



# PEER REVIEW news

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## White Paper Issued for Navigating Through Revised Peer Review Standards

The AICPA's Peer Review Board has issued a white paper, *Navigating Through the Revised AICPA Standards for Performing and Reporting on Peer Reviews and Related Interpretations*. The paper serves as a bridge between the current and revised Standards and Interpretations and explains how the changes may affect enrolled firms (including those responsible for the firm's quality-control function), peer reviewers, entities administering peer reviews, and peer review users, including regulators.

The white paper:

- Explains the top level changes in the reporting processes, considered to be the most significant of the changes;
- Provides background and explanations to other significant changes (including the more principles-based approach and changes to engagement and report reviews);
- Discusses how the comment letters received in response to the exposure draft were considered in the process of finalizing the revised Standards; and
- Describes how readers can learn more about the revised Standards.

Some of the revised Standards and Interpretation changes affect enrolled firms' 2009 peer review scheduling, for which planning could occur in fall 2008. In addition, there is a change in regard to independence requirements, which could affect how enrolled firms conduct their 2008 monitoring procedures.

To ensure AICPA Peer Review Program integrity and usefulness, the revisions were designed to meet stakeholders' needs. The revisions recognize the public interest in the quality of the accounting, auditing and attestation services provided by members' firms. They also recognize the importance peer review plays in the state board of accountancy licensure process and for other regulators such as the Government Accountability Office. The revisions are expected to result in a more efficient and effective peer review process. The white paper will assist those parties interested in peer review to gain a better understanding of the revised guidance and serve as a helpful resource to navigating through the revised Standards and Interpretations.

The revised Standards and Interpretations are effective for peer reviews commencing on or after Jan. 1, 2009, and are applicable to all firms enrolled in the peer review program and subject to peer review. Firms currently enrolled in the Center for Public Company Audit Firms Peer Review Program are covered under this measure.



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# BEST PRACTICES

## Areas Where Firms Are Having Recurring Deficiencies

The following is a listing of the most common recurring deficiencies being noted on Ohio reviews. Please review them carefully so they do not appear on your firm's next peer review. This information is to be used in conjunction with the current Peer Review Standards. New guidance will be issued for use with the revised Peer Review Standards, effective Jan. 1, 2009. The terms, findings, matters and deficiencies will be changing when the revised Standards are put into effect. For further information or the complete listing of deficiencies being noted on the national level, visit the Peer Review program section on the AICPA Web site.

### MINOR ENGAGEMENT DEFICIENCIES

#### Reports, Financial Statement Measurement, Presentation, and Disclosure:

- Compilation reports that failed to include the paragraph regarding the omission of supplemental information as applicable in the circumstances.
- Omitted or inadequate disclosures related to minor account balances or transactions (for example: minor disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long-term-debt, related party transactions, concentrations of credit risk).
- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (OCBOA) properly reported on but containing inconsistencies between the report and the financial statements.
- Bank overdrafts not properly presented on the balance sheet, failure to accrue income taxes where the accrual and provision are not expected to be significant to the financial statements taken as a whole, missing disclosures in the financial statements where the item to be disclosed was included in a disclosure checklist used in preparing the financial statements.

#### Audit Procedures and Documentation:

- Financial Statement titles on computer-generated financial statements that were inconsistent with the accountant's report.
- Omission of certain noncritical planning documentation required under professional standards, provided overall planning, including documentation, is considered to comply with professional standards.
- Failure to document assessment of control risk when the audit program and substantive procedures support assessment at the maximum for all critical assertions related to significant balances and classes of transactions.
- Minor dating discrepancies between the dating management representation letters and/or attorney letters, and the last day of field work.

### SIGNIFICANT ENGAGEMENT DEFICIENCIES

#### Reports, Financial Statement Measurement, Presentation, and Disclosure

- Inappropriate references to GAAP in the accountant's report on financial statements in conformity with OCBOA.
- Failure to disclose the omission of the statement of cash flows in financial statements prepared in accordance with GAAP.

- Failure to disclose, in the accountant's or auditor's report, a material departure from professional standards [examples include: omission of significant income tax provision on interim financial statements; omission of significant disclosures related to defined employee benefit plans; or omission of required supplemental information for a common interest realty association (CIRA)].
- Significant departures from the financial statement formats prescribed by industry accounting and audit guides.

#### Audit Procedures and Documentation

- Failure to document audit planning procedures, use a written audit program or failure to consult industry audit guides.
- Omission of key components in a client management representation letter.
- Failure to document the nature and extent of analytical procedures.
- Failure to document communications in between predecessor and successor auditors.

#### SSARS Procedures and Documentation:

- For review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures.



- For review engagements, failure to obtain a client management representation letter, and failure to segregate the current portion of long-term debt.

## SPECIFIC COMMON FINANCIAL STATEMENT DEFICIENCIES

### Assets:

- Improper classifications of current and long-term assets, investments in debt and equity securities and improper recordings of capital leases as operating leases.
- Cash overdrafts shown as a negative balance.

### Liabilities:

- Improper classifications between current and long-term debt.

### Statement of Income:

- Income tax provision, where applicable, not recorded on interim financial statements.

### Statement of Cash Flows:

- Misclassification of activities, especially between investing and financing activities.

### Incomplete and Missing Disclosures:

- Current portion of long term debt and other required disclosures relating to long term debt.
- Use of estimates.

## COMMON FUNCTIONAL AREA DEFICIENCIES

### Engagement Performance

- Failure of firm personnel to consult reference materials, outside sources or engage the services of specialists as

required by firm quality control policies which resulted in financial statement disclosure or presentation departures, when required by firm policies and procedures.

- Failure to perform an adequate review of the engagement working papers and/or the accountant's and/or auditor's report and accompanying financial statements by the practitioner-in-charge of the engagement prior to the issuance of the auditor's or accountant's report.
- Failure to use accounting and auditing practice aids developed by third-party providers as required by firm policy, which resulted in engagement deficiencies, when required by firm policies and procedures.

### Personnel Management:

- Failure of professional staff to take adequate continuing professional education in specialized industries, which resulted in disclosure and reporting deficiencies on engagements selected for review.

### Monitoring:

- Failure to implement a procedure that provides a means of ensuring that library materials contain relevant and up-to-date references.
- Failure to document the firm's compliance with policies and procedures for its system of quality control as required by AICPA Quality Control Standards.
- Failure to perform annual inspections that include the functional elements of quality control, as required by firm policy.
- Failure to adequately document the results of pre-issuance reviews and communicate the results to the professional staff.

## COMMON DEFICIENCIES UNIQUE TO SPECIALIZED INDUSTRIES

### Engagements Subject to Government Auditing Standards:

- Management letters not modified for Yellow Book or Single Audit Act disclosures.

### Not-For-Profit Organizations:

- Incomplete financial statements or financial statements not in conformity with professional standards, under OMB Circular A-133, Single Audit Act Engagements, and AICPA industry audit guide for not-for-profit organizations receiving federal awards.

### Employee Benefit Plans:

- Inadequate testing of investments, particularly when held by outside parties.
- Failure to properly report on and/or include required supplemental schedules relating to ERISA and DOL.

### Common Interest Realty Associations (CIRAS):

- Required supplemental information is not presented and the accountant's report does not disclose the departure.

### Construction Contractors:

- Failure to adequately describe the accounting policies relating to the measurement of progress toward completion of contracts when the percentage-of-completion method is used.
- Improper classification and disclosure issues related to billings, related costs and estimated revenue.
- Netting of account balances that should be displayed separately on the balance sheet (such as significant billings in excess of earned revenue that is netted against work in process).

### Other Comprehensive Basis of Accounting (OCBOA) Engagements:

- Failure to state that the basis of presentation is a comprehensive basis of accounting other than GAAP and inadequate description of how it differs from GAAP.
- Failure to appropriately modify the accountant's report to reflect financial statement titles that are appropriate for the basis of accounting used.



## 2008 AICPA Peer Review Program Conference

### Nov. 12-14 in Vegas

The 2008 AICPA Peer Review Program Conference will be held Nov. 12–14 in Las Vegas. The conference features two full days of general and administrator sessions. It will include the latest developments, insights and training regarding the peer review process, including the revised Peer Review Standards, effective Jan. 1, 2009, that peer reviewers, technical reviewers, administrators and committee members will encounter.

Attendees will receive updated information that affects their role in the peer review process, participate in challenging conference cases and share recent peer review information, ideas and experiences.

In conjunction with the 2008 Peer Review Program Conference, the AICPA will be sponsoring How to Conduct a Review under the AICPA Practice-Monitoring Programs (HCRPM) based on the revised *Standards for Performing and Reporting on Peer Reviews* (effective Jan. 1, 2009) on Nov. 13-14, at the Bellagio Hotel. Participants will have the opportunity to meet and mingle with conference attendees while dining and enjoying the receptions.

Additional conference, course, and registration information will be available at [www.aicpa.org/members/div/practmon](http://www.aicpa.org/members/div/practmon) in the near future.

## Annual Verification of Reviewers' Resumes

Ensuring that reviewers' resumes are updated annually and are accurate is a critical element in determining if the reviewer or review team has the appropriate knowledge and experience to perform a specific peer review. The administering entity must verify information within a sample of reviewers' resumes on an annual basis. Verification must include the reviewers' qualification and experience related to engagements performed under GAGAS, audits of employee benefit plans under ERISA, and audits of insured depository institutions subject to the FDIC Improvement Act of 1991.

The verification procedures must include, but are not limited to 1) calling/writing peer reviewers and requesting them to provide specific information such as the number of engagements they are specifically involved with and in what capacity, 2) determining from the AS/400 computer system whether the peer reviewer's firm actually performed those engagements during its last peer review, 3) verifying license to practice, and 4) verifying CPE attendance and credits. The 2009 selections will be requested in early May.

If the reviewer fails to cooperate in a timely professional manner with the reviewer resume verification process, the administering entity may request that the reviewer be suspended from performing peer reviews.

# Review REMINDERS

- All requests for review changes must be submitted in writing to: The Ohio Society of CPAs, Peer Review Department, 535 Metro Place S., Dublin, OH 43017-7810 or via email to [peerreview@ohio-cpa.com](mailto:peerreview@ohio-cpa.com). This includes, but is not limited to: extension requests, year-end changes, reviewer changes and changes in actual review dates. No extensions will be approved, if the date requested exceeds your firm registration date with the Accountancy Board of Ohio (ABO).
- Please be sure to check all dates associated with your firm's review. The review due date for the AICPA and/or the Society may not necessarily fall before your firm registration renewal due date with the ABO. It is your firm's responsibility to make sure that the completed review documentation and the registration renewal information are submitted to the Accountancy Board of Ohio by the deadline date assigned to your firm. The ABO does not grant extensions, but does enforce late fees.
- Within 30 days of the completion of your firm's peer review, the review documents (report letter, letter of comment, letter of response and acceptance letter) will be automatically posted to the Facilitated State Board Website unless your firm notifies us that it is opting out. Please refer to the peer review Web site for more information <http://www.ohioscpa.com/Content/40281.aspx>
- The 2009 scheduling forms were mailed out to all firms with reviews due from January – April. Those firms due for review May 1 – Dec. 31 will receive your scheduling forms by the end of November. If you are not sure how to go about selecting a reviewer to perform your review, please refer to the "Best Practices" section of the Summer 2008 peer review newsletter or visit the OSCPA peer review Web site for more information.
- The annual administrative fee for 2009 was mailed on Oct. 1. This fee is in addition to the scheduling and evaluation fee and your firm's review fee. Please be sure to send back the invoice even if you are no longer practicing, your firm has sold, etc. This will help to keep the program fees down and our records updated.
- The peer review committee does not meet from February – April. Therefore, your firm's review will need to be submitted prior to the January meeting in order for it to be presented to the committee for consideration. The committee will resume the monthly meetings beginning Friday, May 15



**REMINDER** – If you haven't updated your reviewer resume within the last year, please be sure to do so. Go to [www.aicpa.org](http://www.aicpa.org) and click on Professional Resources.



# Dates TO REMEMBER

## ▶ Peer Review COMMITTEE MEETINGS:

Thursday, November 20  
Friday, December 19  
Friday, January 16

## ▶ AICPA Peer Review CONFERENCE

November 13 & 14 – Las Vegas

## 2008-09 Peer Review Courses:

### ▶ DISCLOSURE - THE KEY TO FINANCIAL STATEMENTS

November 9 – Cincinnati

### ▶ BEST PRACTICES AND CURRENT UPDATE FOR TODAY'S COMPILATIONS AND REVIEWS

November 7 – Columbus  
November 11 – Dayton

## Why was My Peer Review Chosen for Oversight?

All administering entities for the AICPA Peer Review Program are required to perform oversights on the peer reviewers and peer review firms. The purpose of this is to determine whether the peer reviewer has performed a peer review in accordance with standards, and has reached appropriate conclusions. It also serves as an educational tool, promotes consistency and proficiency by all parties involved in the peer review process, and resolves any difference of opinion between the firm and peer reviewer.

There are a variety of ways to determine what firms or reviewers should get selected for oversight. The selections are made throughout the year and can be on a random or targeted basis. As part of the oversight process, the administering entities should conduct oversight on a minimum of 2% of all reviews performed in a 12-month period and within the 2% selected there must be at least two of each type of peer review evaluated (i.e., system, engagement and report reviews). Two on-site oversights must include either audits of employee benefits plans under ERISA, engagements performed under Generally Accepted Government Auditing Standards (GAGAS), or audits of insured depository institutions subject to the FDIC Improvement Act of 1991 (FDICIA).

If your firm is selected for oversight, do not be concerned. It does not necessarily mean that there is an issue with your firm. The majority

of the oversights performed are selected randomly and although sometimes inconvenient, they are necessary to ensure the integrity of the Peer Review Program. They are not intended to be a surprise. All parties involved will be notified of the oversight selection. Designees from the peer review committee are assigned to perform the on-site oversights for the system reviews selected. These designees are required to sign a confidentiality statement as required by the AICPA's professional standards. They will perform a full oversight, which includes review of all team captain's working papers, the reviewed firm's financial statements and workpapers on the engagement. The committee designee will also attend the exit conference along side of the reviewer.

Oversights performed on engagement or report reviews are typically performed as a full working paper review by a technical reviewer. The full working paper review consists of requesting all of the team captain's or reviewer's working papers prior to presenting the peer review documents to the peer review committee.

After the oversight is concluded, the committee designee or technical reviewer will send a report to the peer review committee with any findings noted from their oversight. The committee will review the report and either accept it as presented or give the firm and/or reviewer any needed feedback.

## FOR REVIEWERS

### Peer Reviewer's Alert 08-01

- White Paper Issued for Navigating Through Revised Peer Review Standards
- 2008 AICPA Peer Review Conference
- Webinar Scheduled to Discuss the Revised Peer Review Standards Effective Jan. 1, 2009
- Peer Review CPE Waiver Update
- Team Captain Packages & Practice Management
- Tool Kits Available

- Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice
- (SQCS No. 7) Practice Aid Available

You can review the Alerts in their entirety as well as obtain a copy of the 2008 Consolidated Reviewers' Alert by downloading them from the AICPA Website at [www.aicpa.org/members/div/practmon/pralert](http://www.aicpa.org/members/div/practmon/pralert).



If you would like to receive this newsletter in electronic format, please email: [peerreview@ohio-cpa.com](mailto:peerreview@ohio-cpa.com) with the subject line: Electronic Subscription and we will include you on our mailing list.

# PEER REVIEW news

## Questions? We can help.

### ADMINISTRATIVE SUPPORT

For questions concerning the peer review program, general scheduling or basic administration, please contact the following Society peer review staff at 800.686.2727:

**Inger Kimbler**, *peer review administrator*  
(ext. 364) or email: [ikimbler@ohio-cpa.com](mailto:ikimbler@ohio-cpa.com)

**Karen Thomas**, *peer review administrator*  
(ext. 323) or email: [kthomas@ohio-cpa.com](mailto:kthomas@ohio-cpa.com)

**Heather Eskew**, *senior peer review administrator* (ext. 373) or email:  
[heskew@ohio-cpa.com](mailto:heskew@ohio-cpa.com)

**Lisa Brown**, *manager technical services*  
(ext. 309) or email: [lbrown@ohio-cpa.com](mailto:lbrown@ohio-cpa.com)

### TECHNICAL SUPPORT

The Society has five technical reviewers available as a resource for reviewers in resolving issues and answering questions related to the peer reviews you are performing.

For system, engagement or report review questions contact:

**Michael L. Arend, CPA** - 419.399.3686 or  
[pldgcpa@bright.net](mailto:pldgcpa@bright.net)

**Thomas O. Bowns, CPA** - 513.241.2940 or  
[tbowns@mellottcpa.com](mailto:tbowns@mellottcpa.com)

**James E. Rensi, CPA** - 419.782.7166 or  
[rensij-lkcpa@saa.net](mailto:rensij-lkcpa@saa.net)

For engagement or report review questions contact:

**Delano C. Hoover, CPA** - 937.456.4113 or  
[del@hooverandrobarts.com](mailto:del@hooverandrobarts.com)

**Steven A. Goldberg, CPA** - 574.289.8984  
or [sgoldberg@sagcpa.net](mailto:sgoldberg@sagcpa.net)



THE OHIO SOCIETY  
OF CPAs

[www.ohioscpa.com](http://www.ohioscpa.com)

## Interested in serving on the peer review committee?

Looking for a volunteer opportunity that benefits your profession and your experience as a CPA? If so, don't miss out on this opportunity to contribute your peer review knowledge by volunteering to serve on this active committee today! If you are interested in learning more about serving on the peer review committee, please contact Lisa Brown at [lbrown@ohio-cpa.com](mailto:lbrown@ohio-cpa.com) or by phone 800.686.2727 x 309.

## Interested in becoming a peer reviewer?

Now is the perfect time to become a peer reviewer! With more than 32,000 firms participating in the Peer Review Program nationwide, demand for your skills in this important professional program has never been higher.

When you become a peer reviewer, you'll gain valuable knowledge, expertise and exposure and quickly earn the respect of your peers. Ensure the quality of accounting and auditing services and uphold the integrity of our profession—apply now to take on this highly respected role.

### BENEFITS OF BEING A PEER REVIEWER

Being a peer reviewer will open 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'LL:

- 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 as a result of performing peer reviews.
- Be of benefit to the accounting profession.
- Develop an additional profit center for your firm.

### TO QUALIFY AS A PEER REVIEWER YOU MUST:

- Be an AICPA member in good standing.
- Be active in public practice at a supervisory level in the accounting or auditing function.
- Have 5 years of public accounting experience.

In addition, if you are a partner in your firm, you are qualified to be a team captain.

For more detail on the program or how you can sign-up, please contact Lisa Brown, manager technical services at [lbrown@ohio-cpa.com](mailto:lbrown@ohio-cpa.com) or call 800.686.2727 x 309.