

# PRP Section 3200

## *Peer Review Alerts*

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### NOTICE TO READERS

Peer Review Alerts (Alerts) are developed in open meetings by the AICPA Peer Review Board for peer reviews of firms enrolled in the AICPA Peer Review Program. Alerts need not be exposed for comment and are not the subject of public hearings. This guidance is applicable to firms (and individuals) enrolled in the program; individuals and firms who perform and report on peer reviews; entities approved to administer the peer reviews; associations of CPA firms whose members are also AICPA members, authorized by the board to assist its members in forming review teams; and the AICPA program staff. The guidance is effective upon issuance unless otherwise indicated.

Alerts communicate timely information regarding the AICPA Standards for Performing and Reporting on Peer Reviews (*Standards*) and related guidance, as well as updates on the peer review environment.

The Alerts supersede and replace the previous Peer Reviewer's Alerts which have mostly been incorporated into the *Standards* and related guidance. In addition, the process to maintain them will be different.

As new articles are issued quarterly by the Board, they are added to a "New Alerts" Section of the Alert. Annually, the Board will evaluate which articles are to be excerpted and incorporated into the *Standards* and related guidance. Articles that are of a transitional nature, are not appropriate to be incorporated into the *Standards* and guidance, or both, will remain in the Alert. Each previous version of the Alert will be archived on the peer review Web site, and the more relevant version will be issued.

**(Issued Through March 1, 2010)**

## NEW ALERTS

### **Process to Incorporate Peer Review Alerts to Standards/Guidance Where Applicable**

As described in the Notice to Readers in the Peer Review Alerts (Alerts), alerts communicate timely information regarding the AICPA Standards for Performing and Reporting on Peer Reviews (*Standards*) and related guidance, as well as updates on the peer review environment. Alerts are issued approximately quarterly and distributed to peer reviewers and posted to the Program's website.

Periodically, the Board will evaluate which articles are to be incorporated into the *Standards* and related guidance. Articles that are of a transitional nature, are not appropriate to be incorporated into the *Standards* and guidance, or both, are added to Section 3200 Peer Review Alerts, which is a consolidation of previously issued alerts. Each previous version of the Alert will be archived on the peer review Web site, and the more relevant version will be issued. Peer Review Alert guidance is effective upon issuance as an Alert, unless otherwise indicated.

Peer Review Alert articles issued through January 1, 2009, and April, June and October Peer Review Alerts, have been reevaluated. As a result, the following changes have been made and incorporated into the Peer Review Program Manual:

#### PRP Section 1000 AICPA Standards for Performing and Reporting on Peer Reviews

- Conforming changes to Engagement Review reports at Appendixes M-Q (to address Alert article "Correction to Engagement Review Report Wording")
- Conforming changes to System Review reports at Appendixes C-E, G, I and K (to address Alert article "Peer Review Reports of Firms Required to be Registered and Inspected by the PCAOB")

#### PRP Section 2000 Peer Review Standards' Interpretations

- Addition of Interpretations 1-4, 31c-1, 42-2, 53-1, 59-3, 165-1, 169-1 & 2 and 179-1.
- Changes to existing Interpretations 34-1 to 3, 63-1, and 181-1b-1 & 2

PRP Section 3100 Supplemental Guidance

- Addition of articles entitled:
  - Non-SEC Issuer Entities Subject to SEC and PCAOB Independence Rules
  - QCM Peer Reviews
  - Selection of an A-133 Engagement for Review of Compliance Testing

PRP Section 3200 Peer Review Alerts

- Articles which were regulatory, administrative, oversight or transitional have been incorporated into those sections of this document.

PRP Section 3300 Report Acceptance Body Handbook

- Changes to Chapters 1 and 8 related to “Other Peer Reviewer or Reviewing Firm Qualification Considerations”
- Changes to Chapters 4 and 5 related to the reporting process, and to implementation plans

PRP Section 3600 Guidance for Writing Letters on Corrective Actions by Outside Parties

- New section

As a result of the Alert articles, several conforming changes have also been made to the Team Captain and Review Captain Checklists and the Instructions for Use of Matter for Further Consideration (MFC) Forms for Engagement Reviews and Instructions for Use of Findings for Further Consideration (FFC) Forms for Engagement Reviews.

## REGULATORY ALERTS

### **Attestation Engagements Performed in Accordance With Generally Accepted Government Auditing Standards (GAGAS/Yellow Book)**

Yellow Book states that each organization performing attestation engagements in accordance with GAGAS must establish a system of quality control that is designed to provide reasonable assurance that it and all its personnel comply with professional standards and applicable legal and regulatory requirements, and have an external peer review at least once every three years.

The organization should obtain an external peer review sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed organization’s system of quality control was suitably designed and whether the organization is complying with its quality control system in order to provide the organization with reasonable assurance of conforming with applicable professional standards.

Therefore, if a firm enrolled in the AICPA Peer Review Program (PRP) only performs attestation engagements (in accordance with GAGAS), as its highest level of service, the firm is required to have a system review. Although some of the language in Yellow Book has recently changed, this is not a new requirement, and the *Standards for Performing and Reporting on Peer Reviews* were previously revised to reflect that firms performing “engagements” (not just “audits”) in accordance with GAGAS are required to have a system review.

### **Governmental Audit Quality Continues to Be a Concern**

As noted in last year’s Peer Review Alert, a federal study on the quality of audits performed under OMB Circular A-133 was issued June 22, 2007. The report, titled *Report on National Single Audit Sampling Project* (the PCIE report), was issued by the President’s Council on Integrity and Efficiency (PCIE) and addressed to the OMB. The PCIE report clearly shows that improvements are needed in many areas. Both peer reviews and AICPA Professional Ethics Division (PED) investigations of audit organizations have previously indicated that there are problems in audits performed under *Government Auditing Standards* (GAS) and Circular A-133.

The PCIE Report

Overall, the federal study had two goals: (1) to determine the quality of single audits and establish a statistically based measure of audit quality; and (2) to recommend changes in single audit requirements, standards and procedures to improve the quality of single audits. The scope did not include a review of the content of, or the audit work

performed, related to the general-purpose financial statements, the auditor's opinion on those statements, or the auditors' review of internal control over financial reporting. To accomplish its goals, the PCIE conducted quality control reviews (QCRs) of a statistical sample of 208 audits randomly selected from approximately 38,000 audits submitted and accepted by the Federal Audit Clearinghouse between April 1, 2003 and March 31, 2004. The sample was split into two strata. Stratum I included audits of entities that expended \$50 million or more of total federal expenditures. Stratum II included audits of entities that expended at least \$500,000 but less than \$50 million of total federal expenditures.

The results are presented in the report in varying ways and using different breakdowns and tables. Overall though, 35% of the audits reviewed were found to be unacceptable and another 16% were of limited reliability. In addition to providing the results by the number of audits looked at, the PCIE also analyzed the results in relation to the dollar amounts of federal awards reported in the audits reviewed. One piece of good news in the report was that approximately 93% of the federal dollars reported in the audits reviewed were covered by acceptable audits. This difference exists because the PCIE report shows a marked positive difference in the quality of the work performed in the larger audits in Stratum I.

### What's Next?

The issuance of the PCIE report is not the end of the story. There was a Senate hearing on the PCIE report last October and the AICPA and various federal agencies have efforts underway in response to the report. The AICPA and its Governmental Audit Quality Center (GAQC) have formed 7 task forces to study in detail the PCIE report findings and recommendations and to work with the OMB, the Inspectors General (IGs) and other interested parties in order to provide additional guidance to help members achieve the highest standards in performing quality governmental audits. Each task force is in the process of carefully studying the issues raised in the PCIE report. The task forces are:

1. Sampling/Materiality Issues in a Single Audit Environment
2. Internal Control and Compliance Responsibilities in a Single Audit Environment
3. Schedule of Expenditures Federal Awards Reporting Issues
4. Reporting Audit Findings in a Single Audit
5. Single Audit Training Needs and Continuing Professional Education Evaluation
6. Practice Monitoring in a Single Audit Environment
7. Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance

Most of the AICPA task forces are expected to complete their activities during 2009, the result of which will likely include a revised compliance auditing standard, new or clarified guidance in the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*, and new illustrative practice aids. You should note that task force #6 previously mentioned falls under the jurisdiction of the AICPA Peer Review Board (PRB). It was established to develop ways in which the peer review process can aid in enhancing the quality and performance of Circular A-133 audits by member firms. The Task Force is in the first phase of its work, having recently met with the various federal agencies that perform QCRs to help the AICPA better understand the QCR processes across federal agencies and to assist the IGs in better understanding the peer review process. The Task Force will be reporting its progress at the November 2008 meeting of the PRB and anticipates presenting specific recommendations for actions at the Board's January 2009 meeting so that its recommendations can be implemented in the performance of 2009 peer reviews.

The OMB has also established 8 of its own task forces to look at various issues associated with the PCIE report. The work of these task forces may result in proposed revisions to Circular A-133 sometime later in 2008 or in 2009 (e.g., the OMB may propose required additional single audit training and a related curriculum). The Government Accountability Office (GAO) has also received a Senate request to further study the single audit process in light of the PCIE report results. That study is underway and may continue into 2009.

Finally, the IGs at various federal agencies have stepped up the number of QCRs that they are performing. From the standpoint of these federal users, single audits conducted are a key accountability mechanism for the expenditure of taxpayer dollars. Consequently, the PCIE report has caused an increase in concern about the quality of the audits that the agencies rely upon.

The GAQC is a good information source for both Center members and non-members to keep abreast of developments in this area. Watch the GAQC Web site ([www.aicpa.org/GAQC](http://www.aicpa.org/GAQC)) for further updates.

### What Can Peer Reviewers Do?

Peer reviewers that review single audits should first and foremost review the PCIE report in detail to gain a strong understanding of the numerous problem areas that were identified. Further, they should review Appendix A to this article which includes a summary of common deficiencies that were noted. Finally, the GAQC is a great resource for firms that perform governmental audits (including single audits) and their peer reviewers. Appendix B to this article provides more information on the GAQC and how to join or get more information.

## Appendix A

### Common Deficiencies Identified in the PCIE Report

*Materiality.* In single audits, the auditor must consider his or her findings in relation to each major program, which is a significantly lower materiality level than all programs combined. In some of the audits reviewed, the auditor did not document whether he or she considered materiality at the individual major program level.

*Internal Control.* The report found that in many single audits, auditors are not documenting their understanding of internal control over compliance as required by A-133 §.500(c)(1) in a manner that addresses the five elements of internal control. Further, the report stated that auditors did not document testing internal control of at least some compliance requirements as required by A-133 §.500(c)(2).

*Compliance.* The report stated that in some audits, auditors are not documenting compliance testing of at least some compliance requirements. For most audits considered unacceptable, the lack of documentary evidence for compliance testing was substantial. They found that the audit documentation did not always include evidence that the auditor tested major program compliance requirements or explain why certain generally applicable requirements identified in the OMB *Compliance Supplement* were not applicable to the audit.

Also, in some cases the auditor documented that types of compliance requirements identified as generally applicable to the major program in Part 2 of the OMB *Compliance Supplement* were not applicable (e.g., by only marking “N/A” next to the item in an audit program) but did not explain why.

*Material Reporting Errors.* Auditors misreported coverage of major programs. This occurred when the Summary of Auditor Results section of the Schedule of Findings and Questioned Costs identified that one or more major programs were audited as a major program when the audit documentation did not include support for all of the programs listed. Though inadvertent, this is a very consequential error because report users may erroneously rely on opinions that major programs have been audited as major.

*Sampling.* The PCIE report notes inconsistent numbers of transactions selected for testing of internal control and compliance testing for the allowable costs/cost principles compliance requirement across the audits that they reviewed. Also, many single audits did not document the number of transactions and the associated dollars of the universe from which the transactions were drawn.

*Risk Assessments of Federal Programs.* The report cited the following kinds of deficiencies in risk assessments of federal programs:

- Required risk analyses were not documented at all;
- The basis for the assessments of risk was not documented;
- The documentation indicated that the risk assessment was not performed or not properly performed for reasons including: not considering all programs, improperly clustering programs, not clustering programs, or mistakenly categorizing a program as Type A or as Type B; and
- The risk assessment decision was not consistent with information in the audit documentation.

*Apparent Audit Findings Not Reported.* In this scenario, the audit documentation or management letter content included matters that appeared to be audit findings. However, they were not reported as audit findings and there was no audit documentation explaining why.

*Audit Finding Elements.* A significant percentage of the audits reviewed in both strata, did not include all of the required reporting elements in the audit findings.

*Schedule of Expenditures of Federal Awards (SEFA) Problems.* For many audits reviewed, one or more of the following required SEFA content items were omitted. The report acknowledges that SEFA preparation is a client responsibility but that the auditor reports on the SEFA in relation to the financial statements and that the information in the SEFA is key to major program determination.

- Subgrant awards numbers assigned by pass-through entities not included
- Names of pass-through entities missing
- Grantor Federal agency names missing
- Grantor Federal agency subdivision names missing
- Multiple lines for Catalog of Federal Domestic Assistance (CFDA) numbers shown—total expenditures for CFDA not shown
- Programs that are parts of a cluster not shown as such
- Notes to SEFA missing
- Correct CFDA number; and
- Research and Development (R&D) programs not identified as such

*Management Representations.* For several audits, some or all of the management representations (identified in the AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*), were not obtained. In a few other cases, the management representations were obtained several days prior to the dates of the auditor's reports.

*Other Findings.* Numerous other findings were noted, primarily attributed by the reviewers as being caused by a lack of due professional care. They include the following:

- Low-risk auditee determination not documented or incorrect
- Minimum Percentage of Coverage requirement not met
- Audit programs missing or inadequate for part of the single audit
- Part of a major program or a major program cluster not tested
- The Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs was missing some information or some information was erroneous
- Error in threshold distinguishing Type A and Type B programs
- Indications that current compliance requirements were not considered

## **Appendix B**

### **AICPA Governmental Audit Quality Center**

The AICPA Governmental Audit Quality Center (GAQC) is a firm-based, voluntary membership Center with the goal of enhancing and promoting quality governmental audits. Governmental audits include all audits performed under *Government Auditing Standards* such as single audits and financial statement audits of governments and not-for-profit organizations; audits performed under federal audit guides such as the Housing and Urban *Development Consolidated Audit Guide* and various Department of Education Audit Guides; and other grant and assistance program audits.

The Center has almost 1,100 members in all 50 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. Center members audit over 82% of the federal expenditures audited in single audits performed by CPA firms. The GAQC helps firms meet the challenges of performing quality audits by keeping members informed about the latest developments, as well as providing tools and information to help better manage a firm's governmental audit practice.

*Center Resources and Benefits.* Center resources include timely e-mail news alerts on current governmental audit, accounting and regulatory developments; a dedicated Center Web site at [www.aicpa.org/GAQC](http://www.aicpa.org/GAQC); CPE member-only teleconferences on a variety of technical, regulatory and practice management subjects; and an online discussion forum for networking and sharing best practices. Other resources and benefits include helpful practice aids, tools, articles, and savings on professional liability insurance.

*Center Requirements.* Among the GAQC membership requirements, Center members must designate a partner responsible for governmental audit quality that must also attend an annual 2-hour Center-sponsored Webcast; establish policies and procedures specific to the governmental audit practice; conduct annual internal inspections of their governmental audits; maintain their peer review report in a public file; and have their governmental audits selected in peer review reviewed by individuals employed by a Center member firm. Center members also must pay annual dues, which start at \$150 per year for a firm with fewer than 10 CPAs.

*GAQC Members Find Great Value in Their Membership.* Overwhelmingly, Center members report high satisfaction with their Center membership. One of the most liked aspects of the Center is the timely information on matters of importance to governmental audits that assist member firms in enhancing the quality of their governmental audit practices. To join, or for more information about the GAQC, visit the Center Web site at: [www.aicpa.org/GAQC](http://www.aicpa.org/GAQC); or call 202-434-9207.

## Recent 403(b) Regulatory Changes and the Effect on Future Peer Reviews

Under U.S. Department of Labor (DOL) regulations issued on November 16, 2007, retirement plans sponsored by charitable organizations and schools under Internal Revenue Code section 403(b) and covered under the Employee Retirement Income Security Act of 1974 (ERISA) will be subject to the same reporting and audit requirements that currently exist for section 401(k) plans.

ERISA-covered 403(b) plans with 100 or more participants generally will be required to file audited financial statements beginning with their 2009 Form 5500 filing. 403(b) plans with fewer than 100 participants may be eligible to use abbreviated reporting forms without audited financial statements. The DOL estimates that approximately 7,000 “large” 403(b) plans will be subject to the new audit requirements and another 9,000 “small” 403(b) plans may be eligible to use the abbreviated reporting forms.

Reviewers should be aware of the effect of this change on the practices of the firms they peer review, especially on the risk assessment and engagement selection processes.

## DOL’s ERISA Audit Quality Enforcement Initiative

The Department of Labor’s (DOL) Employee Benefits Security Administration (EBSA) has an ongoing enforcement initiative to monitor the quality of ERISA audits. The audit quality program is administered by the EBSA’s Office of the Chief Accountant. The DOL will reject the Form 5500 filing where it has been determined that an audit failure has occurred, and may refer substandard work to the AICPA’s Professional Ethics Division or the appropriate State Board(s) of Accountancy. The DOL’s audit quality monitoring program has a three-tiered approach as described subsequently.

- *“Augmented workpaper reviews” of firms that perform less than 100 ERISA audits.* The DOL randomly select audits to review and sends letters to the plan administrator requesting copies of the audit working papers. The DOL has completed over 1,500 of these “augmented workpaper reviews” since the 2003 plan year. The DOL performs an in-house review of the Form 5500, the independent auditor’s report, and selected working papers for each of those engagements. Those reviews can be expanded to include additional working paper reviews, discussions with firm representatives, and any additional procedures deemed necessary based on the findings of the initial reviews.
- *“Mini-inspections” of firms that perform between 100 and 200 audits.* The DOL will perform a “mini-inspection,” whereby the DOL will send letters to the audit firm’s managing partner requesting them to complete a Firm Inspection Program Questionnaire and submit a list of their ERISA audit engagements. The DOL will review the completed questionnaire and select several ERISA audits to perform an in-house review of the Form 5500, the independent auditor’s report, and selected working papers for each engagement. The “mini-inspections” could be expanded to include additional working paper reviews, discussions with firm representatives, and any additional procedures deemed necessary based on the findings of the initial reviews. For all reviews, the DOL will conduct a closing conference either by phone or in person to discuss the results of the inspection.
- *“Inspections” of firms that perform over 200 ERISA audits.* The DOL will send a letter to the audit firm’s managing partner to schedule an onsite inspection of that firm’s ERISA audit practice. This inspection will include completing the Firm Inspection Program Questionnaire and reviewing selected audit working papers. The engagements selected will be representative of the offices that perform ERISA engagements, as well as the types of ERISA audits performed by the firm. The firm inspection will conclude with a closing conference between the DOL representative and the appropriate firm personnel.

## What Can Peer Reviewers Do?

Peer reviewers that review ERISA benefit plans could review the summary of common ERISA audit deficiencies, which follow. Also, the Employee Benefit Plan Audit Quality Center (EBPAQC) is a great resource for firms that perform employee benefit plan audits and their peer reviewers. In subsequent sections, we also provide more information on the EBPAQC and how to join or get more information.

## Common ERISA Audit Deficiencies

The following are the more common audit deficiencies noted in DOL reviews and AICPA peer reviews.

- Planning
  - Inadequate audit planning.
  - Failure to assess the risk of material misstatement due to fraud.
- Internal Controls
  - Failure to document an understanding of internal controls, most often when a substantive audit is going to be performed.
  - Inadequate use of service organization control (SOC) 1 reports; lack of testing when SOC 1 report is obtained.
- Contributions
  - No audit work performed.
  - Particularly multiemployer plans, failure to obtain adequate audit evidence for contributions back to contributing employers (multiemployer plans). Reliance on contribution reports is not enough.
- Insufficient payroll audit procedures
  - Failure to test elective deferrals.
- Investments
  - No work performed.
  - Failure to test end of year values.
  - Failure to properly test year end values, particularly hard-to-value assets.
  - Improper use of limited scope certifications.
- Benefit payments
  - No audit work performed.
  - Inadequate auditing regarding eligibility of claims to be covered by the plan.
- Participant data
  - Insufficient testing of payroll data.
  - Failure to test eligibility, forfeitures, and allocations.
  - In defined contribution plans with limited scope audits, failure of auditors to test the allocation earnings and gains/losses to participant accounts.
  - Sample sizes too low.
  - Some firms have reduced their sample sizes selected for compliance and substantive testing to unacceptably low levels.
- Working paper documentation
  - Adequacy of audit documentation continues to be an issue.
  - Only evidence of audit work having been performed is a sign off on an audit step without any supporting documentation.

## AICPA Employee Benefit Plan Audit Quality Center

The AICPA Employee Benefit Plan Audit Quality Center (EBPAQC) is a firm-based, voluntary membership center with the goal of enhancing and promoting quality employee benefit plan audits. The center has over 1,600 members in all 50 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. The EBPAQC helps firms meet the challenges of performing quality audits by keeping members informed about the latest developments, as well as providing tools and information to help better manage a firm's ERISA benefit plan audit practice.

*Center resources and benefits.* Center resources include timely e-mail news alerts on current EBP audit, accounting, and regulatory developments; a dedicated center Web site at [www.aicpa.org/EBPAQC](http://www.aicpa.org/EBPAQC); CPE teleconference "Live Forums" on a variety of technical, regulatory, and practice management subjects; and an online discussion forum for networking and sharing best practices. Other resources and benefits include online Resource Centers in the areas of 403(b) plan audits, new audit standards, stable value investments, and the Pension Protection Act of 2006; tools and aids to assist members in planning and performing their audits and improving their EBP practice, including a SOC 1 report review checklist, an internal inspection tool, an audit preparedness checklist, tools to help auditors respond to a request for proposal; plan advisories on monitoring TPAs, the importance of internal controls, and valuing and reporting plan investments; and savings on professional liability insurance.

*Center requirements.* Center members must designate a partner responsible for audit quality; establish a program to ensure personnel possess current knowledge of applicable professional standards, rules, and regulations; establish policies and procedures specific to ERISA audits; maintain a minimum amount of CPE training in EBP audits, conduct annual internal inspections of their ERISA audits; maintain their peer review report in a public file; and have audits selected in peer review reviewed by individuals employed by a center member firm. Center members also must pay annual dues, which start at \$150 per year for a firm with fewer than 10 CPAs.

*The EBPAQC is making a difference in audit quality.* Reviews performed by the DOL's EBSA continue to show a difference in the quality of ERISA audits performed by center member firms compared with those performed by nonmember firms. Not only do center member firms have fewer ERISA audit failures, but those failures also tend to be much less severe than those by nonmember firms.

For more information about the EBPAQC, visit the center Web site at [www.aicpa.org/EBPAQC](http://www.aicpa.org/EBPAQC) or call 202-434-9207.

## Auditors of Non-Public Broker Dealers Are Now Required to Register with the PCAOB

As the result of the expiration of an SEC Order, absent further action by the SEC, financial statements of *non-public broker-dealers* for fiscal years ending after December 31, 2008 must be certified by a public accounting firm that is *registered* with the PCAOB.

The SEC Order requiring registration had been originally issued in 2003 under Section 17(e) of the Securities Exchange Act of 1934, but was delayed several times via extensions up to January 1, 2009. In a Statement issued January 9, 2009 available at [http://www.pcaobus.org/News\\_and\\_Events/News/2009/01-07.aspx](http://www.pcaobus.org/News_and_Events/News/2009/01-07.aspx), the PCAOB provided information on how affected firms should now apply for PCAOB registration (also see FAQs on the process at <http://www.sec.gov/divisions/marketreg/faq-pcaobregbdauditors.htm> and [http://pcaob.org/Registration/Staff\\_QAs\\_on\\_the\\_Registration\\_of\\_Broker-Dealers.pdf](http://pcaob.org/Registration/Staff_QAs_on_the_Registration_of_Broker-Dealers.pdf)).

The Statement also noted that "audits of non-public broker-dealers, like other private company audits, are not, under current law, subject to Board inspection and cannot be the basis for Board disciplinary action."

Peer Review Standards' Interpretations require firms to have their peer review administered by the National Peer Review Committee (NPRC) if they are required to be registered and inspected by the PCAOB. Firms not otherwise required to be administered by the NPRC may continue to have their peer reviews administered by state CPA societies, since the Statement only requires *registration* with the PCAOB but not *inspection*. Furthermore, audits of non-public broker-dealers remain in the scope of peer reviews.

The SEC and PCAOB's actions on non-public broker-dealers are subject to change. In fact, on February 26, 2009, Congressman Paul E. Kanjorski (D-PA), Chairman of the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, introduced H.R. 1212, a bill which proposes that the PCAOB have the full authority to inspect, examine, and discipline the auditors of all broker-dealers, not just public broker-dealers (see [http://kanjorski.house.gov/index.php?option=com\\_content&task=view&id=1437&Itemid=1](http://kanjorski.house.gov/index.php?option=com_content&task=view&id=1437&Itemid=1)). We encourage you to monitor the SEC and PCAOB's press releases and orders.

## Required Identification of Review Type on Top of Reports

In an effort to create a new reporting model which improves transparency and understandability, the *Standards* require that the type of peer review report (System Review Report or Engagement Review report) be identified at the top of the report (Paragraphs 96a, 122a and related Appendixes). Reports that do not state the review type at the top of the report cannot be accepted by administering entities.

## ADMINISTRATIVE ALERTS

### Reviewers—Update Your Resume Annually and Advise AICPA Peer Review of Your Correct E-Mail Address

The AICPA peer review team will inform reviewers via e-mail each year that their resumes are to be updated. Reviewers can enter their resume online at [www.aicpa.org/members/div/practmon/index.htm](http://www.aicpa.org/members/div/practmon/index.htm). If a reviewer's resume is not updated or acknowledged within two years, the reviewer will be prohibited from performing peer reviews until the resume is updated.

The AICPA peer review team will send all future correspondence regarding the AICPA peer review program via e-mail. Therefore, it is imperative that all reviewers maintain a current e-mail address on file with the AICPA peer review program. Failure to inform the AICPA peer review team of e-mail address changes may result in not having all the necessary information to perform and report on a peer review in conformity with the *Standards*. If your e-mail address changes, please contact the AICPA peer review team at (919) 402-4502 immediately or send an e-mail to [PeerReviewUpdates@aicpa.org](mailto:PeerReviewUpdates@aicpa.org).

## OVERSIGHT ALERTS

### Comments From Working Paper Oversight

The following is a summary of the most prevalent and recurring comments that have been generated as a result of the most recent working paper oversights performed by AICPA Peer Review Program staff.

#### *Risk Assessment*

The risk assessment does not discuss the firm's system of quality control.

Factors to consider in assessing risk can include the following:

- The relationship of the firm's audit hours to total accounting and auditing hours
- The size of the firm's major engagement(s) relative to the firm's practice as a whole
- Initial engagements and their effect on the firm's practice
- The industries in which the firm's clients operate and their risk level
- The results of the prior peer review
- Owners' continuing professional education (CPE) policies
- The firm's monitoring policies
- Adequacy of the firm's professional library
- Changes in the firm's structure or personnel since the prior peer review
- Office locations.

Interpretation 52-1 of the *Standards* discusses the peer reviewer's responsibility to document the risk assessment.

*Supplemental Checklists on Engagement Reviews*

In addition to using the Financial Reporting and Disclosure Checklist, the peer reviewer may also refer to the applicable supplemental checklists contained in PRP 22,000, “Engagement Checklist Supplements—System Reviews.” The supplemental checklists cover disclosure and financial presentation items that are unique to specific industries. Supplemental checklists are available for Banks and Savings Institutions, Construction Contractors, Common Interest Realty Associations, Health Care Organizations, HUD, Personal Financial Statements, Single Audit Act/A-133, and Yellow Book engagements.

*Client Engagement Listings*

The client engagement listing did not (1) indicate the 12-month period ended to which the listing applied, (2) had an incorrect peer review year, (3) contained engagements outside the scope of the peer review year, or (4) did not include all engagements covered by professional standards.

The peer reviewer should verify the accuracy of information submitted by firms prior to beginning the peer review through discussions with key personnel and comparison to the background information provided by the firm to the administering entity.

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[The next page is 3301.]