

GEORGIA SOCIETY OF CPAs
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PEER REVIEW –
HOW TO BE SUCCESSFUL

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PEER REVIEW – HOW TO BE SUCCESSFUL

Topics to be Covered

- Peer Review Background and Current Situation
- Your System of Quality Control
- Planning For Your Peer Review
- Getting Through the Review
- Common Peer Review Findings
- Getting Value From Your Peer Review

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Peer Review Standards

- **Background**
 - Statement on Quality Control Standards No. 1 issued in 1970s
 - Statements No. 2 through 6 built on original Quality Control Standards

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Peer Review Standards

- **Background**
 - Statement No. 7 issued in 2007 to be effective January 1, 2009
 - Supersedes the previous 6 Statements
 - Places an unconditional obligation on firms to establish a system of quality control designed to provide reasonable assurance of compliance with professional standards and regulatory and legal requirements

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Peer Review Standards

- **Background**
 - Statement No. 7
 - A system of quality control consists of –
 - Policies designed to achieve these objectives, and
 - Procedures necessary to implement and monitor compliance with those procedures

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Peer Review Standards

- **Current Situation**
 - Peer review standards revised effective January 1, 2009
 - Response to public expectations
 - Team Captain risk assessment process revised
 - Letters of comment eliminated, replaced by form (Finding for Further Consideration)
 - Peer review reports revised
 - Now issued as “pass”, “pass with deficiencies”, “fail”

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Peer Review Standards

- Changes in 2010 related to engagements under GAGAS and -133
- SQCS No. 7 effective January 1, 2009
 - Requires firms performing audits, reviews, compilations or other attest services to have written Quality Control Document
 - Adds the element of Leadership Responsibilities
 - Requires Firms to establish criteria for which engagements will have an engagement quality control review

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Your System of Quality Control

- Elements of Quality Control
 - Leadership responsibilities(new)
 - Objective is to Promote a Culture of Quality
 - “Tone at the Top” is the underlying objective
 - Assign management responsibilities so that commercial considerations do not override the quality of work performed

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Your System of Quality Control

- Elements of Quality Control
 - Leadership responsibilities(new)
 - Compensation and advancement practices should demonstrate a Firm’s commitment to quality
 - Assign responsibility for the Firm’s quality control to personnel with sufficient and appropriate experience and ability
 - Devote sufficient and appropriate resources to the development, communication and support of the quality control system

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Your System of Quality Control

- **Elements of Quality Control**
 - **Ethics (formerly independence, objectivity and integrity)**
 - Objective is to comply with relevant ethical requirements
 - Covers understanding and communication of Code of Conduct
 - New focus on procedures to identify and evaluate possible threats to independence and objectivity, including the familiarity threat
 - Requires confirmation of independence at least annually

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Your System of Quality Control

- **Elements of Quality Control**
 - **Client Acceptance and Continuance**
 - Objective is to insure consideration of client integrity and firm's competency and capacity to serve them
 - Requires a process that will recognize a lack of integrity
 - Evaluation of capability and capacity
 - New requirement to obtain an understanding, preferably in writing, regarding the services to be performed

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Your System of Quality Control

- **Elements of Quality Control**
 - **Human Resources**
 - Objective is to insure firm personnel have the competence, capabilities and commitment to perform the firm's engagements
 - Covers recruiting and hiring, assignments, CPE, performance evaluations, compensation and promotions
 - Requires adequate and appropriate CPE for all professionals

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Your System of Quality Control

- **Elements of Quality Control**
 - **Human Resources**
 - Assign responsibility for each engagement to an engagement partner
 - “Partner” is one with authority to bind the Firm with respect to the performance of professional services

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Your System of Quality Control

- **Elements of Quality Control**
 - **Engagement Performance**
 - Objective is to insure engagements are performed in accordance with applicable standards
 - Includes how engagements will be planned, performed, supervised, reviewed, documented and communicated
 - Requires providing for reference and guidance materials, practice aids, software tools

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Your System of Quality Control

- **Elements of Quality Control**
 - **Engagement Performance**
 - Requires policy for consultation inside and outside the Firm
 - New requirement for the Firm to establish procedures addressing the nature, timing, extent and documentation of the Engagement Quality Control Review
 - “Quality Control” review is a cold review of financials and selected workpapers
 - Includes discussion with engagement partner/supervisory personnel

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Your System of Quality Control

- **Elements of Quality Control**
 - **Engagement Performance**
 - New requirement for completion of assembly of engagement files, and insuring their security
 - New requirement regarding maintaining confidentiality and safe custody of engagement documentation
 - New requirement for resolving differences of opinion within the Firm

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Your System of Quality Control

- **Elements of Quality Control**
 - **Monitoring**
 - Objective is to insure firm's policies and procedures are relevant, adequate, operating effectively and being complied with in practice
 - Includes both Monitoring procedures (continuous) and Inspection (point in time)

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Your System of Quality Control

- **Elements of Quality Control**
 - **Monitoring**
 - Monitoring includes all of the elements of QC
 - Insuring compliance with policies and procedures established for meeting the objectives of leadership, ethics, client acceptance, human resources, engagement performance and monitoring
 - Review of engagements is only one aspect
 - Requires documentation of performance of monitoring procedures and findings

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Your System of Quality Control

- **Elements of Quality Control**
 - **Monitoring**
 - Requires communication of monitoring findings
 - Requires Firms to establish policies and procedures for dealing with complaints and allegations of non-compliance with professional standards and Firm policies

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Your System of Quality Control

- **Elements of Quality Control**
 - Examples of QCD available on AICPA website
http://www.aicpa.org/download/members/div/audits/System_of_Quality_Control_Practice_Aid.pdf
 - Requires important tailoring to make it *Yours*
 - Your Firm's Engagement Quality Control Review policy has to be added

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Your System of Quality Control

- **Engagement Quality Control Review**
 - Standard requires firms to establish criteria to determine which engagements are subject to a QC Review
 - Evaluate all engagements against criteria
 - Perform QC review before report is released
 - Establish procedures for extent and documentation of QC review

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Your System of Quality Control

- **Engagement Quality Control Review**
 - QC review is an objective evaluation of the significant judgments and conclusions reached by the engagement team
 - QC reviews are “cold”
 - QC reviewer should have relevant experience
 - Must review financial statements and report, and discussion with engagement partner
 - Other workpapers as deemed appropriate

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Your System of Quality Control

- **Engagement Quality Control Review**
 - Determining which engagements will be subject to QC review is a matter of judgment to be made by each firm
 - Consider inherent and control risk in the firm
 - Consider past results of monitoring and peer review
 - Consider current environment
 - Consider firm capability and outside resources

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Your System of Quality Control

- **Engagement Quality Control Review**
 - Examples for consideration
 - Consider firm’s practice areas and personnel capabilities and set scope based on risk of engagement not being performed in accordance with the standards or the financial statements being incorrect
 - Many firms subject all engagements to QC review

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Your System of Quality Control

- **Engagement Quality Control Review**
 - **Examples for consideration**
 - For smaller firms with no peer review or monitoring issues in the past, perhaps only new engagements would require QC review
 - Different requirements for QC review of audits, reviews, compilations and agreed upon procedure engagements is common
 - Firms with only a compilation practice and no prior peer review issues might be satisfied with quality reviewing only initial financial statements for new clients

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Your System of Quality Control

- **Engagement Quality Control Review**
 - **Quality control review for sole proprietors**
 - Quality Control review requirement is same for all firms
 - Prior peer review results would be important consideration (“more” if modified report, “less” if no findings in prior peer review)
 - Consider arranging for “swap” reviews with another firm

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Your System of Quality Control

- **Engagement Quality Control Review**
 - **Extent of QC workpaper review procedures is a matter of professional judgment**
 - Based on discussion of issues with engagement partner, select areas of significant accounting and performance risk to review
 - Consider new or complex accounting matters, significant estimates, unusual transactions

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Your System of Quality Control

- **Engagement Quality Control Review**
 - Extent of QC workpaper review procedures is a matter of professional judgment
 - Consider unusual audit areas such as sampling, internal control tests, use of experts
 - Consider matters not usually encountered by the firm

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Your System of Quality Control

- **Engagement Quality Control Review**
 - Documentation of Quality Review should include who, when and scope
 - Quality Review notes should be handled same as engagement partner notes
 - Experience is that Quality Review of audit takes about 1 or 2 hours, of a review and compilation engagement less than 1 hour

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Planning for Your Peer Review

- **Dealing with the Administering Entity**
 - **Information for Scheduling Reviews**
 - Carefully consider questions related to the scope and nature of your Firm's A&A practice
 - Understand the terms used in the scheduling form, and ask if you don't
 - Do not overstate your practice scope and industries

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Planning for Your Peer Review

- **Dealing with the Administering Entity**
 - **Information for Scheduling Reviews**
 - Carefully consider the SSAE area – do not overstate – Consider particularly ...
 - Prospective financial statements
 - Agreed upon procedures
 - **Specialized industries used to determine reviewer is qualified**
 - eg, housing authorities are both HUD Program and State and Local Governments

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Planning for Your Peer Review

- **Dealing with the Administering Entity**
 - **Information for Scheduling Reviews**
 - Industry list includes
 - 1) all audit industries, and
 - 2) all industries that are more than 10% of audit practice or
 - 2b) 3 largest audit clients

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Planning for Your Peer Review

- **Dealing with your peer reviewer**
 - **Forms and questionnaires**
 - **Quality Control Questionnaire**
 - Can use Firm's Quality Control Document in lieu of QCQ, but Questionnaire is more concise and relevant

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Planning for Your Peer Review

- **Dealing with your peer reviewer**
 - **Forms and questionnaires**
 - **CEO Interview Questionnaire; Purpose is to –**
 - Provide reviewer information on Tone at the Top
 - Provide information on high risk A&A engagements
 - Submit prior to or concurrent with submission of engagement listing

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Planning for Your Peer Review

- **Dealing with your peer reviewer**
 - **Engagement listing is key**
 - List of A&A engagements should include all engagements you have been engaged to perform with periods ending in the peer review year
 - OK to estimate hours for uncompleted engagements
 - Industry should be discernable
 - Indicate initial engagements, supervisory personnel, uncompleted engagements, Yellow Book, A-133, etc

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Planning for Your Peer Review

- **Dealing with your peer reviewer**
 - **Engagement selection**
 - **Risk based approach**
 - **Inherent risk**
 - Industry, new standards, Firm experience, team experience
 - **Control risk**
 - Consultation, supervision and review, CPE

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Planning for Your Peer Review

- **Dealing with your peer reviewer**
 - Risk based approach
 - Peer review risks
 - Risk that insufficient engagements selected to find deficiencies that exist
 - Risk that the reviewer selects engagements with no deficiencies over ones that have deficiencies
 - More risk = more engagements selected=more time on peer review

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Planning for Your Peer Review

- **Dealing with your peer reviewer**
 - Engagement selection
 - Must-select engagements
 - ERISA, Government audit standards, FDICIA
 - May increase number of engagements selected
 - Surprise engagement
 - An engagement from the highest level of service
 - Required to deal with public expectation

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Getting through the Review

- **Quality control system findings**
 - Tip – Tailor your QC Document to what you actually do
- **Engagement findings**
 - Interviews with peer review team are critical
 - Tip – Have the right people in the interview
 - Tip – Answer the question

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Getting through the Review

- **Engagement findings**
 - Issues related to documentation should focus on what is documented
 - Tip – Look in other workpapers for related work
- **Focus on significance of the issue**
 - Tip – Differentiate between not considered vs got the wrong answer
 - Tip – Materiality isn't always important
 - Peer reviewer focuses on the system of quality control

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Getting through the Review

- **Matters for Further Consideration (MFCs)**
 - Tip – Make sure you agree with the facts of the Matter
 - Team Captain will re-write so Matter is accurate
 - Tip – Focus on why the system of quality control didn't work
 - Design vs. Operational issue

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Getting through the Review

- **Matters for Further Consideration (MFCs)**
 - Tip – Focus on mitigation of error
 - Materiality, other audit procedures, etc
 - Tip – Your response should be written for the Report Acceptance Body

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Getting through the Review

- **Dealing with omitted procedures and material misstatements**
 - **Tip – Consider consultation in researching**
 - **Responsibility of the Firm to correct**
 - Usually involves contact with client
 - **Tip – do not delay addressing the issue**
 - **Does not have to be completed before peer review can be completed**
 - **Tip – Do not act hastily**

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Getting through the Review

- **Findings for Further Consideration (FFCs)**
 - **Tip – Make your Response fix the QC System**
 - **Tip – “Do better” may not be responsive to the Report Acceptance Body**

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Getting through the Review

- **Deficiencies**
 - **Deficiency – Quality control system does not provide reasonable assurance of complying with professional standards in one or more important aspects**
 - Only occur in about 5% of peer reviews
 - **Significant Deficiency – Quality control system does not provide reasonable assurance ... in all material respects**
 - Only occur in about 1% of peer reviews

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Getting through the Review

- Representation letter
 - Boilerplate is open-ended
 - Tip – Make it accurate

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Getting through the Review

- Exit Conference
 - Summarizes peer review findings
 - Tip – All A&A supervisors should be there, and the Tax QC Partner should be there
 - Make sure all MFC and FFC forms are completed and signed
 - Tip – don't sign something you don't agree with
 - Tip – Your response is for the Report Acceptance Body

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Getting through the Review

- Exit Conference
 - Two weeks to complete FFC forms
 - Tip – Get Team Captain's input on response
 - Tip – Your response is for the Report Acceptance Body

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Common Peer Review Findings

- **Documentation is always a problem**
 - Focus on what was done, not what should have been done
 - Look at related areas for relevant documentation
 - Purchased practice aids are comprehensive – use them

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Common Peer Review Findings

- **Not performing walk-throughs of key controls over significant accounts**
 - Not just about cash
 - Make sure revenue accounting is walked-thru
 - Consider Cycles
 - Revenue cycle
 - Expenditure cycle
 - Treasury cycle

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Common Peer Review Findings

- **Not tailoring audit programs for risk assessment**
 - Canned audit programs are generally not responsive
 - Ask “What is the risk of material misstatement and what are doing to see if it is realized”
 - Do for each relevant assertion for all significant accounts and disclosures

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Common Peer Review Findings

- **Not communicating required matters with management and governance**
 - Document no MWs/SDs (and ask yourself if that is really the truth)
 - Use form letter at a minimum, serve your client at the maximum
- **Sampling matters when not auditing entire population**
 - Purchased practice aids do not sample, so *Guide to Sampling* may need to be in your library

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Getting Value from Your Peer Review

- **Pick a GREAT peer reviewer**
- **Should understand your practice**
- **Should know more about audit and accounting than you do**
- **Help the Team Captain understand your practice**

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Getting Value from Your Peer Review

- **Send them the CEO Interview and quality control questionnaire early**
- **When client list ready, discuss it with the Team Captain at some length**
- **During the review, Listen and Learn**
- **Carefully craft responses to MFCs and FFCs**
- **Get a Power Exit Conference**

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In Conclusion -

- Check out the AICPA peer review resource center

<http://www.aicpa.org/members/div/practmon/index.htm>

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In Conclusion -

Questions???

Bon-Audit Petite!!!

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