

Peer Review Alert – June 2009

Peer Review Standards Interpretation 63-1 updated to require selection of an A-133 engagement for review of compliance testing

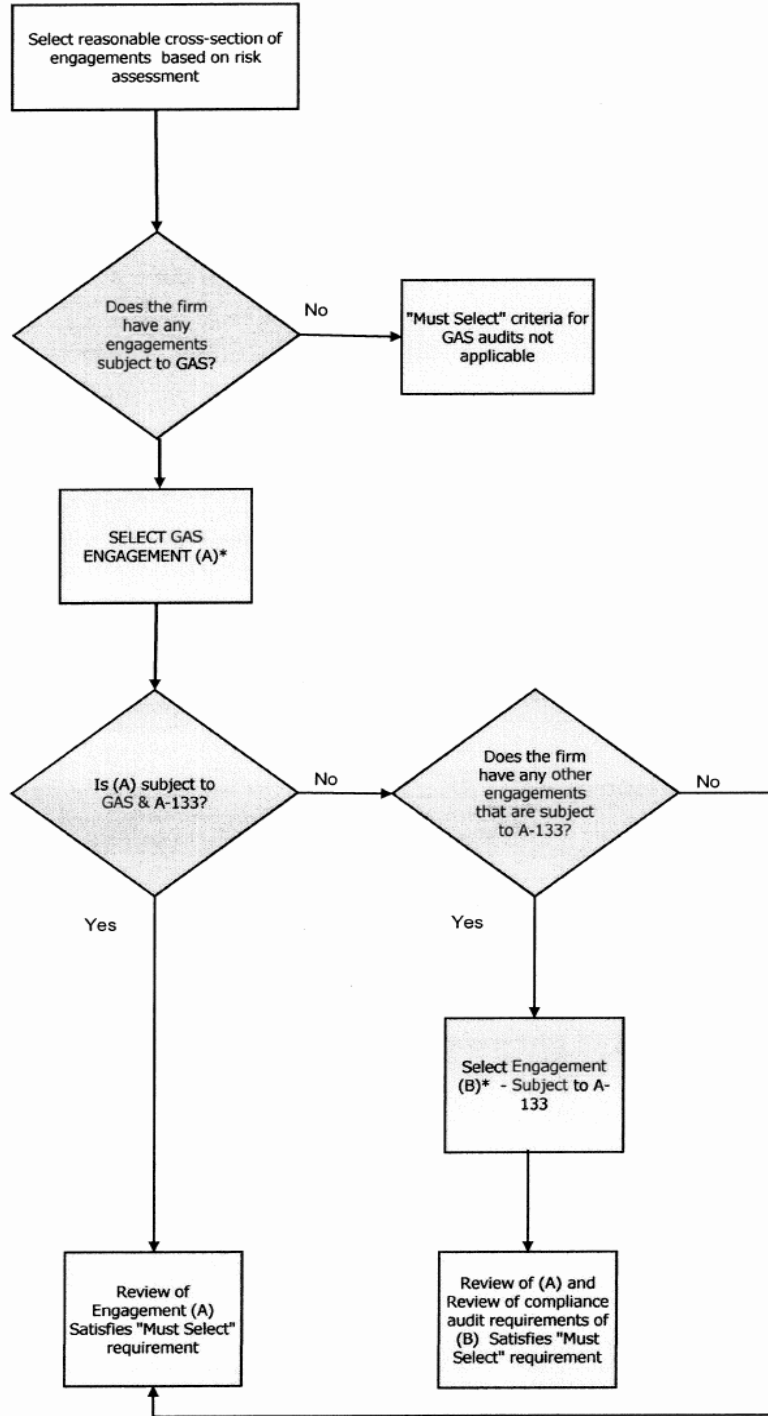
In June 2007, the results of a federal study on single audit quality were issued by the President's Council on Integrity and Efficiency (PCIE). In response to the report, the AICPA formed seven task forces, one of which is the Practice Monitoring Task Force.

The task force is studying the results of the PCIE report to determine ways in which the peer review process can aid in enhancing the quality of performance of OMB Circular A-133 (A-133) audits by member firms. The task force recommended a revision to the guidance on selection of governmental engagements for system reviews.

Peer Review Standards Interpretation 63-1a. requires that at least one engagement subject to Government Auditing Standards (GAS) be reviewed. The Peer Review Board (PRB) has revised this interpretation to require that additionally, if the engagement selected is of an entity subject to GAS but not subject to the Single Audit Act/OMB Circular A-133 and the firm performs engagements of entities subject to OMB Circular A-133, at least one such engagement should also be selected for review. The review of this additional engagement may exclude those audit procedures strictly related to the audit of the financial statements.

The review team is not required to select an A-133 engagement to review in its entirety. (See flowchart on next page regarding selection of engagements to review.) However, if the firm has both A-133 engagements and engagements subject only to GAS and the review team selects an engagement subject only to GAS to review, the review team must also select at least one A-133 engagement to evaluate the firm's compliance with the requirements of A-133 (such as determination of major programs, audit procedures designed and performed in accordance with the applicable compliance supplement, reporting on the schedule of expenditures of federal awards, etc.). The number of A-133 engagements selected for review will be based upon the judgment of the review team considering its assessment of risk relative to the A-133 engagements performed by the firm. The reviewer should complete the Supplemental Checklist for Review of Single Audit Act/A-133 Engagements for the A-133 engagement (s) selected to review.

Intrepretation 63-1 - "Must Select" - subject to Government Auditing Standards (GAS)



*Peer reviewers are reminded that the scope of the engagements selected should include a reasonable cross-section of the firm's accounting and auditing engagements, appropriately weighted considering risk. Thus, the peer reviewer will often need to select greater than the minimum of one engagement in order to attain this risk weighted cross-section.

As always, the selection of engagements should be performed using the risk-based approach, and the engagement selection should also provide a reasonable cross-section of the firm's accounting, auditing, and attestation engagements. Inclusion of a must select engagement should not impact the reviewer's consideration of engagements and industries that have a significant public interest. As an example, if for-profit HUD multi-family housing project audit engagements constitute a significant percentage of a firm's practice, one would expect the reviewer to select at least one such engagement for review. However, if the firm also performed an audit of an engagement subject to A-133 (such as a local government or not-for-profit organization), such engagement must also be selected and an evaluation of the firm's compliance with A-133 made.

If during the course of the review of the A-133 engagement, the review team concludes there was a failure to reach an appropriate conclusion on the application of professional standards in all material respects, the review team should consider whether the application of additional review procedures is necessary. For example, if the firm fails to test a major program due to failure to properly select major programs, the review team should consider reviewing the major program selection working papers for another A-133 engagement. If, during the review of compliance testing or other procedures required under A-133, the reviewer determines the firm's performance did not conform to professional standards, the reviewer should also consider the need to review the audit of the financial statements of the selected A-133 engagement. For additional guidance on expansion of scope, see paragraph 42 of Section 4200 of the Peer Review Program Manual.

This requirement is effective for all peer reviews commencing on or after September 1, 2009 though early implementation is encouraged.

Industry Code added for SAS 70 Audits of Service Organizations

At its May 2009 meeting, the AICPA Peer Review Board (PRB) approved the addition of an industry code that is for service organizations (SAS 70 audits). The industry code is now included on the reviewed firm's background form and the reviewer's resume. The level of experience peer reviewers must have is similar to other industries.

Peer reviewers with SAS 70 audit experience should update their resume on-line at <http://www.aicpa.org/members/div/practmon/index.htm> to reflect this experience.

Effect on Scope when Firm Issues Reports for Clients in Foreign Jurisdictions

The revised peer review standards are intended for firms of AICPA members who are engaged in the practice of public accounting in the United States or its territories. Some firms also have offices in foreign countries or their territories ("foreign jurisdictions"), including the Cayman Islands and Bermuda. One important factor to consider in determining whether reports issued for clients in those foreign jurisdictions are to be

included in the scope of the peer review is the letterhead of the report issued. For instance, ordinarily if a U.S. firm issues a report on letterhead from its office in that foreign jurisdiction, the engagement would not be included in the scope of the peer review. Another factor is whether the reports issued for clients in the foreign jurisdictions are addressed by guidance from the state board of accountancy(s) that issues the firm's license(s). Team or review captains should consult with AICPA technical staff if there is any question of whether an engagement is subject to peer review under these circumstances. In addition, reviewed firms need to consider whether there are peer review or practice monitoring requirements issued by the licensing authority of the foreign jurisdiction which are applicable to the reviewed firm.

Peer Reviews of Non-AICPA Firms that have Audits of SEC Issuers

As discussed in Interpretation 1-1 of the AICPA PRP Standards (Standards), although the Standards are currently intended for AICPA members and their firms, state CPA societies or other organizations that are approved by the AICPA Peer Review Board to administer the AICPA Peer Review Program (Program) may also use the Standards, as applicable, to administer peer reviews of non-AICPA firms. However, this does not include firms that are required to be registered with and inspected by the PCAOB, and/or firms that perform audits of non-SEC issuers pursuant to the standards of the PCAOB. Under the Standards, those firms are required to be administered by the National Peer Review Committee (NPRC), an administering entity of the Program.

Although it is conceivable that a "peer review" for a non-AICPA firm with SEC clients could be administered by a state CPA society, the peer review report, acceptance letter, and other related documents would have to clearly indicate that the peer review was not intended to meet the minimum requirements of or be in compliance with the Standards. Since there is a public expectation that the peer review would comply with the minimum requirements and be in compliance, it would not be appropriate to issue peer review documents that imply that they do (when they do not).

Therefore, any firm undergoing a peer review intended to be in compliance with the Standards must be enrolled in the Program and its review must be administered by the NPRC if it is required to be registered with and inspected by the PCAOB, and/or performs audits of non-SEC issuers pursuant to the standards of the PCAOB. This would also require that at least one owner of the firm be a member of the AICPA.

Definition of Commencement in a Peer Review

There are a number of instances in which the Standards and Interpretations refer to the commencement date of a review to determine whether a situation applies. Some examples are cooperating in a peer review (Int. 5h-1), approval of the review team by the administering entity (Int. 30-1), provision of the surprise engagement to the firm (Int. 61-1) and when the Standards are effective for a firm's peer review (paragraph 179 of the Standards).

Interpretation 5g-1 notes that “A peer review commences when the review team begins field work, ordinarily at the reviewed firm’s office in a System Review, or begins the review of engagements in an Engagement Review.” The easiest measure is “when fieldwork begins”. However, there are times when this may not apply. Therefore, Interpretation 32-1 further notes that “team members may review their engagements prior to the team captain or review captain beginning their field work. In these situations, a review is considered to have commenced when the team member begins the review of engagements (if this is prior to the team captain or review captain beginning their fieldwork).” In certain circumstances, fieldwork may commence before the review of engagements, such as during planning.

The significance of this enhanced definition of “commencement” is emphasized by how it affects a firm’s ability to resign from the program once a review commences. Once a team captain, review captain or team member learns information that affects the results of the review, the review is deemed to have commenced. Some examples are if the team captain identifies a design deficiency, or learns about the firm’s noncompliance with state board of accountancy licensing requirements, during planning. Another example is the identification of a finding during a team member’s review of a specialized industry at a location other than the reviewed firm’s offices, prior to the team captain beginning fieldwork at the reviewed firm’s offices.

As indicated in Interpretation 5g-1, a firm whose peer review has commenced may not resign from the program unless certain steps are followed which include the firm evidencing their noncooperation with the program and the AICPA publishing notice of the action so that the public interest is served.

Review of CPE Records During a Peer Review

In accordance with SQCS 7, a firm should establish policies and procedures designed to provide it with reasonable assurance that its personnel have the appropriate capabilities, competence, and commitment to ethical principles. Such policies and procedures should address, among other items, professional development (including training or continuing professional education (CPE)). The fundamental purpose of CPE is to maintain or increase, or both, professional competence. Team captains on System Reviews should carefully consider a firm’s CPE policies and the firm’s philosophy toward continuing education when assessing risk during planning. In addition, team captains should carefully test a firm’s CPE records to the extent deemed necessary during their testing of the functional areas of a firm. They should ascertain that the appropriate amounts and types (accounting, auditing and quality control) of CPE are being taken by the appropriate firm personnel, including that personnel are in compliance with CPE requirements for boards of accountancy in states in which the firm’s personnel are licensed. The team captain should also consider if the firm is taking appropriate action to correct situations where personnel are not in compliance with CPE requirements. The lack of appropriateness and/or quality of a firm’s compliance with CPE requirements can be the systemic cause of a matter, finding or deficiency and thus affect the firm’s peer review results. A team captain’s diligence in considering and testing CPE can impact the quality of the peer review and hence the Program’s goal of improving audit quality. A

team captain's steps in considering and testing CPE during a peer review are subject to review and oversight by the administering entity.

Audit Planning in a Recessionary Environment

The U.S. economy is experiencing a great amount of instability. During 2008 and into 2009 deteriorating economic conditions and increased government intervention continues. The economic crisis undoubtedly is affecting both financial statement preparers and the auditors engaged to audit their financial statements. Few, if any, industries are immune to the effects of the crisis.

The AICPA has published an Audit Risk Alert focused on the current economic crisis, legislative and regulatory actions taken to curtail the crisis, and accounting and auditing issues arising as a result of these events. These tough economic times have made accounting for transactions and auditing entities more challenging than ever and this alert is an important tool in helping you identify the significant risks that may result in the material misstatement of financial statements.

The Alert covers issues arising from the economic crisis including:

- Fair value accounting considerations including measurements of fair value in illiquid markets and auditing those fair value measurements
- Other than temporary impairment issues
- Auditing accounting estimates
- Liquidity considerations
- Going concern considerations
- Fraud considerations

Whether you purchase this alert or not, you are encouraged to consider the above issues when planning your upcoming audit engagements and are further encouraged to make your peer review clients aware both of these issues as well as the availability of the Alert.

The Alert is an *other auditing publication* as defined in AU section 150. Other auditing publications have no authoritative status; however, they may help the auditor understand and apply the Statements on Auditing Standards. The auditing guidance in the Alert has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. The Alert has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

Click [here](#) for more information on the Alert.

Alerts for Quality Control Materials and CPE Program Providers and Peer Reviewers:

There are two articles for QCM and CPE providers and peer reviewers. Click [here](#) to access the articles.