

Peer Review

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Peer Review

The AICPA Peer Review Program (PRP) seeks to achieve quality in the performance of accounting and auditing engagements of non-SEC registrants through education, and remedial, corrective measures. The AICPA Peer Review Board (PRB), which oversees this national program, is currently considering several critical enhancements to the Peer Review process, seeking input from the state boards of accountancy to address their needs. While the PRB further evaluates these recommendations, the newly formed Public Company Accounting Oversight Board (PCAOB) will begin determining its role in monitoring the profession's auditing of publicly traded companies.

History of Peer Review

The AICPA PRP was put in place to monitor the profession and establish a layer of public protection by identifying CPA firms that have inadequate systems of quality control, detecting non-performance in accordance with professional standards in all material respects, imposing remedial action to correct deficiencies, and improving firms' accounting and auditing practices. The PRP requires a peer review of the firm's accounting and auditing practice every three years.

Since its inception, the program has been amended several times to expand its reach and strengthen its effectiveness. The PRP continues to evolve in response to changing market needs.

1977 - Voluntary AICPA peer review program established.

1988 - AICPA bylaw approved requiring all AICPA members active in the practice of public accounting to be associated with a firm that is enrolled in an AICPA approved practice-monitoring program.

2000 – AICPA bylaw amendment approved requiring *individual* CPAs to enroll in an Institute-approved practice-monitoring program if they perform compilation services in firms or organizations not eligible to enroll in such a program.

2001 – AICPA Standards for Performing and Reporting on Peer Reviews revised to include three different tiers of peer reviews – System, Engagement and Report Reviews discussed below.

Objectives of Peer Review

Firms that perform engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards (Yellow Book) and/or examinations of prospective financial information under the Statements on Standards for Attestation Engagements (SSAEs) must have a System Review, which periodically evaluates their system of quality control by independent peers. These reviews are system and compliance oriented with the current objectives of evaluating whether:

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1. The reviewed firm's system of quality control for its accounting and auditing practice has been designed to meet the requirements of the Quality Control Standards established by the AICPA.
2. The reviewed firm's quality control policies and procedures are being complied with to provide the firm with reasonable assurance of complying with professional standards.

Firms that perform compilations (except as noted below) or review services under Statements on Standards for Accounting and Review Services ("SSARS") and/or services under the SSAEs not included in system reviews must have an Engagement Review. The objectives of an engagement review are to provide the peer reviewer with a reasonable basis for expressing limited assurance that:

1. The financial statements or information, and the related accountant's report on the accounting and review engagements and attestation engagements submitted for review, conform in all material respects with the requirements of professional standards; and
2. The reviewed firm's documentation conforms with the requirements of SSARS and the SSAEs applicable to those engagements in all material respects.

Firms that only perform compilation engagements under SSARS where the firm has compiled financial statements that omit substantially all disclosures have peer reviews called report reviews. The objective of a report review is to enable the reviewed firm to improve the overall quality of its compilations that omit substantially all disclosures. The reviewer provides comments and recommendations based on whether the submitted financial statements and related accountant's reports conform with the requirements of professional standards in all material respects.

Peer Review Engagement Selection

In a peer review a representative sample of the firm's engagements is selected for review. In a System Review, engagements are selected for review based on a risk assessment, which heavily weighs high-risk engagements. However as a part of the selection process, a peer reviewer must select at least one governmental audit, one employee benefit plan audit, and one depository institution audit if certain dollar thresholds are met.

Peer Review Committee

The acceptance of a firm's peer review includes a (a) technical review by a CPA who is independent of the reviewed firm and the peer review team, and (b) consideration of the peer review documents by an independent committee of experts in accounting, auditing and peer review that are currently in practice. Peer review documents often include comments issued by the peer reviewer on findings noted during the peer review and

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suggestions for improvements the firm should implement to prevent those matters from recurring. The independent peer review committee may require that a firm in need of improvement to complete remedial and educational follow-up actions as a condition of acceptance. These actions may include, but are not limited to, reviews of subsequent engagements, revisits to the firm by the peer reviewer, pre-issuance and post-issuance reviews of engagements including working papers, and participation in CPE and accelerated peer reviews. This entire process results in improvements in a firm's compliance with professional standards on accounting and auditing engagements.

Peer Review Administration and Oversight

The peer review process includes rigorous checks and balances through the administration and oversight of the process. The Program is administered by 41 administering entities, including the Maryland Association of Certified Public Accountants (MACPA), across the United States for the 54 jurisdictions and is overseen by the PRB and its staff to ensure consistent application of the peer review standards and guidance throughout the nation. The PRB's oversight program requires that each administering entity have its own formal oversight process. Visitation of each of the 41 administering entities, which often includes recommendations for improvements in administering peer reviews, must occur every other year.

During its oversight review, the PRB reviews the administrative and technical review, peer review committee acceptance, internal oversight processes, and performs detailed reviews of peer reviewers' working papers and documents. Certain aspects of oversight are also performed annually on every administering entity.

Disciplinary Process

A disciplinary process is incorporated within the peer review program for any firm that refuses to cooperate, fails to correct material deficiencies, or is found to be so seriously deficient in its performance that education and remedial corrective actions are not adequate.

The AICPA PRB may decide, pursuant to due process, to appoint a hearing panel to consider whether the firm's enrollment in the Program should be terminated or whether actions should be taken. When the firm's enrollment has been terminated, the firm has a right to appeal the decision to the AICPA Joint Trial Board.

A separate disciplinary process exists for peer reviewers and administering entities in the event that performance issues arise at that level.

In addition to the measures above, the AICPA may ultimately revoke the membership of an individual who fails to fully comply.

Improvements to AICPA Peer Review Process

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Early in 2001, the PRB began to re-evaluate and recommend improvements in the performance, reporting and administration of system reviews. Over 1,000 surveys were sent to state boards of accountancy, peer review committee chairs, technical reviewers, administrators and firms that recently had system reviews, to gain feedback and assess the strengths and weaknesses of the current peer review process. Although this process was started prior to the enactment of the Sarbanes-Oxley Act, the PRB is considering this act determine the appropriateness of its inspection provisions in a non-SEC environment. Recommendations of the POB Panel on Audit Effectiveness are also being considered.

Preliminary recommendations are expected to enhance the peer review's current approach to focus more closely on higher risk areas that are of a greater public interest. The preliminary recommendations also seek to make the peer review report more informative and comprehensible so those relying on it can enhance its usefulness in various decision-making processes. It is expected that the PRB will recommend steps to enhance its oversight of the program and provide greater transparency on the results of the firms' peer reviews.

State Licensing Requirement

The AICPA and MACPA promote the concept of peer review at the state level. At this crucial point in our profession we, as CPAs, must do all that we can to maintain the public trust. It is the core of the profession. Self-regulation in the form of peer review is key to maintaining that trust by ensuring that high standards of professionalism and independence are upheld and that CPA firms maintain an effective system of quality control. A strong program of self-regulation is preferable to further government regulation.

The AICPA Peer Review Program has proven to be a very effective means of self-regulation in Maryland. Firms that have undergone peer review in Maryland have demonstrated improvement in the quality of their work. Statistics on performance since its inception show this to be true. Significant deficiencies were found in 20% of CPA firms in Maryland that underwent their initial peer review. That number dropped to 11% in subsequent reviews. The number of firms that had no deficiencies at all in their initial review was 23%. In subsequent reviews the number of firms with no deficiencies at all increased to 45%. These statistics are consistent with the national averages.

However, not all CPA firms in Maryland that issue financial statements are subject to peer review. It is in the best interest of the public and the CPA profession that those firms undergo peer review. With the threat to the profession of more regulation and oversight, it is most important that CPAs demonstrate adherence to professional standards by participating in an effective practice-monitoring program such as the AICPA Peer Review Program.

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AICPA has issued its revised its standards for performing and reporting on peer reviews for CPA firms that do not audit SEC clients. The revisions result in significant efficiencies in the way peer reviews are conducted and administered, while continuing to improve the quality of financial reporting and protect members of the public who use and rely on those reports. This new, efficient process is less burdensome for many small CPA firms that would be affected by a mandatory peer review requirement.

Additionally, the Accounting and Review Services Committee of the AICPA has revised standards for reporting on compilation engagements. These changes allow small firms to perform limited services that are not subjected to peer review—thereby eliminating the additional burden that mandatory peer review may have caused on firms that perform limited services. The revisions would not impact financial statements intended for third parties and therefore would not affect the public.

A recent report from the Public Oversight Board's Panel on Audit Effectiveness emphasizes the importance of an effective system of quality control. The report states that the peer review process is a critical element in "closing the loop" to provide assurance to the public that performance in the profession measures up to high standards and continues to improve. It also charges CPAs, as members of a respected profession with assigning their highest priority to protecting the public interest.

Recommendation

The AICPA/NASBA Uniform Accountancy Act (UAA) contains a peer review section requiring that firms performing audits, reviews or compilations undergo a peer review every three years. State boards that embrace the peer review process as a requirement for re-licensure add a critical layer of protection against professional deficiencies or misconduct. Currently 37 other states require peer review, six are in the process of implementing peer review and 5 more are considering legislation to adopt a peer review requirement. We believe the time is right for Maryland to step up to this standard. On behalf of our members, the CPA profession at large and, most importantly, the public, we support the Board of Public Accountancy's proposal to introduce a mandatory peer review requirement in the state of Maryland as proposed in the UAA.