

Peer Review Alert – April 2009

Updated and New Practice Aids for Peer Reviews Commencing on or after January 1, 2009

The updated and new practice aids, issued in conjunction with the Revised Peer Review Standards and Interpretations, are now available and *must be used for all reviews commencing on or after January 1, 2009*. Important changes include:

Summary Review Memorandum (SRM) on System Reviews

A new form, the Disposition of Matters for Further Consideration (DMFC) Form, along with instructions for its use, is included in the 2009 SRM. Some terminology has been revised to be consistent with that of Statement on Quality Control Standards (SQCS) No. 7 (such as the phrase *professional staff* being replaced with *personnel*). Also, when a question in the SRM relates to an Interpretation of the Standards, it now refers to that particular Interpretation.

Question H1, relating to risk assessment, has been expanded to include how inherent and control risk impact detection risk and the scope of review procedures. In response to reviewer feedback, more space has been provided for reviewers to document their risk assessment. If more space is needed, please attach additional documents. Another new question was added regarding factors considered if the review was performed at a location other than the reviewed firm's office. There is also a place to document when approval to perform the peer review at the other location was granted by the Administering Entity.

The ERISA industry categories in Part III "Scope of Work Performed" and Attachment I have been revised to no longer differentiate between limited and full scope audits, and a separate category has been created for ESOP plans (see separate article "2008 vs. 2009 ERISA Codes").

Additional questions have also been added for the reviewer's recommendation of an implementation plan(s) (in response to any Finding for Further Consideration Forms) or corrective or monitoring action(s) (in response to deficiencies or significant deficiencies noted in the report). There are also new questions relating to the team captain's physical attendance (at the reviewed firm's office) at the exit conference and asking if the majority of the review was done at the reviewed firm's office.

Throughout the revised Standards, Interpretations, and all related documents, the concept of "substandard" engagements is no longer used, since the revised Standards emphasize a more systemic approach to issues noted. However, the SRM still requires that team captains identify which engagements are not performed and/or reported on in conformity with applicable professional standards in all material respects.

Team Captain/Review Captain Checklists

Changes to the team captain checklist reflect changes to the peer review reporting model and the conduct of the peer review, including the use of FFC forms and implementation plans. A new form, the Disposition of Matters for Further Consideration (DMFC) Form, along with instructions for its use, is included in the Review Captain Checklist.

MFC/FFC Forms

The Matter for Further Consideration (MFC) Form has been enhanced to ask for the underlying cause of the matter on System Reviews, where possible, and whether a similar matter was noted in the prior review. A new form called the Findings for Further Consideration (FFC) Form has been introduced to document findings, as required under the new reporting model.

Quality Control Questionnaires

The personnel thresholds on the quality control questionnaires have changed to “sole practitioner with no personnel” and “firms with two or more personnel”. The revised questionnaires reflect SQCS 7 requirements effective January 1, 2009, and should be used for all peer reviews commencing on or after January 1, 2009 *whether the peer review year end is before or after January 1, 2009*.

SQCS 7 relates to the firm’s quality control on a system-wide basis. Therefore, whether a reviewed engagement has a year end, or is performed, before or after January 1, 2009 is not relevant. What is relevant is whether the firm implemented SQCS 7 by January 1, 2009, and whether it was implemented appropriately.

For peer review year ends in 2009 or after (whether or not the year began in 2008), any items coming to the team captain’s attention relating to the firm’s noncompliance with SQCS 7 should be evaluated to determine if they rise to the level of a matter, finding, deficiency or significant deficiency. However, for peer review year ends prior to January 1, 2009, since SQCS 7 was not yet in effect, any items coming to the team captain’s attention relating to the firm’s noncompliance with SQCS 7 (which were not requirements under the former SQCS guidance) should only be communicated to the firm during the exit conference. Those items would not warrant further elevation to a matter, finding, deficiency or significant deficiency. This approach will help focus the reviewed firm’s attention on those items they still need to address to come into compliance with SQCS 7. This technique is similar to when a team captain discusses new professional standards with the reviewed firm as an educational service.

2008 vs. 2009 ERISA Codes

The ERISA industry codes have been revised for 2009, as reflected in the background form, reviewer’s resume and Summary Review Memorandum for System Reviews. The codes no longer differentiate between limited and full scope audits, and a separate code has been created for ESOP plans, as follows:

2008 ERISA Codes	2009 ERISA Codes
Defined Contribution Plans- Full Scope	Defined Contribution Plans- Full and Limited Scope (Including 403(b) Plans)
Defined Contribution Plans- Limited Scope	N/A
Defined Benefit Plans- Full Scope	Defined Benefit Plans- Full and Limited Scope
Defined Benefit Plans- Limited Scope	N/A
ERISA Health and Welfare Plans	ERISA Health and Welfare Plans
Other ERISA Plans	N/A
	Employee Stock Ownership Plans (ESOP)
Other Employee Benefit Plans	Other Employee Benefit Plans

An administering entity may call upon a peer reviewer to justify why he or she should be permitted to review engagements in a particular ERISA industry code if the peer reviewer does not appear to have appropriate experience. This does not mean that the reviewer is automatically disqualified from performing the review, just that the specific facts and circumstances will need to be evaluated.

In addition, these ERISA code revisions do not effect the requirement that at least one ERISA engagement be selected for review in a System Review, and that peer reviewers select a reasonable cross section of the firm’s accounting and auditing engagements, appropriately weighted considering risk (which may result in a peer reviewer needing to select *more than one* ERISA engagement in order to attain this risk weighted cross section). It also does not affect the requirement that the peer reviewer should also consider whether the engagement selection process has adequately addressed the risks involved in limited versus full scope ERISA audits and in different types of benefit plans such as defined benefit, defined contribution, and voluntary health and welfare plans. The team captain’s consideration of this coverage should be discussed in his or her risk assessment.

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, 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).

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). We encourage you to monitor the SEC and PCAOB’s press releases and orders.

Update on the AICPA Peer Review Manual and Postings to the Website

The AICPA Peer Review Manual is posted to the website. Team captain and review captain packages are available at: <http://www.aicpa.org/members/div/practmon/peermaterials09.asp>.

Standards, Interpretations, Supplemental Guidance and other sections are located at: <http://www.aicpa.org/members/div/practmon/PeerReviewManual.htm>.

The Report Acceptance Body Handbook is now included in the manual and is also available on the website. This handbook is a valuable tool to reviewers and peer review committees. Chapters 4 and 5 provide guidance related to the type of report to be issued in a system and engagement review, respectively.

Subscribers to the manual will also receive a CD version of the manual. The CD will include search capabilities.

Peer Review Reports of Firms Required to be Registered and Inspected by the PCAOB

During early implementation of the revised Standards, it became apparent that the peer review report needs to be clearer about the exclusion of a firm’s SEC practice from the peer review’s scope. In most instances, the system of quality control (system) for a firm’s SEC practice could differ from the system for a firm’s non-SEC practice. Also, the peer review is not designed to address the firm’s design or compliance with the system for its SEC practice.

Therefore, the peer review report of a firm who is required to be registered and inspected by the PCAOB and thus whose review is administered by the National Peer Review Committee should be tailored to add “applicable to non-SEC issuers”. Specifically, the first sentence of the first paragraph of the peer review report should be revised to indicate “We have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) applicable to non-SEC issuers in effect for the year ended June 30, 20XX”. Furthermore, the first sentence of the last paragraph should indicate “In our opinion, the system of quality control for the accounting and auditing practice of XYZ & Co. applicable to non-SEC issuers in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.”

Reviewed Firm’s Signature on FFC Forms on Engagement Reviews

Ordinarily, engagement reviews are not conducted in person, but rather through the exchange of information via mail, fax, email and phone calls. In consideration of this, a review captain may document the reviewed firm’s response on an FFC form on behalf of the firm, based on discussions with the firm. However, the appropriate reviewed firm representative must still sign the FFC form, either manually or electronically. The form can be mailed, faxed or emailed to the reviewed firm for that signature, and then sent back to the review captain.

Document Retention Procedures for all Peer Reviews

Interpretation 25-1 of the Standards requires that peer review documentation prepared during System and Engagement Reviews, with the stated exceptions, should be retained by the reviewing firm, the administering entity, and the association in an association formed review team (if applicable) until 120 days after the peer review is completed. Effective January 1, 2009, this Interpretation is *effective for all reviews*, whether they commenced before or after January 1, 2009. This will eliminate the burden of determining which standards a review was performed under before determining which document retention procedure to follow.

PCAOB Issues Summary of Inspections

On December 5, 2008, the PCAOB issued a report on its 2004 - 2007 inspections of domestic annually inspected firms. The report discusses observations identified during these inspections as well as certain efforts firms have represented they made to remediate possible defects in their quality control systems. The report can be found at: http://www.pcaobus.org/Inspections/Other/2008/12-05_Release_2008-008.pdf. Reviewers should be familiar with the findings and use this report as a tool for assisting firms in understanding the importance of performing and documenting certain audit procedures.