

June 2015 Regional Meetings

# Peer Review - Yesterday, Today and Tomorrow

Daniel J. Dustin, NASBA Vice President – State Relations

Janice L. Gray, Chair – Compliance Assurance Committee

W. Michael Fritz, Chair – Regulatory Response Committee

## Focus on Employee Benefit Plan (EBP) Auditors

- In 2013, DOL asked AICPA to confirm that 4,918 audit firms participated in peer review.
- AICPA staff was becoming increasingly aware that firms were failing to:
  - Enroll in peer review;
  - Have the appropriate type of peer review (system v. engagement);
  - Report “must select” engagements to their peer reviewer.

# AICPA System Review Report With “Must Selects”

## Excerpt from a Report With a Peer Review Rating of *Pass* in a System Review

*[Firm letterhead for a firm-on-firm review; team captain’s firm letterhead for an association formed review team.]*

### System Review Report

October 31, 20XX

To the Partners of *[or other appropriate terminology]*

XYZ & Co.

and the Peer Review Committee of the *[insert the name of the applicable administering entity]*

\* \* \*

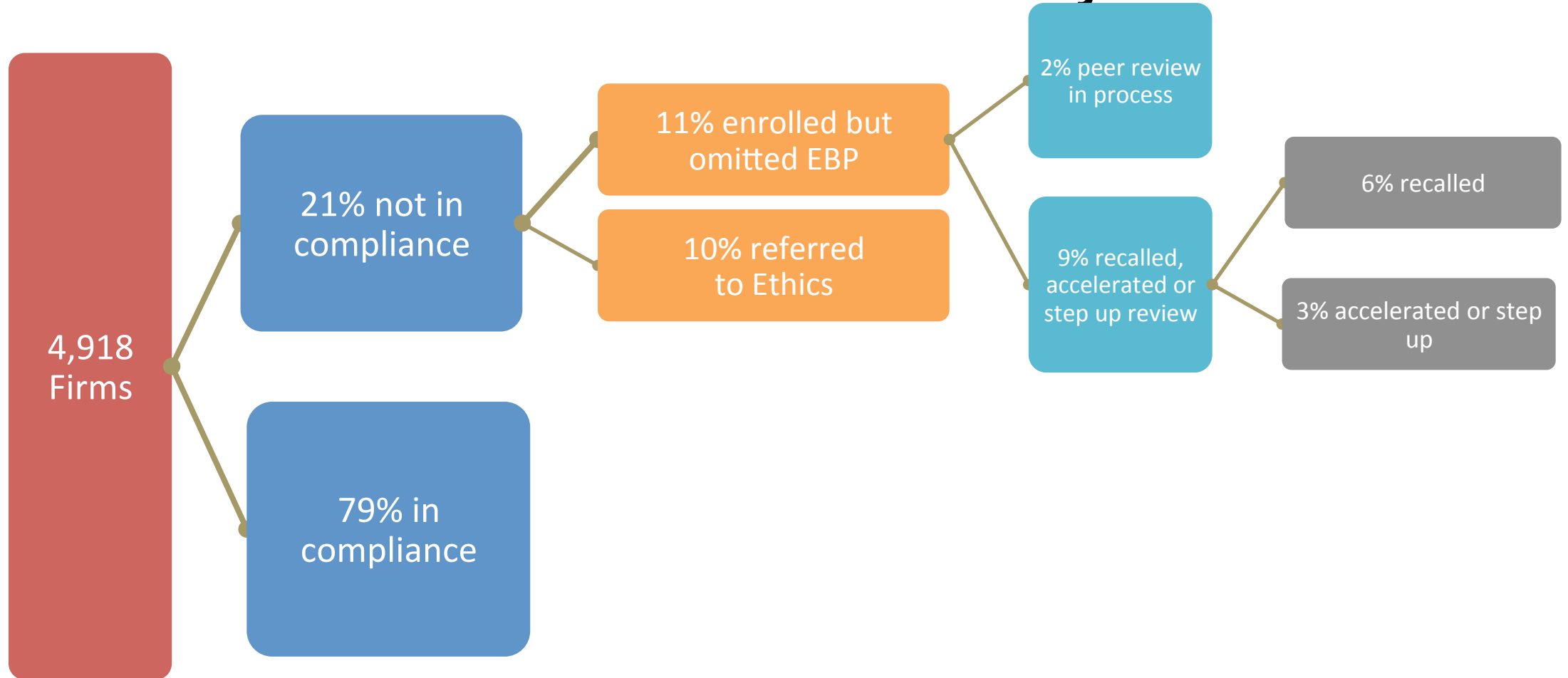
As required by the standards, engagements selected for review included (engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, audits of carrying broker-dealers, and examinations of service organizations [*Service Organizations Control (SOC) 1 and 2 engagements*]).

\* \* \*

# DOL Project

- AICPA staff analysis determined that EBP audit firms:
  - Failed to identify EBP engagements in their last system review;
  - Had an engagement review and failed to have a “step-up” review when it performed an audit (EBP engagement was the firm’s first audit);
  - Had been annually filing a “no A&A letter” attesting that the firm performed no A&A engagements.

# DOL Peer Review Project



# State Board Actions

- Dependent on state statute:
  - Location of sponsor
  - Jurisdiction where audit was performed.
- Verify firm's registration:
  - Administrative warning – register and bring into compliance with warning
  - Firm discipline, including sanctions.
- Verify firm's compliance with jurisdiction's peer review statute:
  - Administrative warning
  - Ethics violation
  - Sanctions.

# Peer Review - Changes

# Actions to Strengthen Firm Quality

- Licensure Verification
  - Firm's license
  - Individual licenses



# Actions to Strengthen Firm Quality

- Engagement Listing Completeness
  - Enhanced warning to firms
  - Revised representation letter to peer reviewer
  - When future misrepresentations occur -
    - Report recalled (with State Board notification)
    - Hearing panels determines termination or replacement review
    - Re-enrollment subject to approval of second hearing panel
    - Annual “no A&A letter” misrepresentations
  - Use of publicly available databases to match firms

# Actions to Strengthen Firm Quality

- SSARS 21 (effective May 5, 2015)
  - If firm only performs preparation engagements, not required to enroll in peer review.
  - If enrolled, engagements are in scope.
  - Allows enrollment when State Board regulations require peer reviews of firms performing preparation engagements.

# Actions to Strengthen Firm Quality

- Consecutive Pass With Deficiency or Fail Reports (effective Jan. 1, 2015)
  - Mandatory assessment of referral to hearing panel for two consecutive non-pass reports.
  - Presumptively mandatory referral to hearing panel for two consecutive fail reports.
  - Mandatory referral to hearing panel for three consecutive non-pass reports.

# Actions to Enhance Reviewer Quality

- 2014/2015 Pilot
  - Subject matter experts engaged.
  - 90 reviews selected, all “surprise.”
  - Engagements reviewed at subject matter experts’ offices.
  - Experts reviewed engagements prior to acceptance by the Report Acceptance Body.
  - Results.
  - Poor performing reviewers subject to corrective action or removal.

# Actions to Enhance Reviewer Quality

- 2015/2016 Expansion
  - Larger sample.
  - Focus expanded to root cause analysis in addition to reviewer performance.
  - Some oversights will be performed at reviewed firm's location.

# Actions to Enhance Reviewer Quality

- Reviewer Performance (effective Dec. 31, 2015)
  - Practicing the last five years in public accounting.
  - Have experience at the level they review.
  - Meet additional qualifications for must-select engagements.
  - Maintain certain levels of performance.

# Actions to Enhance Reviewer Quality

- Reviewer Qualifications (effective May 5, 2016)
  - Complete on-demand training with competency assessment before becoming a team captain.
  - Complete annual on-demand training with competency assessment.
  - Must-select reviewers must also complete on-demand training with competency assessment in the must-select areas they review.

## Items Under Consideration

- Strengthening peer review approach to evaluating the design of a firm's system of quality control.
- Enhancing requirements for corrective action when certain non-conforming engagements detected during peer review (regardless of report grade).
- Streamlining removal of firms that fail to properly complete required corrective actions.



# Peer Review - Of Tomorrow

# Future Peer review

- We are at a crossroads.
- We can continue down the road doing what we have done in the past.
- Or we can go down a new path and embrace change.



## Future of Peer Review

- *Enhancing Audit Quality-Plans and Perspectives for the U.S. CPA Profession* “EAQ discussion paper” released for comment in May 2014
  - *How the AICPA plans to Enhance Audit Quality 6 point plan* issued May 2015
- *Evolving the CPA Profession’s Peer Review Program for the Future concept paper* “the Concept Paper” released for comment December 15, 2014

## Key Items in NASBA Comment Letter on EAQ

- Supported AICPA efforts to improve audit performance and quality
  - Reinforce importance of due care, competence and diligence.
  - Enhanced audit quality control standards, including consideration of EQCR for all attest engagements and increased focus on specific industries (EBP, government, banking, insurance, construction and real estate).
  - Enhancing curricula, content and methods of instruction to support the major topical areas the profession serves.

# Key Items in NASBA Comment Letter on EAQ

(continued)

- Enhancing the quality of peer reviews, including minimum competency levels for must select engagement reviewers and oversight of peer reviewers.

# Future of Practice Monitoring AICPA Concept Paper



# NASBA Feedback on Concept Paper

- Feedback letter issued June XX, 2015
  - Enhancing the quality of peer review is a critical element to any changes in practice monitoring.
  - Support the use of engagement quality indicators for a firm’s internal system of monitoring quality control.
  - Have concerns over how some of the proposals would impact non-AICPA member firms and how electronic information could be “standardized.”

## NASBA Feedback on Concept Paper (continued)

- Need to understand how the system is monitored. State Boards need to continue to receive firm results as part of their regulatory process.
- Peer reviews can only be effective and succeed if their work is supported by appropriate consequences and an effective enforcement mechanism.