

2009 Revised Standards – Suggested Reading

The AICPA Peer Review Board has issued revised Standards effective for peer reviews commencing on and after January 1, 2009.

In conjunction with the implementation of the new Standards, the AICPA has produced revised manuals and comprehensive guidance to assist firms, reviewers and administering entities with the many changes. It is recommended that managing partners and individuals involved with the firm’s quality control system read these documents in preparation for their upcoming peer reviews.

Suggested reading list:

- Section 1000 - AICPA Standards for Performing and Reporting on Peer Reviews Effective for Peer Reviews Commencing on or After January 1, 2009
- Section 2000 - Peer Review Standards Interpretations
- Section 3000 - Other Guidance, which consists of the following sub-sections:
 - 3100 - Supplemental Guidance
 - 3200 - Peer Review Alerts
 - 3300 - Report Acceptance Body (RAB) Handbook

These documents are available for download at www.aicpa.org/members/div/practmon/PeerReviewManual.htm

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The AICPA has also revised their peer review “Question and Answer Booklet”, which may be downloaded at www.aicpa.org/download/practmon/gandaprp.pdf

NEPR’s 2008 newsletter also contains several helpful articles pertaining to the revised Standards, including:

- 2009 Revised Standards – Report Changes
- The Revised Standards – A Primer
- Independence Impairment
- System Reviews Performed Off-site

Peer Review E-mails

To ensure that you receive peer review letters and notices from NEPR:

- Update the e-mail address for your firm’s managing partner and peer review contact person by contacting NEPR at pamela@nepr.org.
- Add “peerreview@nepr.org” to your e-mail safe senders list.

Prefer not to receive e-mails? You will continue to receive hard-copy correspondence if you do not have an e-mail address on file with us.

IMPORTANT INFORMATION FOR ALL ENROLLED FIRMS

NEPR is transitioning to the Peer Review Information System Manager (PRISM), a new Web-based system for administering and tracking peer reviews. As we make this conversion, you will notice a number of improvements that allow for more efficient and effective peer review administration while maintaining the high level of customer service you expect from NEPR.

Significant Changes

- Many peer review letters and correspondence will now be sent by e-mail.
- Scheduling and review team information will be submitted online via a web form.

Is Your Quality Control System Documented?

On October 10, 2007, the AICPA Auditing Standards Board issued Statement on Quality Control Standards No. 7 (SQCS 7), *A Firm’s System of Quality Control*, which replaced all existing SQCS. The SQCS No. 7 was effective January 1, 2009.

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SQCS 7 strongly emphasizes the responsibility of firm leadership to set the proper “tone at the top”, conveying through words and actions that quality work is of paramount importance. Each firm is required to design and implement QC policies and procedures that support that message and promote a quality-oriented culture.

The elements of quality control have been expanded as follows, further illustrating the “tone-at-the-top” emphasis:

**Elements of a System of Quality Control
for a Firm’s A&A Practice**

SQCS 7	Superseded QC Standards
Leadership responsibilities for quality within the firm	
Relevant ethical requirements (e.g. independence, integrity, objectivity, concern for the public interest)	Independence, integrity and objectivity
Acceptance and continuance of client relationships and specific engagements	Acceptance and continuance of clients and engagements
Human resources	Personnel management
Engagement performance	Engagement performance
Monitoring	Monitoring

Under SQCS 7, a firm that has audit, review, compilation, or other attestation engagements is required to formally document its quality control policies and procedures prior to January 1, 2009. The extent of the documentation will depend on the size, structure, and nature of the firm’s practice. Documentation may be as simple as a checklist of the firm’s policies and procedures or as extensive as practice manuals.

The following tools are available at <http://aicpa.org/members/div/practmon/systemreview09.asp> at no charge to assist in complying with the documentation of the firm’s system of quality control:

- PRP 4300 - Quality Control Policies and Procedures Documentation Questionnaire for a Sole Practitioner With No Personnel.
- PRP 4400 - Quality Control Policies and Procedures Documentation Questionnaire for Firms With Two or More Personnel

“Practice Aid: Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice” may be downloaded at: <http://aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Practice+Aids+and+Tools/>

The quality control questionnaires used in the peer review process may be sufficient documentation of the system of quality control for some firms, however, it should be completed and in effect prior to the beginning of the peer review year.

To firms that have prepared to document their quality control system for the first time: *be sure to adopt only those policies and procedures that work for your firm.* Adoption of a sample quality control document without modification can have negative results during peer review if the firm does not have the resources to comply with the policies and procedures adopted.

If the peer reviewer does not deem the system of quality control to be adequately documented and complied with, and finds other deficiencies, he or she may consider this to be a monitoring issue and that the system of quality control is neither documented nor effective, and should ordinarily be a deficiency, which may result in a grade of pass with deficiencies or fail.

New VOLUNTARY Program – Facilitated State Board Access (FSBA)

Since its inception in 1988, the Peer Review program has continued to evolve to keep up with changes in the business and regulatory environments. The AICPA Facilitated State Board Access is the next step in this evolution.

After carefully evaluating the various options, stakeholders determined that the best way to address the user demands for greater peer review transparency, while considering member, State CPA Society and administering entity concerns, was to use the existing peer review process to facilitate the voluntary disclosure of peer review results to State Boards of Accountancy (BOAs).

The intent of this new process is to create a nationally uniform system through which CPA firms can satisfy state board peer review information submission requirements, increase transparency, and retain control over their peer review results. The AICPA, CPA state societies and administering entities (AEs) are working together to allow this process to become the primary means by which all BOAs obtain peer review results. Over time, this new process will help to make submission of your firm's peer review information easier.

Firms that are members of the AICPA Employee Benefit Plan Audit Quality Center, Governmental Audit Quality Center or Private Companies Practice Section will automatically have their peer review documents posted, as this information is already publicly posted.

The FSBA process allows peer review results to be made available to select BOAs on a **voluntary** firm basis, using a secure, BOA access-only web site that will be available only to authorized representatives of your states' Board of Accountancy. NEPR will post applicable peer review information related to a firm's most recently accepted review to this website. Firms may also request that their results be made available to more than one BOA, however, results will only be posted for availability to BOAs that require peer review and are not prohibited from obtaining access to peer review information.

Firms that are not members of the AICPA Employee Benefit Plan Audit Quality Center, Governmental Audit Quality Center or Private Companies Practice Section will have the opportunity to change their mind at any time after their information has been posted by notifying NEPR in writing. Once the notification is received, NEPR will remove the posted information and notify the firm.

Firms that do not volunteer to have their documents posted will have certain information (which is currently publicly available) posted to the secure BOA access-only web site, to include:

- The firm's name and address
- The firm's enrollment in the Peer Review Program
- The date of acceptance and the period covered by the firm's most recently accepted peer review
- Whether the firm's enrollment in the program was terminated (and firm's enrollments that are dropped after January 1, 2009)

This information will help us to maintain a complete database of all firms in the peer review program.

All entities that administer reviews of firms in the AICPA Peer Review Program will be required to implement this process as a condition of administering the Program. AEs have flexibility in the timing of the process; however, implementation must begin before the end of this year. NEPR has not chosen an implementation time, but we expect the process to begin towards the end of 2009.

If your firm is due for a peer review this year that has not been accepted by the implementation of FSBA, you will receive a separate mailing with detailed information regarding the process. Once NEPR adopts FSBA, firms will receive further information and instructions in the year of their peer review.

For more information on peer review transparency or the AICPA's Peer Review Program and FSBA, go to <http://www.aicpa.org/Professional+Resources/Peer+Review/>

Please contact us with questions or comments at (603) 623-3513 or pamela@nepr.org.

Peer Reviews under the Revised Standards

By Leo R. Moretti, CPA & Paul E. Moran, CPA

What type of report can you expect under the revised Standards, and what consequences and corrective actions will be imposed if you find your firm out of compliance with your quality control standards?

The process to determine what type of report should be issued is much more robust and challenges reviewers to make numerous decisions throughout the process. It is expected that more peer review reports with a grade of pass with deficiency will be issued as compared to the prior comparative grade of modified.

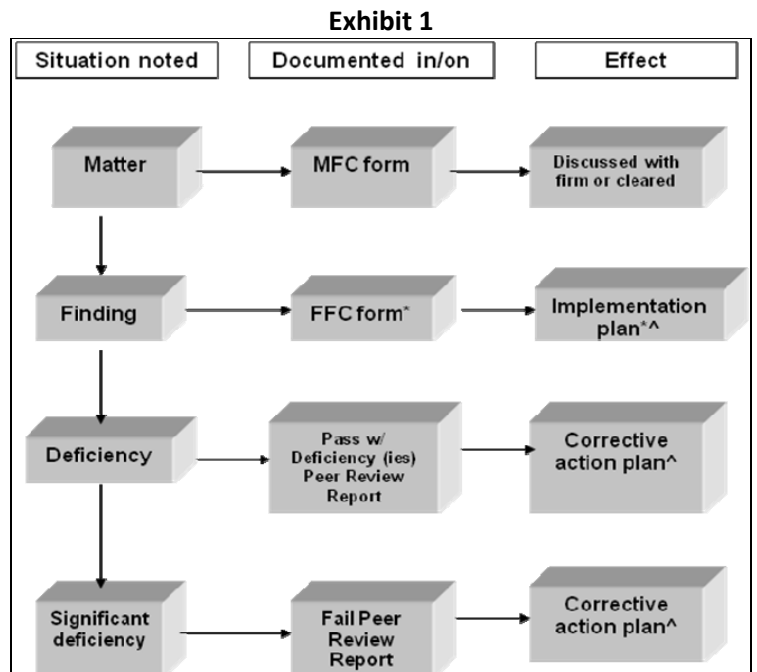
Items to be considered in determining the type of report include matters, findings, deficiencies and significant deficiencies. If a matter is noted it is initially documented on an MFC (Matters for Further Consideration) form. If the matter, after further evaluation, gets elevated to a finding, but not a deficiency or significant deficiency, it is documented on an FFC (Findings for Further Consideration) form (Exhibit 1).

The FFC form is a standalone document that includes the reviewer’s recommendation and the reviewed firm’s response regarding actions planned or taken and the timing of those actions by the firm. The report acceptance board (RAB) can require an implementation plan in addition to affirmation of the plan described by the reviewed firm in its response to the findings on the FFC forms. FFC forms are retained by NEPR and the team/review captain until the firm’s next peer review is accepted and are compared with the firm’s latest peer review to determine if findings have been repeated or if they have been corrected.

In order to document the disposition of all the MFCs, the team/review captain completes a DMFC (Disposition of Matters for Further Consideration) form. The DMFC form is included in the review captain’s checklist as part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each as to whether it was cleared, discussed with the firm, included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report.

If the finding is elevated to a deficiency the report will become a pass with deficiency/deficiencies along with the reviewer’s recommendation. The firm submits a letter of response regarding actions planned or taken and the timing of those actions by the firm. A report with a peer review rating of pass with deficiencies is issued when the team captain concludes that the firm’s system of quality control has been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report. These deficiencies are conditions related to the firms design of and compliance with its system of quality control whereby there is less than reasonable assurance of performing and or reporting in conformity with applicable professional standards in one or more

- Continued on next page -



* Only if finding is not elevated to a deficiency or significant deficiency

[^] Only if requested by NEPR

important respects due to the nature, causes, patterns, or pervasiveness, including the relative importance of the deficiencies to the quality control system taken as a whole. On the other hand the team captain should issue a report with a rating of fail when a significant deficiency has been identified and the team captain has concluded that the firm's system of quality control is not suitably designed to provide the firm with reasonable assurance of compliance or that the firm has not complied with its system in place.

Corrective actions are issued to educate and remediate the firm and without such actions, the firm may not address the issues uncovered during the peer review. Actions may include specific continuing professional education, a team captain's review of the firm's next monitor report or a review of a subsequent engagement.

Leo R. Moretti, CPA & Paul E. Moran, CPA are partners in the firm of Yarlas, Kaplan, Santilli & Moran, Ltd and are both actively involved in the Peer Review Program as peer reviewers and with New England Peer Review. Mr. Moretti has served on our Committee since 2000 and as President for three of those years. Mr. Moran is one of NEPR's founding fathers and has been a technical reviewer since 1996.

Overdue Letters, Extensions & Fair Procedure

By Leo R. Moretti, CPA & Paul E. Moran, CPA

To avoid receiving an overdue letter from NEPR, remember to schedule sufficient time to complete your peer review before your due date. If you need an extension and have sufficient reason as outlined below it must be requested in writing 30 days prior to your due date to be granted. **Extensions will not be granted if your review is already overdue.**

If granted you will receive a written approval and ordinarily the extension will not go beyond 90 days of the original due date. An extension may be granted if:

- The firm is a new firm as a result of a merger or dissolution is imminent.
- The firm needs a few months to complete a major engagement (1 to 2 months)
- The firm is unable to have the review because of an absence, loss or turnover of personnel significant to the conduct of the review (applicable only to the smaller firms).
- The firm's records or offices have been severely damaged or destroyed because of a natural catastrophe.
- The firm needs more time because it has selected a reviewer that has a scheduling conflict and is unavailable to perform the review by the firm's due date, but is available to perform the review within 30 days of the due date. In these cases, NEPR will confirm the arrangements for the review with the review team.
- There is an incomplete engagement (which is an initial engagement) and there is no comparable engagement. (Interpretation 58-2)

- In some situations, due to the size of the firm, the complexity of the peer review, and whether or not the review team is integrating peer review procedures with the firm's internal inspection procedures, it is not unusual for a peer review to occur over a number of months. In such situations, a firm whose peer review has oversight performed by the administering entity may extend its review due date by up to six months with prior, written approval of the administering entity. (Interpretation 18-1)

The AICPA provides a process to ensure that fair procedures are given to the firms. The Rules of Procedures have been revised and became effective as of January, 2009. The warning and overdue letters sent to firms from administrative entities encompass the framework that provides the firm with fair procedures. If overdue letters and other communication are continually ignored, a pre-hearing warning letter is sent to AICPA firms that will be followed up with a phone call from the AICPA staff to discuss actions required. If the firm does not complete the action required in a reasonable time after receiving the pre-hearing warning letter a notice of hearing will be sent. If the firm still does not comply the firm will be submitted to a hearing panel with the potential of termination from the AICPA.

The goal of the AICPA Peer Review Program is quality in the performance of accounting and auditing engagements and to reach this goal the work performed by reviewers must exhibit a high level of quality. Firms must take this process seriously to ensure their quality control system and compliance to it continuously meets these high standards to achieve the goal of quality that we strongly desire our profession and our credentials to stand for.

Would You Like to Stand Out Among Your Peers?

And, would you also like to.....

- be seen as an expert, gaining the respect of your peers?
- identify the best practices of other firms and apply them at your firm?
- use what you learn from other firms to sharpen your own skills and reinforce your accounting and auditing knowledge?
- often receive referrals for additional services?
- be of benefit to the accounting profession?
- develop an additional profit center for your firm?

If you answered “yes” to even one of those questions then **NOW** is the perfect time to become a peer reviewer!

Why is now a good time to become a peer reviewer?

As the early “pioneers” of peer reviewers begin to retire, the pool of qualified peer reviewers has been steadily shrinking, creating a demand for your skills in this important professional program that has never been higher.

What are some of the benefits of being a peer reviewer?

Being a peer reviewer opens doors to incredible opportunities. Peer review services will enhance your knowledge of professional standards. In addition, your work as a peer reviewer will enable you to provide better service to your own clients by offering you a venue to observe and understand the best techniques of other accounting firms.

When you become a peer reviewer, you will gain valuable knowledge, expertise and exposure and quickly earn the respect of your peers. Performing peer reviews also provides members with a way to “give back to the profession.”

Another potential benefit of being a system-qualified peer reviewer is the opportunity to serve on the NEPR committee and/or Report Acceptance Body (appointments are made by your respective state societies).

What are the requirements for becoming a peer reviewer?

To become a team captain on system reviews or a peer reviewer on engagement reviews, an AICPA member must:

- Meet all the reviewer requirements, listed at: http://www.aicpa.org/download/members/div/practmon/Reviewer_Qualifications.pdf
- Complete the AICPA two-day introductory reviewer training course as discussed below.
- Complete the on-line reviewer resume form at <http://peerreview.aicpaservices.org/> to be listed in the AICPA reviewer database and in the on-line reviewer search.

What is the first step I need to take?

The New Hampshire Society of CPAs will be hosting the AICPA two-day introductory reviewer training course, “How to Conduct a Review Under the AICPA Practice-Monitoring Program” on October 29 & 30. Click the link for further information and to register: http://www.nhscpa.org/continuing_education/index.php. This introductory course is the first step to becoming a peer reviewer. Ensure the quality of accounting and auditing services and uphold the integrity of the CPA profession—register now to begin the training in obtaining this highly respected role.

Once you have taken the course, please contact us at (603) 623-3513 or pamela@nepr.org. We will add your peer reviewer contact information on our website and work with you to post your on-line resume. We also have volunteer mentors, from each of our four states, who are active peer reviewers and are ready and willing to provide you with assistance.



Financial Notes of Interest

We are pleased to announce that, despite the difficult economic challenges and rising costs we face today, NEPR has been able to keep administrative and scheduling & evaluation fees stable once again. Help us to keep our costs down by paying these fees timely!

A reminder that in the year of your firm's peer review, you will be assessed two separate fees:

- Annual Administrative Fee (billing in April or when a firm enrolls)
- Scheduling & Evaluation Fee (billed every 3 years, once your peer reviewer is confirmed.)

NEPR Annual Fees:

Please note that if the annual fee payment is not mailed within 30 days of receipt, you will be assessed a late fee of \$25. If it is not mailed within 60 days, you will pay a \$50 late fee. Save \$\$\$\$ by submitting your payment on time!

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* Denotes year in which term expires