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presents

AICPA Peer Review Program Compliance: Latest Lessons

Leveraging the Standards for Optimal Peer Review Outcomes

A 120-Minute Encore Presentation of the Teleconference/Webinar with Live, Interactive Q&A

Today's panel features:

Raymond Nowicki, Managing Partner, **Nowicki and Company, LLP**, Buffalo, N.Y.

Brent Silva, Managing Partner, **Silva Gurtner & Abney**, Mandeville, La.

Tuesday, October 19, 2010

The conference begins at:

1 pm Eastern

12 pm Central

11 am Mountain

10 am Pacific

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AICPA Peer Review Program Compliance: Latest Lessons Webinar

Oct. 19, 2010

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About The Speakers

- Raymond M. Nowicki, CPA
 - Member, NYSSCPA Peer Review Committee 1995-present (past chair of oversight)
 - Author and presenter, AICPA 2010 Peer Review “How To” Manual
 - Member, AICPA Peer Review Board (2002-2004)
 - Managing Partner/Audit Partner, Nowicki and Company, LLP , Buffalo, N.Y.

About The Speakers (Cont.)

- Brent A. Silva, CPA
 - Current member of the AICPA Peer Review Board and Standards Task Force
 - Peer Review Committee of the Society of Louisiana CPAs
 - Speaker for AICPA and SLCPA
 - Audit partner, Silva Gurtner & Abney, LLC, Mandeville, Louisiana

Today's Program

1. The “Walk of Shame”: Selected enforcement actions by the SEC, the AICPA JEEP and SBAs, slides 8 through 16 (*Ray Nowicki*)
2. Overview of the peer review standards and current “peer review alerts,” slides 17 through 19 (*Brent Silva*)
3. Review of critical elements of SQCS No.7, slides 20 through 32 (*Ray Nowicki and Brent Silva*)
4. Transparency, slides 33 through 37 (*Brent Silva*)
5. Current events, slides 38 through 45 (*Brent Silva*)
6. Common peer review deficiencies as cited in the September 2009 AICPA Oversight Report and report of common remedial actions, slides 46 through 90 (*Ray Nowicki and Brent Silva*)

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The “Walk Of Shame”

Raymond Nowicki, Nowicki & Co.

The “Walk of Shame”: AICPA JEEP

- Arthur S. Gisser of Glenwood Landing, NY, effective March 24, 2009:
 - Rule 202 - Compliance with standards
 - The auditor did not adequately document work performed to plan the audit. (SAS 41, AU §339.01)
 - The auditor failed to prepare written audit programs. (SAS 22, AU §311.05)
 - The auditor failed to obtain sufficient competent evidential matter with respect to work in progress and accounts receivable, as he did not review the pending work orders for completed and unbilled jobs and did not pursue other audit steps to detect earned but not reported receivable amounts. (SAS 31, AU §326.21 and .22)
 - The auditor failed to document justification for relying on alternative procedures to verify accounts receivable rather than third-party confirmations from customers. (SAS 67, AU §330.34 and .35)
 - The auditor failed to obtain sufficient competent evidential matter with respect to assertions applicable to support the existence and value of inventory. (SAS 31, AU §326.21 and .22, SAS 1, as amended by SAS 43 and SAS 67, AU §331.09)

Actions By New York SED (Board of Regents) In 2009

- Charles Chester Cramer, Watervliet , NY: “ deviated from GAAP while auditing a pension plan; surrendered his license”
- Antonio Frank Notaris, Brooklyn , NY: Issuing an audit report when independence was impaired; retraining, two years probation, \$5,000 fine
- Joseph Podhorcer, Nanuet, NY: Audit deficient with several missed disclosures; two years probation, \$2,500 fine

California State Board Of Accountancy

- Abreu, John D., Alturas, CA CPA 13696 (California SBA) April 29, 2007: “Mr. Abreu had no audit programs, no documentation that the audit had been adequately planned and did not obtain sufficient competent evidentiary matter.” Mr. Abreu shall be permanently prohibited from performing audits. Probation on this condition shall continue until such time, if ever, Mr. Abreu successfully petitions the Board for the reinstatement of his ability of perform audits. Mr. Abreu is required to reimburse the Board \$5,538.70 for its investigation and prosecution costs.
- Baka, John Edward , San Francisco, CA CPA 73539 , Oct. 20, 2006: The accusation also includes charges that Mr. Baba’s working paper documentation of the tests performed in support of the audit of the IES-ESOP for the year ended March 31, 2002 was characterized by extreme departures from applicable professional standards constituting gross negligence and/or repeated acts of negligence. Mr. Baka is required to reimburse the Board \$5,108 for its investigation and prosecution costs.

Selected SEC Enforcement Actions

Kiss and Sever:

John M Kiss, independent auditor, knew the client used aggressive accounting methods and estimates and failed to address estimates of income recognition on advance membership fee payments. Mark V. Sever, the concurring partner, failed to identify Kiss' failures.

Frank LaForgia, CPA, independent auditor:

- Failure to staff and plan
- Failure to obtain sufficient competent evidential matter
- Failure to exercise due professional care and professional skepticism
- Failure to develop and adjust his audit programs or procedures when confronted with increased fraud risk
- Relying on management's representations regarding adequacy of a workers comp accrual
- Failure to control the confirmation process and evaluate confirmation responses
- Failure to identify and examine related party transactions

Examples Of Matters Noted In Peer Reviews

(From AICPA Peer Review Board Annual Report on Oversight, issued Sept. 29, 2009)

- Omission of significant disclosures
- Revenues not presented in accordance with professional standards
- Omission of disclosure of method of income recognition
- Failure to disclose significant related party transactions
- Material miscalculations
- Omission of planning documentation
- Failure to document assessment of control risk for critical assertions

Examples Of Matters Noted In Peer Reviews

(From AICPA Peer Review Board Annual Report on Oversight, issued Sept. 29, 2009), Cont.

- Failure to document audit planning, use written audit programs or consult with industry audit guides
- Failure to assess fraud risk
- Failure to tailor audit programs
- Failure to test for unrecorded liabilities
- Failure to confirm significant receivables
- Failure to perform an adequate review of engagement working papers
- Failure to perform pre-issuance review
- ERISA-specific issues

Regulatory Reviews Vs. Peer Reviews

- All meet the same objective.
- Regulators' approach is engagement-driven.
- Peer review approach is system-driven.
 - Forcing reviewers to link findings to system of quality control
 - Limits reliance on checklists (yes/no) and forces more interaction with firm

Conclusion On Deficiencies

There is a direct correlation between findings by regulators and findings by peer reviewers

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Overview Of Peer Review Standards

Brent Silva, Silva Gurtner & Abney

Varying Interpretations Of 2009 Peer Review Standards

- Principles-based standards, which lead to lack of comparability, application, uniformity
- Re-engineering the reporting process for sake of ease of understanding, transparency, promotion of consistency (using the terms “matter,” “finding,” “deficiency” and “significant deficiency”)
 - Confusion regarding understanding of matter and/or linking to systemic reason for matter

Simplified Reporting

- A grading process for systems reviews: “Pass”, “pass with deficiencies”, “fail” (as opposed to “standard report”, “modified report” or “adverse report”)
- Last paragraph of report says: “ In our opinion, the system of quality control for the accounting and auditing practice of XYZ ... has been suitably designed and complied with ... in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. The firm has received a peer review rating of pass.”
- Includes a description of deficiencies only for reports with other than a grade of “pass”

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Critical Elements Of SQCS No. 7

**Raymond Nowicki, Nowicki & Co.
Brent Silva, Silva Gurtner & Abney**

SQCS No 7: A Firm's System Of Quality Control

- “Must”: An unconditional requirement in standards
- “Should”: Presumptively mandatory, but the firm can deviate if it documents justification for departure

SQCS No 7: A Firm's System Of Quality Control: Key Concepts And Rules Affecting All Firms

- The firm **MUST** establish a system of quality control to provide reasonable assurance of compliance with standards and applicable regulatory and legal requirements.
- The system design is dependent on many factors, including firm size and operating characteristics/
- Firm **SHOULD** document its QC procedures.
- Firm **SHOULD** communicate its procedures, but communication may not need to be in writing.
- Elements of a QC system:
 - Tone at the top (leadership)
 - Relevant ethical requirements
 - Acceptance and continuance of client relationships and specific engagements
 - Human resources
 - Engagement performance
 - Monitoring

SQCS No 7: A Firm's System of Quality Control: Key Concepts And Rules Affecting All Firms (Cont.)

- Tone at the top
 - Promote a culture of quality
 - Leaders should set the right example
 - Reward quality work
 - Overarching principle that business strategy:
 - Does not allow commercial concerns to override quality
 - Has reward systems that are designed to promote QC
 - Devote resources to show commitment

SQCS No 7: A Firm's System of Quality Control: Key Concepts And Rules Affecting All Firms (Cont.)

Relevant ethical requirements

- At least annually, the firm SHOULD obtain a written confirmation from all firm personnel on compliance with independence standards.
- Establish policies that assure compliance with ethical standards
- Fundamental principles (responsibilities, the public trust, integrity, objectivity, independence, due care, scope and nature of services)
- Rules set forth in AICPA ET 101 and interpretations
- Personnel should notify firm of independence or ethics breaches.
- Where *regulatory* requirements exist, policies should address rotation of staff.

SQCS No 7: A Firm's System of Quality Control: Key Concepts And Rules Affecting All Firms (Cont.)

- Acceptance and continuance
 - Only those clients for which firm has appropriately considered client integrity and reputation
 - Firm must ask itself if it is competent to perform the job.
 - Can firm comply with legal/regulatory requirements?
 - Suggests that standards may require written understanding between client and firm of engagement scope (but not presumptively mandatory unless otherwise stated in other standards, i.e. AUP)
 - When firm notes issues on above, firm SHOULD document how it resolved the matter.
 - Firm's policies should address what the firm does when it discovers questionable client behavior after the fact, and policies regarding withdrawal from a client.

SQCS No 7: A Firm's System of Quality Control: Key Concepts And Rules Affecting All Firms (Cont.)

- Human resources
 - Policies SHOULD comply *with UAA* where required by law (not NY).
 - Policies SHOULD be designed to provide reasonable assurance that firm has SUFFICIENT capable, competent and committed personnel.
 - Capabilities and competencies are achieved in the traditional ways (CPE, OJT, mentoring).
 - Competency and skill balance of the engagement team
 - Competency of the engagement partner
 - Having industry-specific experience is important.
 - Understanding how your firm's QC system works
 - Understanding a clients IT system; plus
 - The usual things expected of competent staff (CPE, etc.)
 - The value system allows recognition of trade-offs and balance (inter-relationships) so as not to overwhelm the small firm partner.

SQCS No. 7: Engagement Performance

- Policies SHOULD be established to assure that engagements are performed in accordance with standards and legal and regulatory requirements.
- Policies should address all aspects of engagement design including documentation, consultation, supervision and review.
- The importance of timely assembly of working papers

SQCS No. 7: Engagement Performance (Cont.)

- Policies and procedures SHOULD establish the firm standard for maintaining confidentiality for client information, coupled with safe custody, integrity, accessibility and retrievability of engagement documentation.
- Standard suggests the importance of signing and dating working papers.

SQCS No. 7: Engagement Performance (Cont.)

- Importance of complying with records-retention rules and laws
- In consulting with external service providers, assure that you are consulting with a knowledgeable source.
- When differences in opinion exist, firm SHOULD document conclusions.
- Policies SHOULD identify when an “engagement quality review” is necessitated, who is competent to do it, threats to the reviewer’s objectivity, and what documentation of review is to be kept (COLD PARTNER REVIEW).

SQCS No 7: A Firm's System of Quality Control: Key Concepts And Rules Affecting All Firms (Cont.)

- Monitoring policies
 - Very similar to existing standards, but more detailed in who, what, when, why and how to be performed
 - Discusses the difference between monitoring and inspection
 - The problems with self-inspection in sole-proprietorships and very small firms

SQCS No. 7: Monitoring Policies (Cont.)

- Annually, the firm SHOULD communicate results of monitoring and inspections.
- Policies SHOULD address how allegations and complaints are handled, and complaints and allegations SHOULD be investigated.
- Internal documentation of resolution of investigations SHOULD be required and maintained.

SQCS No 7: A Firm's System of Quality Control: Key Concepts And Rules Affecting All Firms (Cont.)

- “The firm SHOULD establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its quality control system.”
- And retain that documentation as may be required by standards or law
- FREE AICPA PRACTICE AID TO IMPLEMENT
SQCS 7 available at

[www.aicpa.org/download/members/div/auditstd/
System_of_Quality_Control_Practice_Aid.pdf](http://www.aicpa.org/download/members/div/auditstd/System_of_Quality_Control_Practice_Aid.pdf)

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Transparency

Brent Silva, Silva Gurtner & Abney

Transparency – Relevance?

- Today's environment focuses on “open book” policy
- Perception issues
- Prior reporting confusing to users
 - Problems linking unmodified report with LOCs
 - Differentiating between LOCs that lead to modified and LOCs
- Regulatory relationships

Transparency - Perception

- Overall lack of understanding of peer review process
 - Became apparent after Enron/Worldcom scandals
 - Greater emphasis after collapse in economy and Madoff scandal
- Profession sees peer review as remedial, not compliance-driven
- Public sees peer review as compliance-driven
 - Professional liability/state board/regulatory bodies

Transparency – Regulatory Compliance

- 45 state boards require peer review.
- New York finally enacted mandatory peer review into law.
- GAO requires peer reviews and disclosure for firms that report under Yellow Book.
- Most professional liability insurance firms require a copy of the report for applications and/or renewals.
- An agreement between the AICPA and state societies will allow state boards access to peer review results.
 - “Opt out” provision: Compromise to push for full transparency
 - Allows a firm to elect not to allow state boards access to results (states vary on agreements)
 - Louisiana does allow a firm to “opt out”

Transparency – Results

- Should be proud of achieving an outstanding result
- Should take responsibility for any issues that arose during process
- A bad mark doesn't scar you for life, just as a good mark doesn't let you rest on your laurels.

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Current Events

Brent Silva, Silva Gurtner & Abney

Recent Changes In Peer Review

- Changes from November 2009 alert regarding broker/dealers
- **July 6, 2010 update:** “Reconciled” package from House version of bill provides the following:
 - Grants PCAOB authority (does not require), by rule, to establish inspections of broker/dealers registered with PCAOB
 - Allows PCAOB to differentiate among classes (e.g. introducing vs. clearing/custodial) and exempt auditors, where inspections would not benefit the public

Recent Changes In Peer Review (Cont.)

- July 6, 2010 update (Cont.)
 - PCAOB must take into account if broker/dealer is member of SIPC or actually holds customer funds.
 - Grants SEC final approval authority over PCAOB's rule
 - Conforms registration with inspection (auditors not covered by inspection rule will no longer be required to register)
- Still awaiting approval by Senate

Recent Changes In Peer Review (Cont.)

- Peer Review Alert June 2009, regarding selection of a “single audit” (also see Peer Review Alert 10-1 February 2010)
 - Selection of at least the “single audit” part of work
 - Does not require scope expansion
 - Only one type of corrective solution when a GAO audit is “blown”
- Qualifications of peer reviewers/disclosure of allegations - investigations
 - Interpretation 34-1 and 181-1b-1 regarding communications relating to allegations or investigations
 - Double-problem for firms (the firm and the peer reviewer)
 - Disclosure vs. legal liability

Recent Changes In Peer Review (Cont.)

- Exposure draft – Proposed revisions to standards on performing and reporting on QCM and CPE programs
 - Those involved in development and maintenance are not permitted to serve on review teams.
 - Removes requirement of triennial peer review and makes it voluntary
 - Delineates objectives of QCM vs. CPE peer review report

Recent Changes In Peer Review (Cont.)

- QCM report will focus on system to develop and maintain, as well as on any resultant aids.
- CPE report will focus on system to develop and maintain and will evaluate any aids or materials as part of the system, but will not separately opine on the resultant aids or materials.

Recent Changes In Peer Review (Cont.)

- Paragraph 159 of current standards requires an independent review of the system for development and maintenance of QCM or CPE programs and resultant materials on a triennial basis.
- Questions to ask yourself:
 - Is peer review relationship currently permitted by paragraph 159 appropriate (i.e., is it appropriate for a provider firm to perform the peer review of a user firm)?
 - Do the proposed revisions appropriately address any independence concerns that may arise in the peer review relationship currently permitted by paragraph 159?

Recent Changes In Peer Review (Cont.)

- Questions to ask yourself (Cont.):
 - Is it more appropriate to have safeguards rather than prohibition?
 - Have considerations for smaller firms that develop and maintain QCM or CPE programs been dealt with appropriately?
 - Do the proposed revisions to the procedures for performing a CPE program peer review, and the resulting opinion on the system, meet the needs of users (e.g. providers, firms that purchase CPE, etc.)?

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Common Peer Review Deficiencies

**Raymond Nowicki, Nowicki & Co.
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Areas Of Concern For Deficiencies

- Risk assessment standards
- SAS No. 115
- Fair value (SAS nos. 115, 157 and 159)
- Recurring deficiencies

Risk Assessment Standards

- Improper audit planning: Primary focus on “client/engagement acceptance/continuance form”
- Improper documentation of understanding of the entity and its environment, including internal control
- Improper assessment of risk of material misstatement at all levels
- Improper linkage of risk assessment to tailoring of audit programs

Risk Assessment Standards (Cont.)

- Lack of documentation to support risk assessments
- Firm's viewpoint of "no change" or "overkill" to risk assessment standards

SAS No. 115 Report

- Improper assessment of control deficiency, significant deficiency or material weakness
- Improper identification of deficiency as design or operational
- No follow-up on previous deficiencies communicated to management
- Lack of restriction on the use of the report

Fair Value

- Improper understanding of management's assessment of nature, assumptions and factors
- Lack of documentation of work performed on fair value

Areas In Which Firms Have Recurring Deficiencies

- AICPA PRB OTF identifies and compiles deficiency commonalities and patterns as part of its oversight visits.
 - Report acceptance body (RAB) reviews and accepts submitted peer reviews.
 - As part of oversight process, OTF compiles deficiencies from all jurisdictions.

Minor Engagement Deficiencies

- Departures from standards that by themselves, would not cause an engagement to be substandard

Reports, Financial Statement Measurement, Presentation And Disclosure

- Supplemental information
 - Failure to report
 - Not clearly segregated or marked
 - Inconsistency of titles as presented on basic financial statements
- Report
 - Failure to reference all time periods
 - Failure to cover all periods by F/S, but periods covered identified in F/S

Reports, Financial Statement

Measurement, Presentation And Disclosure (Cont.)

- Omitted or inadequate disclosures related to accounting policies, inventory, valuation allowances, long-term debt, related party transactions, concentration of credit risk
- Incorrect use of F/S titles for basis of accounting used
- Failure to accrue income taxes
- Presentation of treasury stock in a state that does not recognize treasury stock
- Incorrect reference to omission of GAAP basis statements under OCBOA

Reports, Financial Statement Measurement, Presentation And Disclosure (Cont.)

- Failure to refer to accountant's report on each page of F/S
- Failure to identify country of origin for GAAP in audit report

Audit Procedures And Documentation

- Failure to document assessment of control risk
- Not utilizing current audit programs
- Failure to evaluate “passed” adjustments
- Dating deficiencies between rep letters and/or attorney letters and last day of field work

Audit Procedures And Documentation (Cont.)

- Failure to document
 - Inspection of board minutes
 - Collectability of accounts receivable
 - Reportable conditions
 - Sample selection and results of sampling applications
- Failure to sign off on audit program steps
- Failure to have a firm license to practice

SSARS Procedures And Documentation

- SSARS No. 8 engagement letter did not refer to supplemental information.
- Failure to comply QCS as it relates to work programs and/or reporting and disclosure checklist

Significant Engagement Deficiencies

- Matters material to understanding the report or F/S or represent critical auditing or SSARS procedures
 - Engagement with significant deficiency is considered “substandard”
 - Use judgment to form the conclusion

Reports, Financial Statement Measurement, Presentation And Disclosure (Cont.)

- Failure to qualify audit report for scope limitation or departure from basis of accounting
- Issuance of audit or review report when accountant is not independent
- Failure to issue a report on compliance and internal control under governmental auditing standards
- Failure to disclose lack of independence in a compilation report

Reports, Financial Statement Measurement, Presentation And Disclosure (Cont.)

- Failure to disclose omission of substantially all disclosures
- Failure to disclose omission of statement of cash flows
- Failure to disclose OCBOA, if not readily determinable
- Failure to disclose a material departure from professional standards

Reports, Financial Statement Measurement, Presentation And Disclosure (Cont.)

- Include or failure to include material balances not appropriate/appropriate for basis of accounting
- Significant departures from financial statement formats prescribed by industry audit guides
- Omission of disclosures related to significant accounting policies

Reports, Financial Statement Measurement, Presentation And Disclosure (Cont.)

- Improper accounting of a material transaction
- Misclassification of a material balance
- Failure to segregate components of statement of cash flows
- Omission of significant required disclosures
- Failure to disclose cumulative effect of change in accounting principle

Reports, Financial Statement Measurement, Presentation And Disclosure (Cont.)

- Omission of statement of income and retained earnings when referred in report

Audit Procedures And Documentation

- Failure to use a written audit program
- Failure to tailor audit programs specific to engagement or industry
- Failure to request a legal rep letter, if attorney was consulted
- Failure to obtain management rep letter
 - Failure to include significant components

Audit Procedures And Documentation (Cont.)

- Failure to document consideration of I/C structure
- Lack of documentation to substantiate key audit areas
- Failure to document test of controls and compliance for engagements subject to OMB A-133
- Failure to assess or document fraud risk

Audit Procedures And Documentation (Cont.)

- Failure to observe inventory or perform alternative procedures, if material
- Failure to assess level of materiality and control risk
- Failure to document analytical procedures
- Failure to review loan covenants
- Failure to document communications between successor and predecessor

Audit Procedures And Documentation (Cont.)

- Failure to perform review of subsequent events
- Failure to test unrecorded liabilities

SSARS Procedures And Documentation

- Failure to perform and/or document inquiry and analytical procedures
- Failure to obtain management rep letter
- SSARS 8 engagement letter does not include understanding that F/S are “for management’s use only”

Attestation Procedures And Documentation

- Failure to obtain management rep letter for examination of I/C
- Failure to obtain management rep letter on management's assumptions for pro forma statements
- Failure to label pro forma financial information

Financial Statement Deficiencies

- Assets
 - Improper classification of current and long-term
 - Cash overdrafts shown as negative
 - Accounts receivable shown on cash basis F/S
 - Investments in debt and equity securities not classified or measured correctly

Financial Statement Deficiencies (Cont.)

- Liabilities
 - Improper classification of current and long-term
 - On-demand liabilities classified as long-term
 - Non-recognition of:
 - Compensated absences
 - Capital leases

Statement Of Income

- Income tax provision not recorded on interim F/S
- Reporting period not clearly identified
- Significant components of income tax expense not disclosed

Statement Of Cash Flows

- Components not properly segregated
 - Operating, investing and financing
- Misclassification of activities
- No disclosure of non-cash investing and financing activities
- No disclosure of interest and taxes paid for indirect method
 - Can be disclosed in notes to F/S

Statement Of Cash Flows (Cont.)

- Certain amounts do not agree with change in amounts from comparative balance sheets
- Statement not presented for each period of income statement presented

Functional Area Deficiencies

- Engagement performance
 - Failure to review working papers, report and F/S
 - Common areas of non-compliance with QC policy
 - Pre-issuance review
 - Disclosure and reporting checklist
 - Third-party A&A practice aids
 - Engagement letters

Functional Area Deficiencies (Cont.)

- Failure to consult professional literature or outside source for specialized industry or high-risk engagement

Functional Area Deficiencies (Cont.)

- Personnel management
 - Failure to take adequate CPE in A&A subjects and/or specialized industries, which resulted in deficiencies in engagements selected for review

Functional Area Deficiencies (Cont.)

- Monitoring
 - Failure to implement monitoring policies and procedures
 - Failure to document compliance with QC policies and procedures
 - Failure to perform annual inspection
 - Failure to extend monitoring to non-audit services (e.g., compilations and/or reviews)

Deficiencies In Specialized Industries

- Government auditing standards
 - I/C and compliance not prepared
 - Failure to include A-133 reports
 - Compliance and control tests do not support reports issued
 - Inadequate or outdated reference material used
 - F/S reports do not refer to I/C and compliance reports

Deficiencies In Specialized Industries (Cont.)

- Government auditing standards
 - Yellow Book CPE requirements not met
 - Improper accounting for a particular fund
 - Failure to restrict use of accountant's report to proper oversight agency
 - Failure to apply the most recently issued GASB statements

Deficiencies In Specialized Industries (Cont.)

- Not-for-profit organizations
 - Failure to apply FASB Nos. 116, 117 and 124
 - Failure to identify voluntary health and welfare
 - Improper accounting for restricted funds
 - Inadequate format, titles and presentation of F/S

Deficiencies In Specialized Industries (Cont.)

- Employee benefit plans
 - Inadequate testing of participant data and investments
 - Inadequate disclosures related to participant directed investment programs
 - Failure to understand testing requirements in a limited-scope engagement
 - Incomplete description of plan and provisions

Deficiencies In Specialized Industries (Cont.)

- Employee benefit plans (Cont.)
 - Inadequate or missing disclosures on investments and/or participant data
 - Failure to properly report on DOL limited-scope audit
 - Failure to report and/or include required supplement schedules
 - If member of Quality Center, not retaining a reviewer that is a member as well

Deficiencies In Specialized Industries (Cont.)

- Common interest realty associations (CIRAs)
 - Accounting policy for common property not disclosed
 - Required supplemental information not presented
 - Report does not indicate responsibility for required supplemental information
 - Disclosures for major repairs and replacements not included

Deficiencies In Specialized Industries (Cont.)

- Construction contractors
 - Failure to disclose accounting policies for construction revenue and construction in-progress
 - Improper recognition methods for construction-in-progress
 - Improper classification and disclosure of billings, related costs and estimated revenue
 - Improper netting of account balances

Deficiencies In Specialized Industries (Cont.)

- Other comprehensive basis of accounting (OCBOA)
 - Failure to disclose basis of accounting
 - Failure to state basis of presentation is a basis other than GAAP
 - Failure to modify report to reflect appropriate titles
 - Inadequate description of basis and how it differs from GAAP

AICPA Stats For 2006-2008

- Data is relatively static for 2006-2008: 6% modified, 2% adverse (overall)
- Expectations ???? 2009 (a fail will be automatic when significant deficiencies are noted)
- Where are the majority of the failures occurring?
 - Engagement performance (DOCUMENTATION)
 - Monitoring
 - Specialized audits: Yellow Book, ERISA

AICPA Actions Dealing With Peer Reviews That Have Failed (Modified Or Adverse)

- Follow-up actions
 - More CPE
 - Pre-issuance reviews
 - External assistance
 - Submit corrective action proof to your peer reviewer