administering entity, addressed to the firm, and copied to the reviewer and staff. The administering entity should include evidence supporting the discovery, due dates and guidelines for the resolution in the Notification of

Discovery and Resolution letter. The administering entity should obtain confirmation of receipt indicating that both the firm and reviewer received the Notification of Discovery and Resolution letter.

3. Reviewer Considerations of Relevance and Impact

By copy of the Notification of Discovery and Resolution letter, the reviewer is requested to respond in writing to the firm and the administering entity within 15 days from the date of the letter about his or her decision to recall the previously accepted peer review report. Errors or omissions that directly result in a change in the peer review report for the type of peer review, period covered, or must-select categories are considered to be material departures from the standards of the program for which the reviewer should recall the peer review report. However, if the firm has voluntarily agreed to have a replacement review due within 90 days, it is acceptable² for the reviewer to conclude that it is not necessary to recall the firm's peer review report.

4. Recall of Peer Review Documents and Resolutions

If the reviewer decides to recall the peer review report, the administering entity must recall its acceptance letter because such acceptance is not effective without the underlying peer review report. Neither the firm nor the committee has the ability to disagree with the reviewer's decision to recall the peer review report. The firm is not required to sign the Notification of Discovery and Resolution letter if the firm is notified of the reviewer's decision to recall the peer review report. If the peer review documents are recalled, the peer review information and peer review documents should be removed from view on Facilitated State Board Access (FSBA), and the administering entity will notify the applicable state board(s) of accountancy of information allowed by the guidance.

Generally, when the reviewer recalls the peer review report, a replacement peer review should be performed and the documents submitted to the administering entity for technical review and committee acceptance considerations within 90 days of the date of the Notification of Discovery and Resolution letter.

5. Recall and Resolutions If Discovery Is Within 120 Days of Peer Review Completion

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the discovery and communication to the administering entity (prompting the Notification of Discovery and Resolution letter) occurs within 120 days of the peer review completion date, there is an option to have the original reviewer recall the peer review report and perform additional procedures for the purpose of issuing a revised report. The original reviewer should be willing, qualified, and able to submit the revised peer review report and working papers to the administering entity for acceptance by the established due date, which is generally within 90 days of the date of the Notification of Discovery and Resolution letter. Alternatively, the firm, in consultation with the administering entity, may have a replacement review of the same period or a subsequent period. (See section A.6.)

² This represents an exception to the presumptively mandatory requirement for the reviewer to recall the peer review report upon the receipt of a copy of the Notification of Discovery and Resolution letter.

If the original reviewer chooses to recall the previous report and reissue a revised report, the revised report should be dated as of the date that the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date). There should not be a reference in the revised peer review report to the previously issued and recalled report.

In addition to submitting the revised peer review report to the administering entity, the reviewer should also submit any pertinent additional peer review documentation, including at a minimum, a revised Summary Review memorandum (system reviews) or a memo detailing the situation, reviewer's additional considerations, conclusions, and changes to engagement data statistics. The revised Summary Review memorandum (system reviews) or memo should address the omission or error in detail and fully explain the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recommendations, or report rating. The reviewer should submit peer review documentation that was significantly changed as a result of additional procedures that would ordinarily be submitted to the administering entity for acceptance in accordance with the guidance. In addition, the reviewer should also request the representation letter from the firm, specifically addressing the circumstances about information previously omitted or provided in error.

The revised peer review documents and working papers should be subjected to technical review prior to presentation to the report acceptance body (RAB). Such information should be considered in conjunction with the previously submitted and retained peer review documents and working papers that were not revised as well as the previous technical reviewer's checklist.

If the subsequently discovered information would have changed the type of peer review from an engagement review to a system review, then the reviewer does not have the option to revise and reissue the peer review report. Such situation would necessitate a completely new replacement review of the same period or a subsequent period. If feasible, the reviewer may consider procedures performed during the recalled review to assist with the performance of the new system review.

6. Recall and Resolutions If Discovery Is More Than 120 Days After Peer Review Completion

If the Notification of Discovery and Resolution letter is sent more than 120 days after the completion of the peer review, the firm should have a replacement review performed by a qualified reviewer. The reviewer should perform the review in accordance with guidance and submit the working papers to the administering entity by the established due date which is generally within 90 days of the date of the Notification of Discovery and Resolution letter.

The firm and approved reviewer should decide whether the replacement review should cover the same period or a subsequent period to include the previously omitted engagement(s). The firm and approved reviewer should consider such factors as the significance and risk(s) related to the omitted information or engagement(s) or

subsequently completed engagement(s), time elapsed, and the established due date of the firm's replacement review. The reviewer and firm should also consider the firm's practice, the year-ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review to determine the appropriate year-end for the replacement review. The administering entity may also be consulted to determine the peer review period that should be covered. Regardless of the period covered by the replacement review, the firm and reviewer are expected to abide by the due date established by the administering entity, which should be 90 days from the date of the Notification of Discovery and Resolution letter. Therefore the peer review period covered should be reflective of engagements that the firm reasonably expects to complete before the firm's due date. The firm and reviewer should consider the following examples in determining the period to be covered by the replacement review:

Example 1. Firm no longer performs similar engagements (Discovery within 12 months of peer review acceptance- replacement review of same period)

A firm failed to inform the administering entity or reviewer that it performed a particular level of service requiring a system review (e.g. engagement year end June 30, 2012) for the period under review (e.g. January 1, 2012 to December 31, 2012), and the firm no longer performs that level of service after the period covered by the review. If 12 months or less have elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution letter (e.g. discovery communicated prior to December 31, 2013), ordinarily another peer review of the original period (January 1, 2012 to December 31, 2012) should be performed to include the level of service that caused the replacement review. If reviewing a subsequent 12-month period would not include the level of service or engagement(s) in question, then a replacement review of a subsequent period may not be appropriate.

Example 2. Firm no longer performs similar engagements (Discovery more than 12 months after peer review acceptance- replacement review of subsequent period)

A firm failed to inform the administering entity or reviewer that it performed a must-select engagement(s) (e.g. engagement year end June 30, 2012) for the period under review (e.g. January 1, 2012 to December 31, 2012), and the firm no longer performs engagements in the same must-select category after the period covered by the review. If more than 12 months have elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution letter (e.g. discovery communicated after December 31, 2013), ordinarily the reviewer should perform a replacement review of a subsequent period, but include the previously omitted engagement(s). The greater the number of prior year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engagements were previously omitted, this may prompt reperformance of the peer review of the original period.

Example 3. Firm continues to perform similar engagements

A firm failed to inform the administering entity or reviewer that a particular level of service requiring a system review was performed or neglected to disclose that it performed a must-select engagement (e.g. engagement year end June 30, 2012) for the period under review

(e.g. January 1, 2012 to December 31, 2012), and the firm has or will continue to perform similar engagements. The replacement review should include the most recently completed engagement similar to those previously omitted and the period covered should be determined by the firm and the reviewer. The period covered should consider the time elapsed between the period covered by the previous peer review and the Notification of Discovery and Resolution letter. The greater the number of prior year engagements considered, the greater the risk that the results of the review are not reflective of the peer review year covered by the report and the related peer review results. If several engagements were previously omitted, this may prompt reperformance of the peer review of the original period.

In all the preceding examples, the firm's next peer review will have a due date of three years and six months from the year end of the replacement review.

7. Voluntary Replacement Review

Upon receipt of the Notification of Discovery and Resolution Letter, the firm has 15 days to agree to a Voluntary Replacement Review. To have such a review performed, the firm should acknowledge and comply with the following conditions:

a) The firm agrees to have a replacement review submitted to the administering entity by an established due date, which should be approximately 90 days after the date of the Notification of Discovery and Resolution letter, and

b) By signing this letter, the firm provides a limited waiver of confidentiality to allow the administering entity or staff to immediately notify the applicable state board(s) of accountancy that the firm is expected to have a replacement peer review by the established due date, and the reason for the replacement review.

If the firm agrees and complies with the preceding conditions, and the reviewer does not recall the peer review report, the acceptance letter will not be recalled. However, the peer review documents should be removed from public view and Facilitated State Board Access (FSBA) to prevent continued reliance on documents that are not correct in all material respects.

8. Involuntary Replacement Review

The firm should undergo an involuntary replacement review if the firm (1) does not agree or the signed Notification of Discovery and Resolution letter is not received by the administering entity within 15 days of the date of the letter or (2) agrees to the terms in the Notification of Discovery and Recall letter within 15 days but fails to comply with the agreement to have the replacement review submitted by the established due date. If the firm is subject to an involuntary replacement review, the acceptance letter should be recalled promptly, and the peer review documents and related information should be removed from public view and FSBA, and the administering entity should notify the applicable state board(s) of accountancy of information allowed by program guidance.

9. *Firm Responsibilities*

The firm has the responsibility to notify all parties that might be relying on the peer review documents to discontinue reliance when it is determined that those documents do not comply with standards in all material respects. This responsibility exists regardless of whether the peer review documents are recalled. This includes, but is not limited to notification to the state board(s) of accountancy (regardless of agreeing to the waiver), current or potential clients, regulators, enforcement agencies, insurance carriers, or government agencies, if applicable. The firm is also responsible for the removal of the documents from publicly available sources, such as the firm's website. The firm needs to be aware that firm noncompliance with peer review requirements could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

It is ultimately the firm's responsibility to have the peer review submitted by the firm's due date. Therefore, the firm is responsible for hiring a reviewer who understands the importance of the issue and timing for the replacement review.

10. *Notification to State Boards of Accountancy*

a. Peer Review Documents Are Recalled

In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, the administering entity should immediately notify the applicable state board(s) of accountancy that access to documents previously made available has been removed or revised and to contact the firm for further information. Regardless of whether the firm has opted out from peer review document access, the administering entity should inform the applicable state board(s) of the date of acceptance and the period covered by the firm's most recently accepted review (which is generally the peer review prior to recall) and other information allowed by standards paragraph .146. In addition, a similar communication should be sent when the replacement review is accepted.

b. Peer Review Documents Are Not Recalled

In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, if the firm signs the Notification of Discovery and Resolution letter acknowledging the limited waiver of confidentiality related to state board communications, the administering entity should immediately notify the state board that the firm is expected to have a replacement review within 90 days and the reason for the replacement review. In addition, the state board should be notified when the replacement review is accepted.

11. *Additional Considerations by AICPA Staff*

In instances where there has been noncompliance with standards or noncooperation on the part of the firm, additional actions that may be considered by the staff include referral to a hearing panel of the board for termination from the AICPA Peer Review Program. The fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe. A firm's termination from the program could result in the termination of AICPA

membership for all individuals within the firm. Depending on the circumstances, if the firm's enrollment is terminated through such procedures, staff may make a referral to the AICPA's Professional Ethics Division for individuals who may have violated the Code of Professional Conduct.

B. Considerations Related to Other Errors or Omissions That May Change the Peer Review Report

1. Confirmation of Facts by the Reviewer

Awareness of errors or omissions could come from various sources, such as the administering entity, publicly available information, reviewers, staff, or substantiated and reliable sources. If a party other than staff discovers the information, the situation should be immediately communicated to the reviewer. If the information is of such a nature and from such a source that the reviewer would have considered it during the course of the peer review, the reviewer should, as soon as practicable, undertake measures to determine whether the information is reliable and whether the facts existed during the period covered by the peer review report or as of the date of the peer review report. The reviewer should discuss the situation with the firm and request cooperation in whatever efforts may be necessary to obtain evidence, and determine the relevance and impact on the peer review and related report.

2. Communication With the Administering Entity

If the firm refuses to cooperate with the reviewer in efforts to confirm the facts with regard to relevance to or impact on the peer review, the reviewer should immediately consult with the appropriate administering entity because a failure to cooperate may subject a firm to fair procedures that could result in termination of the firm's enrollment in the AICPA Peer Review Program (program).

If the subsequently discovered information is found both to be reliable and to have existed as of the date of the peer review report, the reviewer should immediately notify the firm's administering entity of the situation, provide the evidence, and indicate whether the reviewer reasonably believes that the omission or error may have caused a significant shift in focus in the peer review performance, change in evaluation of results, or change in the peer review documents. Communication from the reviewer should be made in writing and addressed to the peer review committee of the administering entity regardless of whether the administering entity was the source of the information. The situation should be documented in the Notification of Discovery letter issued by the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff. Evidence supporting the discovery should be included in the Notification of Discovery letter. The administering entity should obtain confirmation of receipt indicating that both the firm and reviewer received the Notification of Discovery letter. The Notification of Discovery letter informs the firm, reviewer, and administering entity to retain all relevant peer review working papers until the matter is fully resolved or in accordance with the peer review working paper retention period, whichever is later.

3. *Reviewer and Committee Considerations of Relevance and Impact*

The reviewer and committee should carefully and independently consider the potential impact of the information on the results of the peer review. However, depending on the circumstances, the reviewer should take the lead in the early considerations of relevance and impact due to the reviewer's familiarity with the situation. The reviewer and committee should take action in accordance with the procedures set out in subsequent paragraphs if the nature and effect of the matter are such that the reviewer and committee believe (a) the peer review procedures, report, or both would have been affected if the information had been known to the reviewer as of the date of the report and (b) persons who may attach importance to the omission or error are currently relying, or are likely to rely, on the peer review report.

Some examples that the reviewer and committee might consider when evaluating whether it is necessary to recall the peer review documents are as follows:

- a. If the reviewer can sufficiently conclude that the subsequently discovered information would not have changed the risk assessment or engagement selection, then the reviewer and committee may determine that the peer review report may remain as originally accepted. For instance, it is discovered that an investigation was for a particular partner's engagement. If the discovery is communicated within the peer review working paper retention period, the reviewer and committee may determine that the recall of peer review documents is not necessary if a similar engagement from that partner was included in the peer review selection. If outside the retention period, the reviewer may consider it appropriate to review a representative engagement or other considerations before reaching a conclusion about whether to recall the peer review report.
- b. If the firm had an engagement review performed, but neglected to notify the reviewer that the firm performed a level of service for which an engagement was required to be selected, the reviewer should consider the risk related to omitted level of service. For instance, the firm neglected to inform the reviewer that it performed review engagements, and only a compilation and a compilation that omitted substantially all disclosures engagements were selected during the peer review. Engagement data statistics retained by the administering entity may assist in the determination of level of services previously reviewed if discovery is beyond the peer review working paper retention period. The reviewer may consider it appropriate to review an engagement from the previously omitted level of service before reaching a conclusion about whether to recall the peer review report. The reviewer may determine that the peer review report should not be recalled if there are no deficiencies related to the omitted level of service.

The reviewer and firm should consult with the administering entity to determine implications and possible resolutions. The reviewer should inform the administering entity of his or her decision prior to informing the firm of a decision to recall the peer review report. If, after careful consideration, the reviewer determines that the omission or error would have caused a significant change in the planning,

performance, evaluation of results, or peer review documents, the reviewer may decide to recall the peer review report. The reviewer's considerations and final determinations should be communicated to the administering entity and firm promptly and in writing, but no later than 30 days from the date of the Notification of Discovery letter, regardless of a final decision to uphold or recall the previously issued peer review report. A reviewer's failure to respond promptly within the indicated time period could be considered a matter of noncooperation.

4. *Recall of Peer Review Documents*

If the reviewer decides to recall the peer review report, the committee of the administering entity must recall its related acceptance letter because such acceptance is not effective without the underlying report. The firm has the ability to disagree with the reviewer and the committee's decision and should follow the procedures in chapter 7, "Consultations and Disagreements," of the *Report Acceptance Body Handbook* and express its disagreement in writing to the committee of the administering entity.

The decision to recall the peer review documents and confirmation of the firm's plan to resolve the matter and fulfill its peer review requirement should be discussed, documented, and communicated in the Notification of Acceptance Recall letter from the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff as soon as practicable. The due dates and guidelines for the proposed resolution procedures should be included in the communication from the administering entity. Generally, when the reviewer recalls the peer review report, a replacement peer review should be performed and documents submitted to the administering entity for technical review and committee acceptance considerations within 90 days of the date of the Notification of Acceptance Recall letter. The agreement should also include acknowledgment of the firm's responsibility to communicate the recall to the state board of accountancy and any other parties relying on previously accepted peer review documents, including, but not limited to, regulators, enforcement agencies, or government agencies. The appropriate representative of the firm must sign the Notification of Acceptance Recall letter and return it to the administering entity evidencing the firm's agreement to the terms. If the firm does not sign and return the agreement within 30 days of the date of the Notification of Acceptance Recall letter, this will be considered noncooperation and will not delay the recall of the peer review documents, unless the firm has provided notification of a disagreement in accordance with chapter 7 of the *Report Acceptance Body Handbook*.

5. *Recall and Resolutions If Discovery Is Within 120 Days of Peer Review Completion*

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the discovery and communication to the administering entity (prompting the Notification of Discovery letter) occurs within 120 days of the peer review completion date, there is an option to have the original reviewer recall the peer review report and perform additional procedures for the purpose of issuing a revised report. The original reviewer should be willing, qualified, and able to submit the revised report and working papers to the

administering entity for acceptance by the established due date, which is generally within 90 days of the date of the Notification of Acceptance Recall letter. Alternatively, the firm, in consultation with the administering entity, may have a replacement review of the same period or a subsequent period.

If the original reviewer decides to recall the previous report and reissue a revised report, the revised report should be dated as of the date the reviewer obtained enough evidence to conclude on the results of the review with consideration of the newly discovered information and communicates those results to the firm (new exit conference date). There should not be a reference in the revised peer review report to the previously issued and recalled report.

In addition to submitting the revised peer review report to the administering entity, the reviewer should also submit any pertinent additional peer review documentation, including at a minimum, a revised Summary Review memorandum (system reviews) or a memo detailing the situation, reviewer's additional considerations, conclusions, and changes to engagement data statistics. The revised Summary Review memorandum (system reviews) or memo should address the omission or error in detail and fully explain the impact and conclusion on significant peer review aspects, including changes in risk assessment, engagement selection, procedures, evaluation and elevation of matters, recommendations, or report rating. The reviewer should submit peer review documentation that was significantly changed as a result of additional procedures that would ordinarily be submitted to the administering entity for acceptance in accordance with the guidance. In addition, the reviewer should also request a representation letter from the firm specifically addressing the circumstances previously omitted or provided in error.

The revised peer review documents and working papers should be subjected to technical review prior to presentation to the RAB. Such information should be considered in conjunction with the previously submitted and retained peer review documents and working papers that were not revised as well as the previous technical reviewer's checklist.

6. Recall and Resolutions If Discovery Is More Than 120 Days After Peer Review Completion

The reviewer is expected to retain peer review documentation in accordance with the peer review working paper retention policy. Therefore, if the Notification of Discovery letter is sent more than 120 days after the completion of the peer review, the firm should have a replacement review performed by a qualified reviewer. The reviewer should perform the review in accordance with guidance and submit the working papers to the administering entity by the established due date which is generally within 90 days of the date of the Notification of Acceptance Recall letter.

The firm and approved reviewer should decide whether the replacement review should cover the same period or a subsequent period to address concerns about the previously omitted engagement(s) or information. The firm and approved reviewer should consider such factors as the significance and risk(s) related to the omitted information or engagement(s) or subsequently completed engagement(s), time

elapsed, and the established due date of the firm's replacement review. The reviewer and firm should also consider the firm's practice, the year-ends of engagements and when the procedures were performed, and the number of engagements to be encompassed in the review to determine the appropriate year-end for the replacement review. The administering entity may also be consulted to determine the peer review period that should be covered. Regardless of the period covered by the replacement review, the firm and reviewer are expected to abide by the due date established by the administering entity, which should be 90 days from the date of the Notification of Acceptance Recall letter. Therefore the peer review period covered should be reflective of engagements that the firm reasonably expects to complete before the firm's due date. The firm's next peer review will have a due date of three years and six months from the year end of the replacement review.

7. Reviewer Decides Not to Voluntarily Recall Peer Review Report

If, after careful consideration, the reviewer decides not to recall the peer review report, the reviewer should summarize his or her basis for conclusion and communicate the results promptly to the committee and firm, but no later than 30 days from the date of the Notification of Discovery letter. If the committee agrees with the reviewer's determination, the administering entity should send the firm a Notification of Discovery Closure letter to the firm (copied to reviewer and staff), notifying the firm that the matter is considered closed and no further action will be taken regarding the previously accepted peer review documents.

If the committee has substantial reason to question the reviewer's decision not to recall the report, then the committee may undertake further measures. The committee (or individual designated by the committee) should consult with staff, evaluate the circumstances, and determine whether the peer review acceptance letter should be recalled notwithstanding the reviewer's decision. If the committee decides to recall the acceptance letter confirmation of the firm's plan to have the report reissued or to have another review performed, it should be documented in a Notification of Acceptance Recall letter from the administering entity on behalf of the committee, addressed to the firm, and copied to the reviewer and staff.

The committee should consider the following scenarios depending on the timing of the discovery of the omission or error:

a. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Discovery Within 120 Days of Peer Review Completion

If the committee has substantial reason to believe that the reviewer's decision not to recall the previously accepted peer review report may be inappropriate, the committee should consider notifying the firm, consult with staff, and determine the most appropriate action. The committee may decide that (onsite or offsite) additional procedures should be performed by an individual acceptable to the committee to determine if the decision not to recall the report is appropriate. This could include partial or full working paper additional procedures covering all related documents underlying the peer review. Although the peer review would have already been performed, the additional procedures can still be performed

afterwards with the cooperation of the firm and reviewer in either providing or forwarding requested items to the person(s) performing the additional procedures. The additional procedures should be performed as soon as reasonably practical but should commence not later than 30 days following the reviewer's communication of a decision not to recall the peer review report.

The individual performing additional procedures should approach the review with a higher degree of skepticism with regard to the error or omissions and determine whether he or she were able to overcome concerns about the omissions or error. The individual performing additional procedures should fully report on these procedures to the committee.

- i. If the results of the additional procedures are consistent with the documents previously accepted for the review, the committee should allow the peer review documents to remain as originally accepted.
- ii. However, if the additional procedures results indicate that a substantially different peer review report (change in report rating, scope, or deficiencies identified) should have been issued as a result of the discovered error or omission, then the committee should consider recalling the previously accepted peer review documents. The administering entity should notify the reviewer of the results of the additional procedures and committee's conclusion. The committee (or individual designated by the committee) should also discuss the results with the firm. If the committee recalls the acceptance letter, the administering entity should communicate terms of the replacement review by a qualified reviewer following the guidance in section B.5. .

b. Committee Considerations When Reviewer Decides Not to Recall the Peer Review Report—Discovery More Than 120 Days After Peer Review Completion

If the Notification of Discovery letter is sent more than 120 days after completion of the peer review, and the reviewer decides not to recall the peer review report, then the committee should discuss the potential implications of the omission or error and should consult with staff. If, after careful consideration and its own assessment, the committee disagrees with the reviewer's conclusion not to recall the peer review report, the committee should independently consider recalling the acceptance of the peer review documents. The committee of the administering entity should thoroughly document its considerations and reasons for recalling the peer review documents and related acceptance in opposition to the reviewer's determination.

The administering entity should notify the reviewer of the committee's decision to recall acceptance and consult with the firm to determine if or when the firm should have another review performed. See section 6 for procedures for recalling peer review documents when discovery is more than 120 days after peer review completion.

8. *Firm Responsibilities*

The firm has the responsibility to notify all parties that might be relying on the peer review documents to discontinue reliance when it is determined that the peer review report or acceptance letter is recalled. This includes, but is not limited to notification to the state board(s) of accountancy, current or potential clients, regulators, enforcement agencies, insurance companies, or government agencies. The firm is also responsible for the removal of the documents from publicly available sources. The firm needs to be aware that firm noncompliance with peer review requirements could affect its ability to meet AICPA membership requirements, as well as licensing and other regulatory requirements.

It is ultimately the firm's responsibility to have the peer review submitted by the firm's due date. Therefore, the firm is responsible for hiring a reviewer who understands the importance of the issue and timing for the replacement review.

9. *Notification to State Boards of Accountancy If Peer Review Documents Are Recalled*

In jurisdictions where peer review is mandatory and state boards are not prohibited from accessing peer review documents, the administering entity should promptly notify the applicable state board(s) of accountancy that access to documents previously made available has been removed or revised and to contact the firm for further information. Regardless of whether the firm has opted out from peer review document access, the administering entity should inform the applicable state board(s) of the date of acceptance and the period covered by the firm's most recently accepted review (which is generally the peer review prior to recall) and other information allowed by standards paragraph .146. If the reviewer and committee determine that the omission or error does not result in a material departure from standards and the documents should not be recalled, the administering entity should not notify the state board(s) of accountancy regarding the discovery of the error or omission.

10. *Additional Considerations by Peer Review Committee or AICPA Staff*

In instances in which the committee believes that there has been noncompliance with standards or noncooperation on the part of the firm, additional actions that may be considered by the committee or staff include referral to a hearing panel of the board for termination from the AICPA Peer Review Program. The fact that a firm's enrollment in the AICPA Peer Review Program has been terminated, with or without a hearing, will be published in such form and manner as the AICPA Council may prescribe. A firm's termination from the program could result in the termination of AICPA membership for all individuals within the firm. Depending on the circumstances, if the firm's enrollment is terminated through such procedures, staff may make a referral to the AICPA's Professional Ethics Division for individuals who may have violated the Code of Professional Conduct.

**Notification of Discovery and Resolution Letter
(Errors or Omissions)**

[Date]

[Managing Partner of Reviewed Firm]

[Firm Name]

[Firm Address]

Proof of Delivery Required

Dear [Mr. / Ms.] [Last Name of Managing Partner of Reviewed Firm]:

This letter is to inform you that the accepted peer review documents for your firm's most recent peer review cannot be relied upon due to a material departure from the standards which impacts the peer review report.

The goal of the AICPA Peer Review Program (program) is quality in the performance of accounting and auditing engagements by AICPA members and other parties who are permitted to use and who are expected to comply with the standards of the program. This goal can only be achieved if the program is conducted in compliance with the *AICPA Standards for Performing and Reporting on Peer Reviews* (standards).

The attached evidence indicates information omitted from your firm's most recently accepted peer review. AICPA staff has undertaken appropriate efforts to confirm the validity of this information and has determined that the information is both reliable and existed as of the date of the peer review report. This information was provided to the administering entity subsequent to the acceptance of the review. The AICPA Peer Review Board has determined that such omitted information would have caused a significant change in the planning, performance, evaluation of results, peer review documents (peer review report, acceptance letter, [and letter of response, if applicable]) and acceptance of the review.

Specifically, omitted information was as follows: *[insert the summary of the omitted information- see examples on next page (**) and enclose any evidence supporting this information]*.

If you believe that the evidence presented herein is incorrect, please notify us and your peer reviewer within 15 days of the date of this letter.

By copy of this letter, your peer reviewer should follow the peer review guidance that indicates the reviewer should (presumptively mandatory) recall the peer review report. If the peer reviewer intends to recall the peer review report and notifies the firm and

administering entity within 15 days from the date of this letter, the recall is effective immediately, and the below conditions will no longer be an option for your firm. Your firm should have a replacement review submitted to the administering entity by [due date], which is approximately 90 days from the date of this letter.

If the reviewer does not recall the peer review report within 15 days of the date of this letter, through acknowledgment by signature below, your firm voluntarily agrees to the following:

- Have a replacement review submitted to the administering entity by [due date], which is approximately 90 days from the date of this letter. Additional details regarding scheduling of your firm's next review will follow. Your firm is responsible for hiring a reviewer who understands the importance of the issue and timing. Your firm and reviewer will determine the period to be covered by the replacement review and may consult with the administering entity, if necessary.
- Acknowledge that signing this letter provides a limited waiver of confidentiality to allow the administering entity or AICPA staff to immediately contact the applicable state board(s) of accountancy to notify them of the information pertaining to the status of your firm's peer review, including the due date for the replacement review and reason for the replacement review. Your firm bears the primary responsibility to notify the applicable state board(s) of accountancy and other parties relying on the peer review documents to discontinue reliance.
- An appropriate representative of the reviewed firm must sign and return the agreement to the administering entity within 15 days of the date of this letter.

If your firm agrees and complies with the above conditions, the acceptance letter will not be recalled.

Whether documents are recalled or not, your firm is responsible for notifying any parties that may be relying on the previously accepted peer review documents to discontinue reliance on those documents. Such parties would include, but not limited to, state boards of accountancy, current or potential clients, regulators, enforcement agencies, insurance carriers, or government agencies. The firm should cease further dissemination, and remove the peer review documents from public view.

If a) this signed letter is not received by the administering entity on this letterhead within 15 days of the date of this letter; or b) your firm does not comply with the terms of this agreement to have the replacement review submitted by the established due date; or c) your peer reviewer recalls the peer review report, the previously accepted and issued peer review documents will be recalled. If your firm's peer review is recalled, the peer review documents and related information will no longer be available on Facilitated State Board Access (FSBA), and the administering entity will notify the state board(s) of accountancy of information as allowed in Standards paragraph .146. This notification includes the date of acceptance and period covered of your firm's most recently accepted peer review (which is generally the peer review prior to the recalled peer review).

Please be aware that the recall of peer review documents (either by reviewer decision or firm's failure to sign or comply with the terms of this agreement) may result in a lack of compliance with licensing and regulatory agencies.

Please acknowledge your agreement to the terms set out in this letter. Your firm's failure to comply with the terms of this agreement, including submitting the replacement peer review by the established due date, may be deemed as a failure to cooperate with the program. A failure to cooperate with the program may subject your firm to fair procedures that could result in your firm's enrollment in the program being terminated. If your firm is terminated, that fact will be published in such form and manner as the AICPA Council may prescribe and you [*and the members of your firm*] may no longer be eligible for AICPA membership.

If you wish to discuss this situation, please contact me at [*telephone number*].

Sincerely,

[*Name*]

[*Title*]

[*Administering Entity*]

cc:

[*Reviewed Firm Peer Review Contact*]

[*Reviewer Name*]

AICPA Peer Review Program staff

Firm #

Review #

Acknowledged for the Firm-

Signature of Reviewed Firm Managing Partner:

Date: _____

**Notification of Discovery and Resolution Letter
(Reviewed Firm Omission/Error)
(Examples **)**

(**) Example wording for omission or erroneous information (Notification of Discovery and Resolution Letter should include sufficient detail of the situation):

- The firm had an engagement review performed and failed to inform the administering entity or reviewer that the firm performed an engagement for the period covered by the peer review that would have required the firm to undergo a system review had the information been known; or
- The firm performed an engagement in a must-select category for the period covered by the peer review and the reviewer did not consider or select a comparable must-select engagement during the system review.
- The scheduling information provided by the firm provided proper information about the firm's accounting and auditing practice.. However, the reviewer failed to select such an engagement during the review.

QCM Representation Letter

Why is this on the Agenda?

Changes to the QCM representation letter at PRPM Section 8100 Appendix A .33 have been approved by the QCMTF and STF. The changes are reflected in Agenda Item 1.5A.

Feedback Received

Input has been received from QCMTF and STF at various meetings.

PRISM Impact

Not applicable.

AE Impact

Not applicable

Communications Plan

Since the changes only impact 6 QCM providers, they will be notified by technical staff of the changes during staff's oversight of their QCM reviews.

Manual Production Cycle (estimated)

The revised Appendix would be included in the next manual issued.

Effective Date

The changes would have an immediate effective date.

PRB Consideration

Approve proposed changes.

.33

Appendix A

Illustration of a Provider Representation Letter that has No Significant Matters to Report to the QCM Reviewer

October 31, 20XX¹

To the ~~QCM reviewer~~ team captain:

We are providing this letter in connection with the ~~quality control materials~~ QCM review of [*name of provider*] and the [*insert the titles of the materials*] as of the date of this letter and ~~in effect at~~ for the year ended [*date*] ~~June 30, 20XX.~~

As discussed with you, the scope of the QCM review included the system of quality control for the development and maintenance of [*identify each items covered by the opinion or refer to an attached listing*] (hereafter referred to as *materials*) of [*name of provider*] and the resultant materials in effect at [*date*]. [*Excluded items*] [*included in the material/also published by the provider*] were outside of the scope of the QCM review.

We are responsible for, and to the best of our knowledge and belief, have designed and complied with our system of quality control such that it provides reasonable assurance that the materials are reliable aids to assist users in conforming with all those components which are integral to the professional standards that the materials purport to encompass. We also confirm, to the best of our knowledge and belief, that the materials are reliable aids to assist users in conforming with all those components which are integral to the professional standards the materials purport to encompass.

We confirm, to the best of our knowledge and belief, that there are no known circumstances where ~~an~~ our materials were used and substantially relied upon in an engagement that was ~~later~~ found to not comply with the applicable professional standards or regulations² in all material respects, ~~when the above named~~ and our materials were ~~determined~~ found to be the an underlying cause ~~resulting in the engagement deficiencies~~ of that non-conformity.

We also confirm that we have considered all sources of feedback, including feedback from users to the best of our knowledge and belief, that there are no known situations. ~~We have made you aware of any situations when management is aware that its~~ in which personnel or non-personnel contributors (for example, internal authors, guest/external authors and technical reviewers) ~~or reviewers~~³ have not complied with the rules and ~~requirements~~ regulations of state board(s) of accountancy or other regulatory bodies, including applicable licensing requirements in each state in which the contributors practiced for the year under review (as applicable)⁴ and how the provider has ~~or is addressing and rectifying situations of noncompliance.~~ We have provided a list of all titles we seek to have reviewed to the team captain as well as materials for review that are complete and represent the final version of the materials. We have also provided the team captain with any other information requested and have provided access to records and systems of quality control including but not limited to personnel files, records related to non-personnel developers and updaters, user feedback, and so on. In addition, there are no known restrictions or limitations on any contributors' ability to practice public accounting by regulatory, monitoring or enforcement bodies within three years preceding the current QCM review year-end.

~~We have also determined that none of our CPA personnel or non-personnel contributors or reviewers are subject to any restrictions or limitations that impacts their ability to practice public accounting within three years preceding the~~

¹ Should be dated the same date as the quality control materials review report.

² For example, auditing, review, reporting standards, and so on. Consideration should also be given to regulatory guidance, such as the Employee Retirement Income Security Act, the Office of Management and Budget, the Department of Labor (DOL), and so on.

³ ~~Including guest or external authors or reviewers.~~

⁴ ~~Including applicable licensing requirements in each state in which it practices if the provider is a firm or has employed CPA personnel.~~

~~current peer review year end that were imposed by or agreed to with other regulatory, monitoring, or enforcement bodies.⁵ Further, we have provided the QCM reviewer with any other information requested and access to records and systems of control, including but not limited to, employee files of leased and per diem employees, files related to non-personnel contributors or reviewers, user feedback, and so on.~~

Sincerely,

~~[Name of Signatory]⁶~~

[Name of Provider]

⁵ _____ For example, the Public Company Accounting Oversight Board, Securities and Exchange Commission, U.S. Government Accountability Office, DOL, any state board of accountancy or AICPA or state society professional ethics committee, or any other government agency.

⁶ _____ Letter should be signed by the appropriate party at the provider that has primary responsibility for the system to develop and maintain the materials.

Revisioning Oversight Task Force (“ROTF”) Proposal

Why is this on the Agenda?

The ROTF has reviewed the oversight process for opportunities to increase consistency, effectiveness, and efficiency. Since the development of those processes, technology has improved and provides new mechanisms through which oversight can provide more robust results with little or no increase in other resources.

Due to the significant nature of the proposed changes in oversight processes, it is anticipated that some revisions to the underlying guidance will be necessary. Therefore, for 2014, we will adopt the strategy of employing a pilot program. We anticipate that final guidance to be approved by the board in January 2015.

This proposal is also part of an AICPA-wide initiative to increase engagement quality.

Feedback Received

This proposal is made by the ROTF, which consists of active reviewers in public practice as well as administering entity and former regulatory representatives.

PRISM Impact

None at this time.

AE Impact

This proposal significantly reduces the number of working paper oversights (“desk reviews”) that will be required to be submitted by each AE. It requires coordination between the AE and the AICPA for Report Acceptance Body observations on a timely basis.

Communications Plan

A Peer Review Alert will communicate the changes in oversight processes and procedures. See Agenda Item 1.6F. In addition, the revisions will be included in AE training and technical reviewer calls and incorporated into courses. The topic will be discussed during scheduled presentations to firms and reviewers, including, but not limited to:

- peer reviewer webcasts,
- the 2014 Practitioners Symposium and Tech+ Conference,
- the AICPA National Advanced Accounting and Auditing Technical Symposium,
- the AICPA National Governmental Accounting and Auditing Update Conferences, and
- the 2014 Peer Review Conference.

Manual Production Cycle (estimated)

Upon successful completion and evaluation of the pilot program, the process, including specific risk criteria, will be incorporated into the Oversight Handbook.

Effective Date

June 1, 2014

Board Consideration

The following changes in the oversight model are proposed. **Bolded** items represent a change in the current model and are more fully described in following sections.

Responsible Party	Activity	Current Frequency	Proposed Frequency
Oversight Task Force			
	Working paper oversights (desk reviews)	Approx. 3% annually	Risk-based, nominal in number
	RAB observation	Every other year	Risk-based, one per AE in pilot period
	Engagement-level (must-select) oversights		Risk-based, 100% of high risk strata and sample of remaining such that we achieve 95% confidence (see sampling plan) in pilot period
	Statistical/offsite review	Periodic	Periodic
	Administering entity oversight visits	Every other year	Every other year
	Report on Oversight	Annually	Annually
Administering Entities			
	Administrative oversight	Every other year	Every other year
	Oversight of peer reviews and reviewers	Approx. 2% annually, given certain minimums and waivers	Approx. 2% annually, given certain minimums and waivers (note: no change in AE requirements)
	Statistical review	Periodic	Periodic
	Resume verification	100% of active reviewers once every three years	100% of active reviewers once every three years
	Report on Oversight	Annually	Annually

Working paper oversights (desk reviews)

The selection of working paper oversights will be reduced to a nominal number. The selections will be risk-based. Procedures and communication of results will remain the same.

Report Acceptance Body (RAB) observation

RAB meetings of each administering entity (“AE”) will be observed by AICPA staff and/or members of the Oversight Task Force (“OTF”). This process is similar to RAB observations currently performed by OTF members and/or AICPA staff during administering entity oversight visits.

A pilot program consisting of performance of one RAB observation at each AE is suggested to determine feasibility. The number and frequency of observation will be risk-based with a minimum of once annually. Specific risk criteria will include, but not be limited to:

-
- changes in technical reviewers, RAB or PRC members,
 - rate of deferrals,
 - untimely, incomplete, or inappropriate submission/compliance with program requirements (Plan of Administration, required oversights, administrative review, etc.),
 - reviewer risks such as feedback (peer review and/or regulatory), low or high frequency, newly qualified, frequency of reissuance of peer review documents, and issues identified in the resume verification process, and
 - results of prior oversight visits, working paper oversights, statistical/offsite review, RAB observations, administrative oversight, and oversight of peer reviews and reviewers.

AICPA staff will request a RAB schedule and approximation, if possible, of number of reviews to be considered by each from each AE in order to aid in selection. For the purposes of the pilot program, the AICPA staff will inform the AE of RAB selection no fewer than two weeks prior to the date scheduled. The AE is required to furnish the materials provided to their RAB for consideration and arrangements for participation via conference call. Procedures will be in accordance with the RAB Handbook (PRP § 3300) and are summarized in the RAB Observation Checklist (Agenda Item 1.6A). Upon successful completion and evaluation of the pilot program, the RAB Observation Checklist will be incorporated into the Oversight Handbook.

Members of the OTF and/or AICPA staff will prepare comments based upon completion of the RAB Observation Checklist, noting the disposition of any during the RAB evaluation. The comments, the RAB Observation Checklist, and any related materials will be reviewed by a Comment Acceptance Body (“CAB”) of the OTF within 30 days of the RAB observation. The OTF may request the committee perform additional educational or remedial actions, such as, but not limited to:

- a. Scheduling a peer review course as a refresher for reviewers, technical reviewer(s), and/or the peer review committee members, as deemed necessary by the OTF.
- b. Allowing an OTF member to observe and provide feedback at the next scheduled peer review committee meeting or RAB meeting in which reports will be considered for acceptance.
- c. Requesting that the peer review committee submit documentation explaining why selected engagements were not considered as not being performed or reported in conformity with applicable professional standards in all material respects.
- d. Requesting or requiring that the administering entity peer review committee perform on-site oversight on the reviewer’s next system review(s). The on-site oversights should be performed at the reviewer’s or committee’s expense and copies of the oversight report should be submitted to AICPA staff.

Once approved, a letter (Agenda Item 1.6B) communicating the comments and any additional actions required are submitted to the respective administering entities’ peer review committee chairs requesting that they share the findings with affected parties (e.g., their committees, technical reviewers, peer reviewers, and team captains, as applicable). The committee chair is asked to communicate the comments to the committee and return response or an acknowledgement of the letter to AICPA staff within 30 days. After receipt and consideration of response by the OTF, AICPA staff will destroy documents in accordance with the working paper retention policy applicable to AICPA Working Paper Oversight Comments (AICPA Administrative Manual, Chapter 13).

Agenda Item 1.6D details the proposed addition to the Oversight Handbook, once the pilot program is completed. The language will be updated based on the results of the pilot.

Engagement-level oversight

Performance of engagement-level oversights will be conducted by a designee of the OTF. 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 all peer reviewer materials and the reviewed firm's financial statements and working papers on the engagement. These oversights will be performed prior to presenting the peer review documents to the peer review committee to allow the committee to consider all the facts prior to acceptance of the review. The OTF designee will be expected to perform the oversight within 30 days of receipt of the working papers. Engagement-level oversights conducted by the AICPA neither replace nor reduce the engagement oversights required of each administering entity.

The number and frequency of engagement-level oversight will be stratified on a risk basis such that 100% coverage of those meeting certain risk criteria and a statistically valid sample of the remaining peer reviews such that a 95% confidence rating is achieved (Agenda Item 1.6E). Specific risk criteria will include but not be limited to firm risks such as prior peer review results, licensing issues, and practice concentrations, including engagements in which risk may be inherently significant, as well as reviewer risks such as feedback (peer review and/or regulatory), low or high frequency, newly qualified, high number of reissuance of peer review documents, and issues identified in the resume verification process. Further, the results of prior oversights, including working paper oversights, will be considered.

Procedures performed will include the review of the peer review engagement checklists and the reviewed firm's financial statements and working papers on the engagement. The OTF designee will complete the peer review engagement checklist and compare the results of their review with the peer reviewer's results. Upon completion of the procedures, a Must Select Engagement Oversight Report (Agenda Item 1.6C) will be prepared to communicate a summary of the procedures and findings to the peer review committee of the applicable AE and the OTF. Timing of procedures will allow timely acceptance of peer reviews as outlined in the RAB Handbook. Any disagreements will be handled in accordance with the procedures for disagreements between reviewers and reviewed firms (PRP §1000.116). When the oversight has been completed, the working papers should be returned. AEs should follow the working paper retention policy once they have been returned.

The Board is asked to consider and approve the RAB observation, engagement level-oversight pilot programs, and peer review alert.

Oversight Handbook Exhibit X
RAB Observation Checklist

Administering entity:

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I. Planning

1. Determine population

- Number of peer reviews administered annually
- Number of RAB calls scheduled this year
- Average number of peer reviews per RAB call

	100
	2
	<u>50</u>

2. Determine sample

- Number of peer reviews on selected RAB call
- Percent of total population

	20
	<u>20%</u>

For the purposes of selection, consider the following:

- Peer reviews with an other than pass rating
- Peer reviews with more than 5 FFCs or MFCs
- Peer reviews in which the engagements available consisted of over 25% in any must-select industry

- Other
- Other

- Number of peer reviews selected to review
- Percent of selected RAB call
- Percent of total population

	5
	<u>25%</u>
	<u>5%</u>

Oversight Handbook Exhibit X RAB Observation Checklist

Administering entity:

	0
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II. Procedures

Completed

1. In preparation for the meeting, review the documents provided for each peer review (see RAB Handbook, PRP §3300, Chapter 3, Section II.A), including, as applicable:

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- Peer review report
- Letter of response
- Prior review report; (and letter of comments if commenced prior to January 1, 2009), letter of response, Finding for Further Consideration (FFCs) forms, and prior review's required corrective action(s) or implementation plans
- Technical reviewer's checklist
- Summary Review Memorandum and Team Captain Checklist—System Reviews
- Disposition of Matter for Further Consideration (DMFC) form
- For reviews that include A-133 engagement(s), the engagement profile and PRP-22100, Part A, Supplemental Checklist for Review of Single Audit Act/A-133 Engagements*
- Review Captain Checklist—Engagement Reviews
- Matter for Further Consideration (MFC) forms
- Findings for Further Consideration (FFC) forms

* *completion of attachment 3 of the Technical Reviewer's Checklist (Exhibit 2-2) may be delegated under certain circumstances. See RAB Handbook, PRP §3300, Chapter 3, Section II.A)*

2. In preparation for the meeting, review any communications or summary of communications between RAB members and the technical reviewer to facilitate discussion during meeting. (see RAB Handbook, PRP §3300, Chapter 3, Section II.A)

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3. Observe the RAB, consisting of a minimum of three members, including consideration of whether reviews were performed in accordance with the standards and related guidance (see RAB Handbook, PRP §3300, Chapter 3, Section III.A). Considerations may include:

--

- Did the team captain or review captain perform an adequate review?
- For System Reviews, did the team captain focus on the reviewed firm's system of quality control and avoid focusing on the engagements reviewed?
- For System Reviews, discuss whether the Summary Review Memorandum contained:
 - an appropriate risk assessment that properly documents inherent and control risks related to the reviewed firm's accounting and auditing practice and its system of quality control
 - an appropriate selection of engagements in response to the risk assessment and designed to test a reasonable cross section of the firm's engagements with a focus on high risk engagements, in addition to significant risk areas
 - a discussion of excluded engagements, if any
 - a discussion of isolated deficiencies, if any, with explanation of additional procedures performed to determine they were isolated

- a discussion of consideration of a different type of report if a significant degree of judgment has been exercised in determining the review results
- Should the team captain or review captain be provided with feedback on his or her performance?

4. Observe the RAB consideration of whether the report and response thereto, if applicable, are in accordance with the standards, interpretations, and related guidance; including evaluation of the adequacy of corrective actions the reviewed firm has represented that it has taken or will take in its letter of response (see RAB Handbook, PRP §3300, Chapter 3, Section III.B). . This includes, but may not be limited to, the following:

- Was the appropriate type of report issued?
- For a report rating pass with deficiencies or fail, do the recommendations of the reviewer address deficiencies or significant deficiencies adequately?
- Does the reviewed firm's response appear responsive, genuine, and feasible, including timeframes on any actions the firm may be taking?

5. Observe RAB consideration of appropriate, remedial corrective actions related to the deficiencies or significant deficiencies noted in the report, in addition to those described by the reviewed firm in its letter of response (see RAB Handbook, PRP §3300, Chapter 3, Section III.C).

6. Observe RAB consideration of whether FFC (and associated MFC and DMFC) forms , if applicable, are in accordance with the standards, interpretations, and related guidance (see RAB Handbook, PRP §3300, Chapter 3, Section III.D). , including:

- Whether the findings addressed on the FFC forms should have been included in a report with a rating of pass with deficiencies or fail?
- Do the FFC (and associated MFC and DMFC) forms appear appropriate and complete?
- Whether the reviewed firm's response has addressed each finding appropriately?
- Does the firm's response describe how the firm intends to implement the reviewer's recommendation (or alternative plan if the firm does not agree with the recommendation), including:
 - Person(s) responsible for implementation,
 - Timing of the implementation,
 - Additional procedures to ensure the finding is not repeated in the future, if applicable.
- Whether an action or implementation plan, in addition to the plan described by the reviewed firm in its response to the findings on the FFC form(s), is appropriate?

7. Observe RAB consideration of whether the technical reviewer's recommendations are appropriate (see RAB Handbook, PRP §3300, Chapter 3, Section III.E).

8. Observe RAB review of the list of engagement reviews previously accepted by the technical reviewer and review any recommendations made by the technical reviewer for reviewer feedback (see RAB Handbook, PRP §3300, Chapter 3, Section III.F).

Oversight Handbook Exhibit X
RAB Observation Checklist

Administering entity:

	0
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III. Conclusions

Based upon the procedures performed, I make the following recommendation(s):

- No observations were made warranting additional actions or a change in risk assessment.
- Others

Oversight Handbook Exhibit X
RAB Observation Checklist

Administering entity:

	0
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I. Statistics

1. Peer review selection

- Number of peer reviews selected 5
- Number of reports with pass rating
- Number of reports with pass with deficiency rating
- Number of reports with fail rating
- Number of MFCs
- Number of FFCs
- Number of engagements not in conformity with applicable standards

2. RAB members

- Name of RAB members observed Member #
- | | |
|--|--|
| | |
| | |

2. RAB actions

- Number of selected peer reviews evaluated
 - Number of selected peer reviews deferred for the following reasons:
- | | |
|--|--|
| | |
| | |

Review Comments

Review #

Comments/Notes

RAB Observation Report

To the (Name) Peer Review Committee

We have observed the procedures followed by the (AE name) peer review committee or report acceptance body (RAB) in the evaluation and acceptance of reviews on (date) and offer the following observations.

Preparation

On (date), documents for each review evaluated by the RAB were provided. In addition, we were copied on or provided communications, or a summary thereof, between RAB members and technical reviewers. Accordingly, we found the preparation for the meeting in accordance with RAB Handbook, PRP §3300, Chapter 3, Section II.A.

or

On (date), documents for each review evaluated by the RAB were provided. However, no PRP-22100, Part A, Supplemental Checklist for Review of Single Audit Act/A-133 Engagements were included, although required. There appeared to be no communications, or summary thereof, between RAB members and technical reviewers. Accordingly, we deemed the preparation for the meeting not in accordance with RAB Handbook, PRP §3300, Chapter 3, Section II.A.

Evaluation

On (date), we observed the evaluation of peer reviews by the (name of RAB). Reviews were being presented to the RAB on a timely basis. The RAB consisted of (number) members. The peer reviews presented appeared to have had an adequate review by the team or review captain, including appropriate focus on the firm's system of quality control in system reviews. The RAB meeting was orderly and it was apparent that the committee members had reviewed the reports and workpapers thoroughly prior to the meeting and had a good understanding of the Peer Review Program. Considerations included: (list – see RAB Observation Checklist, Procedures section). We observed the committee's acceptance process and offered comments at the close of discussions.

Appropriate decisions were made in the acceptance process, appropriate corrective actions were assigned and reviewers were being appropriately monitored.

or

On (date), we observed the evaluation of peer reviews by the (name of RAB). Reviews were being presented to the RAB on a timely basis. The RAB consisted of (number) members. The peer reviews presented appeared to have had an adequate review by the team or review captain, including appropriate focus on the firm's system of quality control in system reviews. The RAB meeting was orderly; however, it was apparent that the committee members did not have sufficient information to thoroughly evaluate the peer reviews. We observed the committee's acceptance process and offered comments at the close of discussions.

Due to these issues, appropriate decisions were unable to be made in the acceptance process at this time.

Summary

Based upon the procedures described above, we make the following recommendations:

The Peer Review Committee should schedule (insert peer review course name) as a refresher for reviewers, technical reviewer(s), and peer review committee members.

or

The Peer Review Committee should allow an Oversight Task Force member to observe and provide feedback at the next scheduled peer review committee or RAB meeting in which reports will be considered for acceptance.

or

The Peer Review Committee should submit documentation explaining why selected engagements were not considered as not being performed or reported in conformity with applicable professional standards in all material respects.

or

The Peer Review Committee must/may perform on-site oversight on the next system review(s) of (reviewer name and member #). The on-site oversights should be performed at the (reviewer's or committee's) expense and copies of the oversight report should be submitted to the Oversight Task Force.

Oversight Task Force
AICPA Peer Review Board

Date approved

**Sample Must Select Engagement Oversight Report
From the Oversight Reviewer to the Peer Review Committee**

[Oversight Reviewer's Firm's Letterhead]

[Date]

[Peer Review Committee Chair], CPA
[Administering Entity's Peer Review Committee]
[Address]

Dear [Committee Chair]:

As requested by the [Administering Entity's Peer Review Committee], I performed an oversight of [a/an] [FDICIA/ERISA/GAGAS/carrying broker dealer/service organizations (Service Organization Control [SOC] 1 and 2)] engagement that was part of the system peer review of [Firm Name/review number] on [date]. The team captain was [Name], [and the other review team members were...]. The purpose of the oversight was to obtain reasonable assurance that the review of the [FDICIA/ERISA/GAGAS/carrying broker dealer/service organizations (Service Organization Control [SOC] 1 and 2)] engagement was performed and reported on in accordance with the *Standards for Performing and Reporting on Peer Reviews* (standards). I have also attached a copy of my completed oversight checklist as it relates to the engagement involved in this oversight.

In summary, I performed the following procedures [list procedures].

My findings were as follows [list findings].

My conclusion is [state conclusion].

Sincerely,

[Oversight Reviewer's Signature]

cc: Oversight Task Force, AICPA Peer Review Board
[Team Captain] (without attachment)

RAB Observation Proposed Oversight Handbook Addition

RAB Observations

Each year, AICPA Peer Review Program Staff (Staff) and/or members of the Oversight Task Force (OTF) will observe the presentation of peer reviews to Report Acceptance Bodies (RABs). Staff and/or members of the OTF will observe at least one RAB from each administering entity (AE) each year, including observing the RABs that occur during the Administrative Oversight visits. Additional observations will be based on certain risk factors, including volume. Generally, the observations will be conducted via conference call. Staff and/or members of the OTF may also attend RABs in person, if deemed necessary by the OTF. Staff and/or members of the OTF will receive the same materials that are provided to the RAB members. AE's must provide the materials to Staff at least one week in advance of the RAB. Any late additions to the RAB should also be provided to Staff and/or members of the OTF. Staff and/or members of the OTF may choose to observe portions of the RAB or the entire RAB. Staff and/or members of the OTF will issue comments based on the results of the observation. Those comments are approved by the OTF prior to issuance. The primary purpose of the observation is to determine whether

- the RAB is performing all of their responsibilities
- the technical reviewer is performing all of their responsibilities
- the reviews are being conducted and reported on in accordance with the Standards
- administrative procedures established by the board are being complied with.
- information is being entered into the computer system correctly.
- results of reviews are being evaluated on a consistent basis within an administering entity and in all jurisdictions.

Steps in the RAB Observation

1. The OTF determines the overall number of peer reviews that will be observed using a risk-based approach. Each AE will be selected at least once per year. The risk factors used in determining additional observations for AE's include; the number of peer reviews administered, results of previous RAB observations, results of recent on-site oversight visit by an OTF member, number and experience level of technical reviewer(s), and comparison of peer review results to results of peer review program taken as a whole.
2. Staff selects RAB observations based on the determination of the OTF.
3. AE's are required to keep Staff updated on RAB meeting dates.
4. Staff notifies the AE of the RAB observation in advance of the meeting, ordinarily two weeks in advance of the meeting. The Staff and/or members of the OTF assigned to the RAB observation will coordinate the observation directly with the AE.
5. The observation will include, at a minimum, the review of the report and the letter of response, if applicable; the Matter for Further Consideration (MFC) Forms; the Finding for Further Consideration (FFC) Forms and implementation plan, if applicable; and information prepared by the technical reviewer for the RAB. In addition, information entered into the PRISM computer system will be reviewed. AICPA Staff will complete a RAB observation checklist.

-
6. AICPA Staff and/or members of the OTF perform a detailed review of the RAB package submitted and prepares comments based on the package. The comments will not be provided to the RAB prior to the meeting.
 7. During the RAB observation, Staff and/or members of the OTF will not provide any guidance or feedback until the RAB has completed their deliberations and are ready to vote on the acceptance of the review. Once the deliberations are complete, the observer will provide any further guidance or considerations deemed necessary. If the RAB's initial deliberation does not address the items in the comments that the observer prepared prior to the RAB, the comments will be presented to the OTF for approval. If the RAB addresses the items in the observer's comments, the comment will be removed from the report. The observer will also prepare comments based on the RAB's performance and technical reviewer's performance.
 8. Staff and/or members of the OTF prepare a RAB observation report, which includes the RAB observation checklist and all comments made by Staff. The checklist, the report, and any related materials are reviewed by a Comment Acceptance Body (CAB) of the OTF within 30 days of the RAB observation. Based on the report, the OTF may request additional educational or remedial actions, such as, but not limited to:
 - a. Scheduling a peer review course as a refresher for reviewers, technical reviewer(s), and/or the peer review committee members, as deemed necessary by the OTF.
 - b. Allowing an OTF member to observe and provide feedback at the next scheduled peer review committee meeting or RAB meeting in which reports will be considered for acceptance.
 - c. Requesting that the peer review committee submit documentation explaining why selected engagements were not considered as not being performed or reported in conformity with applicable professional standards in all material respects.
 - d. Requesting or requiring that the administering entity peer review committee perform on-site oversight on the reviewer's next system review(s). The on-site oversights should be performed at the reviewer's or committee's expense and copies of the oversight report should be submitted to AICPA staff.
 9. Once approved, a letter communicating the comments and any additional actions required are submitted to the respective administering entities' peer review committee chairs requesting that they share the findings with affected parties (e.g., their committees, technical reviewers, peer reviewers, and team captains, as applicable). The committee chair is asked to communicate the comments to the committee and return response or an acknowledgement of the letter to AICPA staff within 30 days. After receipt and consideration of response by the OTF, AICPA staff will destroy RAB observation documents in accordance with the working paper retention policy.

Engagement Level Oversight Sampling Plan

Engagement-level Oversight

Sampling Plan

The Revisioning Oversight Task Force (“ROTF”) has made a proposal to increase consistency, effectiveness, and efficiency. The proposal is also part of an AICPA-wide initiative to increase engagement quality. A significant portion of the proposal is performance of 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 all peer reviewer materials and the reviewed firm’s financial statements and working papers on the engagement.. Due to the number of peer reviews with these engagements, these oversights will be conducted on a test basis.

Purpose

The overarching purpose of performing engagement-level oversights is to increase oversight consistency, effectiveness, and efficiency as well as to determine if peer review results are fairly reported.

Population and sampling

The population for testing will consist of peer reviews that include must-select engagements, as defined above. These will be determined as scheduling information is received and available in the Peer Review Information System Manager (“PRISM”).

Planning has been based upon a historical listing from calendar year 2013 to determine approximate population, sample sizes, and other non-specific data. In that year, approximately 4,000 peer reviews that included must-select engagements were performed. That population will be stratified into two mutually exclusive groups: one smaller risk-based, which will be tested 100% (approximately 25 peer reviews), and the remaining, larger group from which a sample will be selected such that 95% confidence (approximately 85 – 105 peer reviews) is obtained over the population. At the time of sampling, ample alternates will be obtained in order to accommodate any invalid selections.

Deviation

Peer review results will be determined to be misstated if an issue identified during engagement-level oversight procedures results in requiring revision of report rating. Identifying an engagement as not performed or reported on in conformity with applicable professional standards in all material respects that was not identified as such as a result of the peer review will not be deemed as a misstatement but should be corrected in the peer review statistics.

**Peer Review Alert
Revisioning the Oversight Process**

Since the development of the Peer Review Program oversight process, technology and surrounding processes have improved. These improvements provide new mechanisms that provide increased results with little or no increase in required resources. Accordingly, the Peer Review Board (“Board”) has approved the following three changes to the existing oversight process:

- Reduction of working paper oversights (“desk reviews”) to a nominal number. The selections will be risk-based. Procedures and communication of results will remain the same.
- Increase in observation of Report Acceptance Body (“RAB”) meetings of each administering entity (“AE”) by AICPA staff and/or members of the Oversight Task Force (“OTF”). A pilot program consisting of performance of one RAB observation at each AE will be conducted in 2014. The purpose of the RAB observation is to determine whether; the RAB is performing all of their responsibilities, the technical reviewer is performing all of their responsibilities, the reviews are being conducted and reported on in accordance with the Standards, administrative procedures established by the board are being complied with, information is being entered into the computer system correctly, and the results of reviews are being evaluated on a consistent basis within an administering entity and in all jurisdictions. This process is similar to RAB observations currently performed by OTF members and/or AICPA staff during administering entity oversight visits.
- Increase in engagement-level oversights performed by designees of the OTF. The number and frequency of engagement-level oversight will be stratified on a risk basis such that 100% coverage of those meeting certain risk criteria and a statistically valid sample of the remaining peer reviews such that a 95% confidence rating is achieved. 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 related peer reviewer materials and the reviewed firm’s financial statements and working papers on the engagement. These oversights will be performed prior to presenting the peer review documents to the peer review committee to allow the committee to consider all the facts prior to acceptance of the review. The OTF designee will be expected to perform the oversight within 30 days of receipt of the working papers. Engagement-level oversights conducted by the AICPA neither replace nor reduce the engagement oversights currently performed by AEs.

The changes to the oversight process are effective on June 1, 2014. The changes will be implemented as a pilot program. The final guidance and implementation is planned for approval by the Board in January of 2015.

Update on Impact of ARSC Exposure Draft on Peer Review

Why is this on the Agenda?

During Open Session of the January Board meeting, a preliminary discussion was held regarding the recent exposure draft issued by the Accounting and Review Services Committee (ARSC) and its potential impact on engagements in scope for peer review. This exposure draft discusses proposed standards that were developed in part to help determine whether the accountant, management or both prepared the financial statements. The proposed standards would be effective for financial statements with periods ending on or after December 15, 2015 with early implementation permitted.

The following is a link to the exposure draft:

http://www.aicpa.org/Research/ExposureDrafts/CompilationReview/DownloadableDocuments/20131023a_SSARS_ED_Prep_Comp_Assoc.pdf

The comment period for this exposure draft ended on May 2, 2014. An ARSC meeting has been scheduled for May 20th through the 22nd where the committee will discuss the comment letters received and vote on a final standard. Additionally, an internal AICPA meeting, including Peer Review Staff, will be held on May 23rd to discuss the outcomes of the ARSC meeting and address any questions AICPA Staff might have. Peer Review Staff will provide the Board an update of the outcome of those meetings and any other takeaways during the next Board meeting.

Feedback Received

Several comment letters have been received on the Statements. The majority of comments are silent with peer review ramifications. However, a selection of responses were inquisitive on the SSARS impact to peer review, with one response from a practitioner stating that they were supportive of the Preparation SSARS provided they were exempt from peer review.

No feedback was provided regarding this topic during the last Open Session of the Board held in January.

PRISM Impact

N/A at this time.

AE Impact

N/A at this time.

Communications Plan

N/A at this time.

Manual Production Cycle (estimated)

N/A at this time.

Effective Date

N/A at this time.

Board Consideration

N/A at this time.

Agenda Item 1.14A

**Firms Dropped from the AICPA Peer Review Program for Non-Cooperation between
January 17, 2014 and April 15, 2014, and Not Enrolled as of April 30, 2014.**

Firm Number	Firm Name	State	Admin By
10115093	Moody and Hodgson	AL	AL
1007766	Thomas L. Hinson Jr.	AL	AL
10146522	Bruce H. Downs	AL	AL
10148661	Reagan Accounting & Consulting Group, P.C.	AL	AL
10115093	Moody and Hodgson	AL	AL
10115093	Moody and Hodgson	AL	AL
648479	Joe E. Pace	AR	AR
4526510	Roger W. Griffin	AR	AR
769618	J D Sears CPA, P. C.	AR	AR
10103733	Dudley S Bowdon	AR	AR
4499224	Becky Estes & Company	AR	AR
10117504	Kilpatrick & Co., CPA PLLC	CA	CA
10133131	Ezell and Company	CA	CA
81596765	Maxine A Bond	CA	CA
10121215	Gustin Accountancy Corp	CA	CA
10010922	Carpenter and Carpenter	CA	CA
4914891	Cichella & Tokunaga, LLP	CA	CA
5790091	Colleen Tobin	CA	CA
10083085	Robert Farias, CPA	CA	CA
10085217	Brockhouse & Hallum	CA	CA
1073538	Hirsch & Shah, CPAs LLC	CA	CA
1141797	Muso & Co.	CA	CA
542970	John A. Marta	CA	CA
10105032	Fetta Kiddler & Wilcox CPA, LLP	CA	CA
10128934	Audrey M. Horning	CA	CA
10143458	Tien-Fu Huang	CA	CA
10149454	Robert Y. Jackson	CA	CA
10150772	Miller Accountancy Corporation	CA	CA
5388267	Bayless Accountancy Corporation	CA	CA
5839724	Scott Alan Furman CPA	CA	CA
6852669	Kapur CPA Group	CA	CA
5757899	William J. Atkinson	CA	CA
1116226	Mihoda & Company, P. C.	CO	CO
1122896	Richard M. Brothwell CPA, P. A.	FL	FL
6914082	Julian A. Preston, CPA, LLC	FL	FL
6798459	John Pharr CPA LLC	FL	FL
10091482	Allen, Yagow & Carr	FL	FL
148522	James N. Cline CPA, P. C.	GA	GA

Firm Number	Firm Name	State	Admin By
81117743	Mitchell & Associates, CPA, PC	GA	GA
5409168	Brad T. Reeder, CPA, PC	GA	GA
10101191	O'Neil & Associates, Chtd.	ID	ID
10127378	Recchia & Company	IL	IL
5188448	Dennis J. Edwards CPA, P.A.	KS	KS
10132810	Bates H. Whiteside	LA	LA
5468640	Forman Conklin Doherty & Farrar, PC	MA	MA
1005429	John S Sullivan	MA	MA
10140407	John E. Dahlquist CPA, P. C.	MA	MA
10147702	Osterman, Pollack & Moses, LLC	MD	MD
10144714	Houle & Associates, P.C.	MI	MI
10099489	Walter F Sacks	MO	MO
4281819	Toland CPA Group, P.A.	NC	NC
10133140	James E. Avent Jr.	NC	NC
10132054	Jerold M. Weisman & Co	NH	NH
10144445	Hollingsworth & Associates, CPA, PA	NH	NH
10115248	Stanley Goldschmidt, CPA	NJ	NJ
10112087	Elstein & Friedman, P. C.	NJ	NJ
10142732	Martin Eller & Associates	NJ	NJ
10115248	Stanley Goldschmidt, CPA	NJ	NJ
10115248	Stanley Goldschmidt, CPA	NJ	NJ
10140688	Irving Allen Kleiner	NJ	NJ
10155350	AZ & Co., NJ, LLC	NJ	NJ
10005584	Panis & Attner, PA	NJ	NJ
10115248	Stanley Goldschmidt, CPA	NJ	NJ
10148267	Bosco Giannone, LLC	NJ	NJ
10149009	Memoli and McDermott, LLP	NJ	NJ
4182841	Gary E. Hellmer, CPA	NM	NM
10105200	AJ Robbins P. C.	CO	NPRC
5498132	LA Prevratil, LLC	FL	NPRC
10154111	LGG & Associates	GA	NPRC
6498912	D'Arelli Pruzansky, P.A.	NPRC	NPRC
10068367	Paul Scherer & Company LLP	NY	NY
10097554	Grabenstatter & Company, P. C.	NY	NY
80325	Michael B Bornstein	NY	NY
10105086	J. Rabinowitz & Co., P. C.	NY	NY
10106736	Murray L. Goldberg	NY	NY
10117756	Fecteau PLLC	NY	NY
10118251	John B. Kolodziejski	NY	NY
10128432	Chen-Win Hsu CPA, P. C.	NY	NY
80584425	Ben A Milchman	NY	NY
4379729	J. Gliksman, CPA PC	NY	NY

Firm Number	Firm Name	State	Admin By
5505941	Kathleen A. Farrell, CPA	NY	NY
5901758	Aaron H Rubin & Associates, LLP	NY	NY
6498614	Bushra Mannan, CPA, PLLC	NY	NY
1175825	Lawrence Priolo CPA, PC	NY	NY
1082952	Harold J. Korcarz	NY	NY
10141963	Accounting Group of W.N.Y., CPA, PC	NY	NY
1164733	Goldenthal & Suss, CPA's PC	NY	NY
10101387	Malc and Company	NY	NY
10103313	Stephen Kahn CPA LLC	NY	NY
10105389	Nicholas J. Rosa	NY	NY
10124775	Perry A. Shulman	NY	NY
10128387	Allen B. Herskowitz CPA, P. C.	NY	NY
10150711	Leitgeb & Vitelli, LLP	NY	NY
10093719	Samuel Goldstein & Co., P.C.	NY	NY
5179079	George V. Iacobaccio	NY	NY
10144212	Hubbard, Brackman & Hubbard	OH	OH
10103929	G Ronald Atkinson	OH	OH
10154331	Edward H. Aug, CPA	OH	OH
10045002	Margolis Partners	PA	PA
5458469	Gray Nave PC	PA	PA
10117541	Israel Rolon-Garcia	PR	PR
5168623	Torres Acevedo & Co, CPA, CSP	PR	PR
6780558	Anibal Jover, CPA	PR	PR
10150011	Lisa Frick Szuhly, CPA	SC	SC
1075484	John M. VanDevander	TN	TN
10115297	Walls & Company	TN	TN
10110941	Donaldson & Brown, CPA's, PLLC	TN	TN
10104814	Robert Lange Perkins	TX	TX
10104814	Robert Lange Perkins	TX	TX
10124650	Charles B. Cole P. C.	TX	TX
10139219	Dunn & Dill CPA's, PC	TX	TX
10147443	David Michael Ash	TX	TX
10147742	Keith Allen Bland	TX	TX
10104814	Robert Lange Perkins	TX	TX
10082889	George F. Keltch & Co., P.C.	TX	TX
4644043	Aurelia E. Weems, CPA	TX	TX
3756843	Joseph E Madden CPA	TX	TX
10104814	Robert Lange Perkins	TX	TX
36210	Caroline Probus Walsh	VA	VA
5042512	Dobson & Evans LLC	VA	VA
6196070	Birckhead, Roszak, Fulton & Echelberger	VA	VA
6923347	Carole L. Feldman, CPA	VA	VA

Firm Number	Firm Name	State	Admin By
10146574	Edward P. Will Corporation, PS	WA	WA
1152423	Laws & Associates CPA's Inc	WA	WA
10111863	John H. Wolf CPA, P. C.	WA	WA
4721676	H.M. Schultz, LLC	WA	WA
5037170	PTI CPA Services	WA	WA
5116746	Laird and Associates, PLLC	WA	WA
5582734	Parks Associates PLLC	WA	WA
10112950	Michael Vos	WI	WI
10112950	Michael Vos	WI	WI
10112950	Michael Vos	WI	WI
10112950	Michael Vos	WI	WI

Firms Whose Enrollment Was Terminated from the AICPA Peer Review Program

Effective November 21, 2012, the AICPA Peer Review Program terminated the following firm for failure to cooperate with the AICPA Peer Review Board:

Mark Diak, CPA – Glen Carbon, IL

Effective January 21, 2014, the AICPA Peer Review Program terminated the following firm for failure to cooperate with the AICPA Peer Review Board:

John H Hines, CPA – Johnston, IA

Effective March 18, 2014, the AICPA Peer Review Program terminated the following firm for failure to cooperate with the AICPA Peer Review Board:

Fesh & Co., LLC – Bonita Springs, FL

Update on the MFC Project

Why is this on the Agenda?

Since December 2012, peer review has been collecting data on matters identified during a firm's peer review. The MFC Project is about capturing this information, using it to learn about the trouble spots, and developing resources within the AICPA that will allow firms to have a more focused remedy for their findings. Our 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. With this project and the related collaborative efforts we believe we'll make a significant positive impact on audit quality in the profession.

The Peer Review Team is analyzing the MFCs quarterly and posting trends on the [Examples of Matters Peer Reviews](#) webpage. These trends are shared within the Institute for use in the development of resources and communicated via a Reviewer Focus. For the most recent trends identified, refer to Agenda Item 1.14B-1.

Feedback Received

N/A

PRISM Impact

N/A

AE Impact

N/A

Communications Plan

Peer Review will communicate findings from the MFC project in a quarterly Reviewer Focus Article.

Manual Production Cycle (estimated)

N/A

Effective Date

N/A

Board Consideration

N/A. Informational only.

Examples of Matters in Peer Reviews
Updated with data as of 4/1/14¹

The AICPA is using data collected during peer reviews to learn about trouble spots and is developing resources within the AICPA that will allow firms to have a more focused remedy for their findings. Our 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.

See below for examples of matters related to the following areas:

[Professional Standards](#)

[Clarified Auditing Standards](#)

[Accounting and Review Services](#)

[Attestation Standards](#)

[Code of Professional Conduct](#)

[FASB Accounting Standards Codification](#)

[Practice Areas](#)

[Governmental, A-133, and HUD](#)

[ERISA](#)

[Broker-Dealers](#)

[Service Organization Control Reports](#)

[Banking, including FDICIA](#)

[Not for profit](#)

Professional Standards

Clarified Auditing Standards

- Failure to update the audit report to conform to the audit standards.
- The auditor's report was dated significantly earlier than the date of the review of the workpapers and the release date.
- Failure to appropriately document planning procedures, including risk assessment (and linkage of risks to procedures performed), planning analytics, and internal control testing
- Representation letters that were dated incorrectly, did not cover the appropriate periods or were missing required representations.
- Failure to communicate and/or document required communications with those charged with governance.

¹ Due to the timing of when peer reviews are performed, there is a lag between the year-end of the engagement and when a matter is included in this report. Peer Reviews are due 6 months after a firm's peer review year end. A firm's peer review would cover engagements with year ends during the peer review year (report dates for projections and AUPs). As an example, if a firm's peer review year is January 1, 2013 to December 31, 2013 its peer review is not due until June 30, 2014. Therefore a January 31, 2013 year end audit would not be included in the MFC data until approximately June 30, 2014. However, a December 31, 2013 year end audit in the same scenario would be included in the MFC data around June 30, 2014 as well. Refer to www.aicpa.org/prsummary for more information about peer review.

As we're still in the beginning stages of data collection, this quarterly analysis is on all MFCs since we began collecting in December 2012. Going forward, we will prepare our analysis on MFCs for engagements with year ends (report dates for projections and AUPs) from the previous 15 months. By using a 15 month period, we can ensure we are providing information based on the most recent engagements, including a calendar year end.

- The audit documentation did not contain sufficient competent evidence to support the firm's opinion on the financial statements.

Accounting and Review Services

Compilations

- Reports were not prepared in accordance with professional standards. The following matters were noted:
 - Not updated for SSARS 19
 - No headings on the report
 - Inappropriate titles
 - No explanation of the degree of responsibility the accountant is taking with respect to supplementary information.
 - Failure to mention that substantially all disclosures are omitted
- Failure to obtain an engagement letter or revise the letter for SSARS 19

Reviews

- Representation letters that were dated incorrectly or did not cover the appropriate periods.
- Reports were not updated for SSARS 19 or had inappropriate titles
- Failure to obtain an engagement letter or revise the letter for SSARS 19

Attestation Standards

(Note: Most MFCs in this area are related to AUPs or SOCs. SOC related MFCs are included in the practice area section below.)

- Various matters were identified related to AUP reports, most frequently failure to include the word “independent” in the report title.
- Other report matters included failure to include:
 - A title
 - Reference of the AICPA attestation standards
 - A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures
 - Identification of the subject matter or the engagement or written assertion or the character of the engagement.
- Failure to include all elements required by attestation standards in the engagement letter.

Code of Professional Conduct

- Failure to establish and document in writing their understanding with the client with regard to non-attest services provided.

FASB Accounting Standards Codification

- No disclosure of tax years that remain subject to examination by major tax jurisdictions
- No disclosure of the date through which subsequent events were evaluated
- Incorrect classifications, net amounts instead of gross and non-cash transactions on the cash flow statement
- Long-term debt was not segregated into current and long-term portions.
- Missing or insufficient sinking funds disclosure, term, interest rate, maturity, covenants and collateral, if any, for a note payable.

- Missing or insufficient fair value disclosures related to fair value hierarchy of investments, description of the levels, descriptions of the methods used and tabular presentation of amounts. Also included insufficient procedures and documentation regarding the procedures to obtain assurance of the fair value measurements.

Practice Areas

Issues noted above related to professional standards and FASB Accounting Standards Codification were prevalent in each of these practice areas. Matters included in this section are those trends identified for each specific practice area.

Governmental, A-133, and HUD

Reporting

- Failure to include all of the required elements of professional standards in the Auditor's Report on Internal Control and Compliance including: omitted "Independent" from report title, omitted reference to material weaknesses or significant deficiencies included in the Schedule of Findings and Questioned Costs, omitted a clause stating that the entity's responses were not audited and that the auditor expresses no opinion on those responses.
- Failure to include all of the required elements of professional standards in the Auditor's Report including the following omissions: identification of the governmental entity's major funds, and addressing supplemental information and required supplemental information.
- SINGLE AUDIT: Failure to properly report information on the Schedule of Expenditures of Federal Awards including the following errors: missing or improper identification of CFDA #'s or awards, failure to total programs with same CFDA #'s, failure to properly present programs as clusters.

Documentation

- Failure to properly document the evaluation of management's skills, knowledge, and experience to effectively oversee nonaudit services performed by the auditor.
- SINGLE AUDIT: Failure to obtain the applicable written management representations from auditee management tailored to the entity and governmental audit regarding federal awards.
- SINGLE AUDIT: Failure to document an understanding of internal control over compliance of federal awards sufficient to plan the audit to support low assessed level of control risk for major programs, including consideration of risk of material noncompliance (materiality) related to each compliance requirement and major program.
- SINGLE AUDIT: Failure to document the testing of controls and compliance for the relevant assertions related to each compliance requirement with a direct and material effect for the major program.
- SINGLE AUDIT: Improper identification of an auditee as low-risk when the previous two Data Collection Forms were not timely filed or auditor did not fulfill its responsibilities with regard to completion of auditor portion of Data Collection Form.

ERISA

- Missing or insufficient documentation of income allocation testing at the participant level.
- Insufficient procedures and documentation for reliance upon SOC 1 reports in lieu of testing income allocations and investment options at the participant level .
- Missing or insufficient documentation of benefit payment testing.
- Failure to disclose investments that represent five percent or more of net assets

Broker-Dealers

- Failure to comply with SEC Independence Rules, including not preparing financial statements for clients
- Audit reports inappropriately referenced use of the PCAOB standards to perform the audits (when SAS were followed)
- Audit reports on internal controls were not appropriate, including using the non-carrying format for a carrying firm, outdated definitions of internal control and restrictions of the report to management and regulations
- Failure to use a broker-dealer specific financial statement checklist thus missing required disclosures

Service Organization Control (SOC) Reports

SOC 1

- The service auditor lacked the experience and training required under SSAE 16 to properly complete a Service Organization Control Report.
- The client acceptance, the description of controls and the audit documentation omitted reference to the need for complimentary user controls if any exist, the risks that threaten the achievement of the control objectives and the linkage between the controls included in the control description, and the proper identification of subservice organizations and related services and ultimate use of the carve out method.
- The information included in the report did not have sufficient support in the workpapers, such as
 - No documentation to assess the nature, timing, and extent of the procedures (specifically sampling methodology)
 - Control testing did not address the elements of the control, all IT general controls and change management controls
 - No documentation of procedures to support the Other Information included in the report
- Incorrect references included or incorrect language used in the report including user controls, carve outs, and other information.

SOC 2

- The report issued included non-standard wording regarding complementary user entity controls

Banking, including FDICIA

- Failure to include all elements required by professional standards in the accountant's report on internal controls
- Failure to understand and comply with the independence rules applicable to these engagements, i.e. SEC independence rules do not allow the auditor to also prepare the client's financial statements
- Failure to properly disclose:
 - valuation allowances and related segmentation information of the loan portfolio
 - consolidated capital ratios and requirements
 - that the entity was subject to expanded regulatory supervision and why
 - OREO's and goodwill in the fair value footnote as a non-recurring measurement item
- Insufficient audit testing of real estate lending including inadequate quantitative information such as aging, past due status, or historical charge-offs. Similarly,

insufficient audit testing of foreclosed property data, including inadequate testing of current year additions, analysis of fair value/carrying value.

- Insufficient audit testing of certain subjective, qualitative components of the allowance for loan loss, and retrospective review of the allowance for loan loss for bias.
- Management representation letter did not contain representations specific to financial institutions.

Not for profit

- Functional expense classifications not reflected in financial statements or notes.

Standards Task Force Future Agenda Items

Why is this on the Agenda?

The Standards Task Force 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.

Feedback Received

N/A

PRISM Impact

N/A

AE Impact

N/A

Communications Plan

N/A

Manual Production Cycle (estimated)

N/A

Effective Date

N/A

Board Consideration

Review the list of Standards Task Force future agenda items below and provide feedback.

- Focus for 2014 will primarily be on the proposals from the Enhancing Quality Initiative Task Forces.
- Topics Expected to Be Addressed in 2014:
 - Consideration of whether or not it is appropriate for Joint Trial Board members to also be members of a Peer Review Committee or Report Acceptance Body.
 - Consideration of guidance related to firm re-enrollment in the peer review program after being dropped or terminated.
 - Determine peer reviewer's responsibilities with respect to verification of firm and individual licenses.
 - Consideration of tone at the top guidance
 - Consider whether or not risk assessment guidance revisions are necessary to specifically mention ESOPs due to heightened risk in this area.
 - Expansion of Interpretation 5c-1 (which discusses the impact of acquisitions and divestitures) to include further discussion of acquisitions and effect on the peer review scope.
 - Address feedback that Engagement Review representation letter and Engagement Summary Form should be combined.
 - Consideration of peer review impact of ARSC Exposure Drafts.
- Other Future Topics

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- Update definitions of "personnel" and "professionals" used in various forms, practice aids, and guidance.
 - Revise all relevant peer review guidance for revisions to Consolidated OMB (previously A-133). This includes language changes to all forms and guidance, and significant changes to single audit checklists (to be done with assistance from GAQC staff). Final OMB guidance not yet approved and effective date is not known.
 - Modify, expand and finalize guidance in Interpretations 6-7 and 6-8 for engagements performed under international standards, and develop new guidance on addressing the design of the system of quality control for engagements performed under international standards.
 - Continue to enhance QCM related guidance
 - Guidance for enlisting committee chairs to assist with AE monitoring

Education and Communication Task Force Future Agenda Items

Why is this on the Agenda?

The Education and Communication Task Force 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.

Feedback Received

N/A

PRISM Impact

N/A

AE Impact

N/A

Communications Plan

N/A

Manual Production Cycle (estimated)

N/A

Effective Date

N/A

Board Consideration

Review the list of Education and Communication Task Force future agenda items below and provide feedback.

- Conference
 - Coordinate the 2014 AICPA Peer Review Program conference
- Training Materials and Programs
 - Monitor the results and demand of the Peer Review Mentoring Initiative
 - Determine the need to develop additional training materials and learning opportunities specifically for individual groups (administrators, technical reviewers, committee members, and reviewers).
- Training Courses
 - Monitor the effectiveness and current demand of educational offerings (How To self-study, Engagement Review course, Competency test)
 - Discuss possibility of educational offerings being offered as webcasts as opposed to Live Seminars
 - Offer two web events through June 30
 - Develop other web events which would meet the requirements for continued peer review education for reviewers (minimum of two 2-hour webinars per calendar year)
- Peer Reviewer Pool
 - Monitor results of upcoming survey of high-volume reviewers

Oversight Task Force Future Agenda Items

Why is this on the Agenda?

The Oversight Task Force 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 the Oversight Task Force will consider in the future. The items included in this report represent an evergreen list that will be continually updated to be responsive to new information and circumstances.

Feedback Received

N/A

PRISM Impact

N/A

AE Impact

N/A

Communications Plan

N/A

Manual Production Cycle (estimated)

N/A

Effective Date

N/A

Board Consideration

Review the list of items below and provide feedback.

- Conduct Oversight Visits to each Administering Entity at least every other year (approximately 24 visits are planned for 2014).
- Implement the pilot program for the RAB observations and the new engagement-level oversights (pending approval)
- Consider the timing of Oversight Visits to each Administering Entity.
- Review and approve comments on desk reviews of system and engagement reviews selected for oversight.
- Evaluation of the desk review oversight process.
- Review and update the Oversight Handbook as necessary.
- Communicate changes to pertinent groups regarding changes adopted by the Peer Review Board or other task forces.
- Review reviewer performance issues and requests for national suspension.

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- Maintain National RAB listing, including approval of SOC specialists.
 - Issue Annual Report on Oversight.



Peer Review Program