

New Peer Review Standards for the New Year Changes to take effect January 1, 2009

By Emily P. Walker

If you or your firm is enrolled in the Peer Review Program of the American Institute of CPAs (AICPA)/Virginia Society of CPAs (VSCPA), or the Center for Public Company Audit Firms (CPCAF) Peer Review Program, important changes are approaching.

Recent revisions to the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)* and the *Peer Review Standards Interpretations (Interpretations)* will affect you, so be sure you understand these changes before the commencement of your next peer review.

The revisions:

- Create one set of standards and interpretations by merging the AICPA Peer Review Program and CPCAF Peer Review Program
- Are principle-based *Standards* with guidance in the *Interpretations*
- Reengineer the reporting process to be more understandable and transparent

The revisions were approved by the AICPA Peer Review Board at its October 3, 2007, meeting. All peer reviews of firms or individuals commencing on or after January 1, 2009, are subject to the new *Standards* and *Interpretations*. Early implementation is not permitted.

Single set of principle-based standards

The revisions create one set of standards and interpretations for all members subject to peer review. They also establish the National Peer Review Committee, which will administer the Program at the AICPA for those peer reviews previously performed under the CPCAF Peer Review Program.

With the establishment of the Public Company Accounting Oversight Board (PCAOB), the SEC Practice Section (SECPS) Peer Review Program morphed into the CPCAF Peer Review Program and eliminated the need to review firms' SEC issuer practices. As a result of this change, there was no longer any need to have two separate practice-monitoring programs because they essentially focused on the same services performed under the same professional standards.

While the programs have been merged, it was still apparent that, due to the limited availability of technical reviewers and reviewers with experience and knowledge of PCAOB standards and audits of non-SEC issuers performed pursuant to those standards, reviews of firms performing such work would still need to be administered by a national peer review body, the National Peer Review Committee.

In addition, the *Standards* have been reformatted to be more principle-based and thus more applicable to a diverse population of users by providing an overarching framework for the Program with detailed guidance built into the *Interpretations*. This will also allow the Peer Review Board to be more responsive to user feedback and make the *Standards* more evergreen.

Reporting

One of the biggest criticisms of the current and previous *Standards* is the lack of understandability of reports. Therefore, the revised *Standards* have a completely reengineered reporting model. In addition to clearly designating the type of peer review performed, the new model is shorter, easier to understand and includes a reference to a "plain English" description of the nature, objectives, scope, limitations of and procedures performed on the peer review. The grading has been revised from Unmodified, Modified and Adverse to Pass, Pass with Deficiencies and Fail, respectively, which is clearly indicated within the report.

Also, a separate letter of comments has been eliminated. Findings previously included in the letter of comments will still be communicated to reviewed firms through other means. However, because such

findings should not be significant enough to affect the grade of report issued, it was determined that they would not need to be included in the reporting model. Findings significant enough to affect the disposition of the report would be included as deficiencies or significant deficiencies within the report, and only appear in reports graded as Pass with Deficiencies or Fail. The following terms have been defined within the *Standards* to assist with the grading process: finding, matter, deficiency and significant deficiency.

Due to the need to improve the reporting process and make it more understandable, Report Reviews have been folded into Engagement Reviews. Changes have been made to the review process for Engagement Reviews with respect to the review of compilation engagements. The reviewer evaluates the firm's documentation required by professional standards by reviewing background and engagement profile information, representations made by the firm, and inquiries, rather than reading the actual documentation.

Previously, all engagements reviewed as part of an Engagement Review included reading the financial statements or information submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations and the applicable documentation required by professional standards.

Additional allowances have been made for all Engagement Reviews to permit those without any issues warranting committee consideration, i.e. when no Matter for Further Consideration (MFC) forms have been issued, to be accepted by technical reviewers on behalf of the committee within 60 days of the administering entity's receipt of the review and working papers from the firm's review captain.

Additionally, firms with Quality Control Materials (QCM) or Continuing Professional Education (CPE) programs that they intend to sell or distribute may elect (or be required in certain circumstances) to have an independent review of their system of quality control for the development and maintenance of such programs. Such reviews will be administered by the National Peer Review Committee.

Administration

Modifications have been made to the report acceptance and document retention timelines. System Reviews should ordinarily be presented to a report acceptance body within 120 days of the later receipt by the administering entity of the working papers and peer review report from the team captain or, if applicable, the report with a peer review rating of Pass with Deficiencies or Fail and the related letter of response from the reviewed firm.

Engagement Reviews not requiring committee consideration should be accepted within 60 days of the administering entity's receipt of the review report and working papers from the review captain. All other Engagement Reviews should ordinarily be presented under the same criteria as those outlined for System Reviews. The document retention period following the acceptance and completion of a peer review has been increased from 90 to 120 days to align with Federal Deposit Insurance Corporate Improvement Act (FDICIA) requirements.

Document submission requirements for firms that receive review reports with a grade of Pass have been changed to remove the requirement for the firm to independently submit a copy of the review report. The reviewer's submission of the review report with the working papers will suffice.

The reviewer on an Engagement Review will now be called a "review captain" to avoid confusion with other members of review teams. Qualifications for service as a reviewer have been changed to allow for when the function of the reviewer is other than the review of engagements, such as the performance of interviews of the review of functional areas, and the reviewer is not required to complete a reviewer training course. Previously, Engagement Reviews were performed by one reviewer. Under the new *Standards*, a review team can be formed for Engagement Review under appropriate circumstances, such as the training of a new reviewer by a review captain.

Finally, the new *Standards* include a mechanism to help firms comply with state board of accountancy requirements by allowing firms to give permission to administering entities to post their results to a secure state board-only access website.

For more information, visit the “Peer Review” section at www.vscpa.com, or to read the *Standards* in their entirety, visit www.aicpa.org/members/div/practmon/pr_stds.htm.

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A History of Peer Review

In 1988, members of the American Institute of CPAs (AICPA) and Virginia Society of CPAs (VSCPA) approved a bylaw amendment requiring all members in public accounting to practice with a firm enrolled in an approved practice-monitoring program. At the time, these firms had a choice between among three programs: the AICPA Quality Review Program (established and conducted in cooperation with the state CPA societies) or peer review programs within the two voluntary membership sections of the AICPA Division for CPA firms — the AICPA Alliance for CPA Firms (PCPS) and Securities & Exchange Commission Practice Section (SECPS).

Since that time, many additional changes have occurred. A 1990 amendment mandated that members practicing public accounting with firms that audited one or more SEC clients must be members of the SECPS, and thus participate in the SECPS Peer Review Program. [The SECPS Peer Review Program was later reconstituted as the Center for Public Company Audit Firms (CPCAF) Peer Review Program following the formation of the Public Company Accounting Oversight Board (PCAOB).] In 1994, the PCPS Peer Review Program and the AICPA Peer Review Program were merged to become the AICPA Peer Review Program, with the AICPA Peer Review Board acting as the senior technical committee.

In 1998, the Peer Review Board began a two-phase initiative to reevaluate the validity and objectives of the Program to enhance the quality of accounting and auditing practices of public accounting firms and to recognize the protection of public interest as a program objective. Phase I focused on off-site peer reviews and resulted in the three-tiered approach to peer review (system, engagement and report reviews) as opposed to the previous two-tiered approach (on-site and off-site). Phase II of the project reevaluated system reviews. The resulting revisions went into effect January 1, 2005.

Shortly thereafter, the AICPA conducted an online poll of the Program’s users. In response to the feedback collected by the poll, the AICPA Board of Directors Peer Review Task Force was created in May 2005. The Task Force issued a report of recommendations to enhance the Program in February 2006, available online at www.aicpa.org/download/transparency/BOD_TF_Report.pdf.

In addition, a Joint Peer Review Task Force was created in 2004 by the AICPA Peer Review Board and CPCAF Peer Review Committee to evaluate if and how the two peer review programs could be merged together. The two task forces recommended to a.) merge the two peer review programs; and b.) reengineer the reporting process to be more understandable and usable.

Before making widespread changes to the *Standards* and *Interpretations*, the AICPA Peer Review Board issued an exposure draft on April 16, 2007, and considered all comments received through June 30, 2007. On October 3, 2007, the Board approved revisions to the *Standards* and *Interpretations*, including revisions based on feedback from the comment period.

Virginia Society of CPAs

All peer reviews for firms and individuals enrolled in the AICPA Peer Review Program on or after January 1, 2009, are subject to the new *Standards and Interpretations*.