

Peer Review Update – Changes on the Horizon

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About a quarter of a century ago, the CPA profession responded to concerns of the American public about the quality of audits. A voluntary program of submitting audits, reviews, and compilation practices to a review by other CPAs, and making the results of these peer reviews available to the public, was instituted. A decade later, the program was greatly expanded and became mandatory for all AICPA and Georgia Society of CPAs members who practiced in firms performing audits, reviews, and compilations. At the time, the members voted that the results of those reviews in the expanded program would not be made public.

Today, after almost 5,000 peer reviews of Georgia firms and 100,000 peer reviews nationally, the program has seen numerous changes in the details, but the founding principle has remained unchanged - a review of a CPA's practice by a peer to determine whether the firm has displayed the competencies necessary to offer to the public a service of attesting to financial statements.

The profession is again faced with a crisis of public confidence in our attest practices, and this time Congress has legislated unprecedented oversight of the profession. The results of the legislation are still a work in progress. Because the AICPA believes strongly that it must protect the public interest, important changes are being considered. You recently received an AICPA ballot to revise the ethics rules to improve the responsiveness and openness of the self-regulatory process. There are also changes taking place in the peer review area.

First, and most significantly, there is a proposal going before AICPA Council to bring to the membership a ballot to make the results of all peer reviews available to the public. This initiative will be working its way through the process to you this fall and winter. In 1988 when the membership voted to make peer review a requirement for all firms providing A&A services, the AICPA Council believed the initiative would fail unless the results of the peer review were not put in a public file. Consequently, the value of a peer review to firms did not include broader value to the profession. You may have heard of the AICPA survey that showed users of CPA services had lost confidence in CPAs generally, but believed strongly that their CPA was doing it right.

Making the peer review reports available to the public could be an important part of restoring public confidence in the profession as a whole. Whether you offer an attest service or not, because the value of the license to practice as a CPA is significantly impacted by public confidence in the profession, you are urged to become familiar with the issues and vote on this important matter.

Second, proposed changes to the language of the peer review report have just finished the exposure period (the Georgia Society submitted a comment letter), and the Peer Review Board is considering the proposed changes. The objective of these changes is to make the transition from serving the originally intended users of peer review reports (the firms) to the current users (governmental authorities, clients, potential clients, etc). These changes may have little or no significance to firms, but they will be important to other users' understanding of what a peer review is, and what it is not.

Finally, and directly related, the communication of the scope and results of peer reviews must be understandable by the public, and provide them useful information about the firm. Currently, there is no indication in a peer review report as to whether any weaknesses in a firm's quality control were noted, except for those few (and generally large) firms in the SEC Practice Section. In recent years over 95 percent of firms have received an unmodified peer review report, which communicates to a reader that the firm's quality control meets professional standards. While a reader of the peer review report could recognize that a firm was in the "bottom" five percent, there is no differentiation in the 95 percent firms between those that need some improvements from those that are providing really top quality attest services.

As the profession considers these changes, we are also dealing with the dichotomy of firms that audit public companies undergoing a review by the Public Companies Accounting Oversight Board to satisfy the requirements of Sarbanes-Oxley, and also having a peer review to satisfy state boards of accountancy regulatory requirements and AICPA and state society membership requirements. At this writing, other regulatory agencies, including banking agencies, the Inspectors General and the Department of Labor, are considering their response to the crisis in confidence. The Department of Labor in particular is concerned that the peer review process is not responsive to their concerns about the quality of employee benefit plan audits under ERISA requirements. One or more of these groups may be given a seat at the peer review table.

At a more immediate level, we are approaching the next busy season and should be sensitive to some of the common practice problems that have been identified in recent peer reviews. Lack of documentation of important procedures performed, results obtained, and conclusions reached continue to be high on the list of practice deficiencies. The importance of documentation resides with users, whether they are supervisors, owners or clients. If information isn't available, the quality of decisions made will be adversely impacted, whether they are attest, accounting, business advisory services or tax related. Inadequate planning results in missing procedures important in identifying client accounting mistakes or omissions, not focusing on the risks (including fraud risks) and instead spending unnecessary effort on low risk or immaterial items, and not doing work at the right time thereby causing problems in evidentiary matter. A third area that leads to deficiencies is not using the practice aids available. Whether it is work programs and checklists, disclosure checklists or examples in the literature, not using the resources available usually leads to an incomplete or improper work product for our clients. Using the resources available, including particularly consulting with other professionals, is the best way to provide more valuable service to your clients.

How we act today in response to these matters will have an important impact on how we can practice our profession tomorrow.

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