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

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]).

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AICPA Standards for Performing and Reporting Peer Reviews, Appendix C, PRP§1000.209 (Jan 2014)
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

4,918 Firms

- 79% in compliance
- 21% not in compliance

11% enrolled but omitted EBP

10% referred to Ethics

2% peer review in process

9% recalled, accelerated or step up review

6% recalled

3% accelerated or step up
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.”
NASDAQ 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.