
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
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American Institute of Certified Public Accountants
220 Leigh Farm Road, Durham, NC 27707-8110
or PR_expdraft@aicpa.org**

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CONTENTS

Peer Review Board

Letter from the Chair of the Peer Review Board	2
Peer Review Board Members.....	3
Non-Board Standards Task Force Members	3
AICPA Staff.....	3

Explanatory Memorandum

Introduction	4
Background.....	4
Comment Period	4
Explanation of Proposed Changes	5
Guide for Respondents	5
Effective Date.....	5

Proposed Revisions

Peer Review Standards	6
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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 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.

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,

A handwritten signature in black ink that reads "Rick Reeder".

Richard W. Reeder
Chair
AICPA Peer Review Board

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Rachelle Drummond
Technical Manager
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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.