

How to Survive your Peer Review!

1



presented by
Mark F. Wille, CPA

This is Your Class, NOT MINE

2



I teach as a practicing CPA,
looking at the same issues you
face daily.

*You need to ask those practical
questions that will help you when
you get back to the office.*

Wille's Wisdoms

- To get the most out of the class,
YOU MUST PARTICIPATE
- How many of you perform?
 - Preparation
 - Compilations
 - Reviews
 - Audits



Mark F Wille



4

- University of Southern California
- Big 8 Experience
- Vice President of Finance
- 20 year Firm
- Peer Reviewer
- CALCPA Accounting Principles and Auditing Standards
- Orange County Audit Oversight Committee
 - 6th largest county in the USA

Hello to the Virtual Crowd

5

- There is a 30 sec delay
- So ask your question and we will get to it in a little while



Hello to the Virtual Crowd

6

- You must text me if you have questions
- Thank you for taking my Class



Auditing and Accounting Updates

7



BE ON THE LIST

sd@mfwcpa.com

Put A&A CPA Update in tag line

DISCLAIMER

Views expressed by this speaker are expressed for purposes of deliberation, providing member services and other purposes exclusive of practicing public accounting.





Pre-seminar Questionnaire

Page 3

I teach best practices¹⁰ Not Standards



Accounting Standards are the
Minimum not what you are allowed or
good judgement dictates!!!!

11



AICPA Technical Hotline

12

- 877-242-7212
- They are no longer in NYC
- NC – they speak a little slower now!

Great Resource
subscribe to their Newsletter

13



CPA-SCRIBO

MOVING CPAS FORWARD

CPA Isolationism!

14



Page 4



■ ERISA STORY



Enhanced Review – AICPA “A Team”¹⁷

- We going to send in an “A Team” Fool!

- HUD

- ERISA

- A-133

- Yellow Book



Peer Review

- Not Kinder and Gentler



- They were too Gentle

- Or do we stop peer review and let the US Government take it over like IRS?

Peer Review

20

- Enhanced Oversight
- Remediation issues on Non-conforming Engagements
 - Firm
 - Review
 - RAB

If you have an error you will now need to fix it before peer review is completed ²¹

- No more just fix it with your next engagement



Peer Review

22

- QC Document
 - No exceptions or checklist



- Incomplete listing of Engagements can lead to loss of peer review

- 2 consecutive pass with deficiencies can lead to loss of peer review

- 90 Day Drop for Non-Cooperation – can lead to loss of peer review

Life of a Peer Review²⁶

- System Peer Review
 - Audits
 - Looking at the firms system in place
 - One error is not fatal
- Engagement Peer Review
 - NO AUDITS
 - Looking at engagements
 - One error can be fatal

Life of a Peer Review²⁷

- Engagement Peer Review
 - NO AUDITS
 - Selection from Firm – one from each type
 - Review
 - Compilation with disclosures
 - Compilation without disclosures
 - Preparation
 - Agreed upon procedures

Life of a Peer Review ²⁸

- Engagement Peer Review
 - Firm checklist
 - For each engagement
 - Engagement letter
 - Rep Letter
 - Peer review checklist
 - Internal checklist
 - Documentation of procedures – analytical procedures, independence etc.

Life of a Peer Review ²⁹

- Engagement Peer Review
 - Review the engagements
 - Find errors
 - MFC's
 - FFC's
 - Pass
 - Pass with Deficiencies
 - Fail
 - Where will you fall?

Life of a Peer Review ³⁰

- System Peer Review
 - Firm checklist
 - Selection from Peer Reviewer
 - Review Staff
 - Review CPE
 - Review independence
 - Review QC Document
 - Review engagements
 - Engagement Checklists

Life of a Peer Review ³¹

- System Peer Review
 - For each engagement
 - Engagement letter
 - Rep Letter
 - Peer review checklist
 - Internal checklist
 - Acceptance and continuance

Life of a Peer Review ³²

- System Peer Review
 - For each engagement
 - Analytical procedures – industry, ratios, expectations
 - Documentation of management discussion
 - Fraud discussion – 3
 - Risk assessment

Life of a Peer Review³³

- System Peer Review
 - 114 and 115
 - Legal letters
 - Walk thru
 - VIE
 - Going Concern
 - Confirms
 - Major audit area
 - Subsequent events

Report Wording Changes



Additional cost for System Review

35

- HARD LOOK AT ALL SQCS
 - Tone at the Top
 - Ethics
 - Acceptance and Continuance
 - Human Resources
 - Engagement Review
 - Monitoring

■ DOL Study of Audit Quality





Center for Audit Quality

- Funded by final four and AICPA
- A cousin of the AICPA
- Public Only
- BE CLEAR
 - This will drive the rest of Auditing!



Peer Review Checklist

39

- QC manual updated in last three years with proper EQCR understanding
- QC manual training to firm staff at least annually
- Check your individual and Firm CPA licenses to make certain they are current

Peer Review Checklist

40

- Monitoring Documentation - annual binder with results and documentation of staff meeting review
- Complete Engagement listing
- CPE – enough CPE – if yellow book – 80 hours of AA

Peer Review Checklist

41

- Current Allowed engagement letter signed and dated
- Independence documentation
- SKE documentation
- Rep letter – proper date

Peer Review Checklist

42

- Analytical procedures doc
 - Industry comparison
 - Ratios
 - Doc management discussion
 - Prelim and final
 - Expectations

Peer Review Checklist

43

- Fraud Discussion – 3 people
- Ending Governance letter
- Internal control letter
- Legal letter

Peer Review Checklist

44

- Risk assessment done correctly
- VIE memo – almost every job
- Going concern memo

SALY is a bad Mistress!!!

45

- She causes you not to think
- She causes you to not document
- She causes your staff to rely on the past when they are working on something different

Assume you are Dead

46



Assume you are Dead ⁴⁷

- Documentation should leave nothing in your head
- The firm can always explain some oddity about the client but they cant seem to write it down
- Get it on paper

Documentation Memo – 4 sections ⁴⁸

- Facts
 - Query
 - Discussion with recourse back up
 - Conclusion
-
- With out this – you're just whistling?

Improper use of PPC⁴⁹

- Give me some examples of how you have flubbed up!!!
- ***A Checkmark on a work program is not documentation – the checkmark tells that you have documented the question elsewhere – NOTHING MORE!!!***
- Risk Assessment – major emphasis

things being discussed

50

- At least 1000 hours of AA work every 5 years or EQCR is required on all jobs
- People who do a small amount of AA have a hard time keeping up
- Can you imagine not understanding section 199a and preparing 2018 TR's?

Risk Assessment Violations

51



Internal control

- 40% of identified issues related to failure to gain an understand of internal control when identifying the clients risks
- Without understanding the clients internal controls auditors can't identify related risks or design appropriate responses

Risk Assessment Violations

Insufficient risk assessment

- 14% of issues related to incomplete or nonexistent risk assessment
- If an auditor doesn't assess the client risks it could lead to inefficient over auditing or failure to obtain sufficient appropriate audit evidence

Risk Assessment Violations

53

No linkage

- 24% of issue related to auditor not linking their risk assessment to their response
- Auditors should consider if their standard practice aid responds to identified risks and modified where needed

Risk Assessment Violations

54



Improper control risk

- 13% of issues related to assessing control risk as less than high without appropriate tests of controls
- Auditors can only reduce control risk below maximum when they have tested controls and are relying on their operation effectiveness

Risk Assessment Violations

55



This all starts with the proper documented walk through

You cant do a risk assessment and then do an old style audit

If you never change the program out in the field – evidence you are not using risk assessment properly

Telling a peer reviewer you followed PPC doesn't cut it

56

- You can't follow PPC blindly
- You must understand what PPC is asking and complete it appropriately
- It is all your fault

SQCS

57

- What is a SQCS?
- What is it used for?
- Why do you care?



- ***“Establishing and maintaining a system of quality control for a CPA firm’s accounting and auditing practice”***

Look up on AICPA website

- Quality Control Manual – Review

- Page 112

Independence issues to Document⁶⁰

- Taxes
- Accounting Assistance
 - Bookkeeping
 - Preparation of financial statements
 - PAJE's

Independence issues to Document⁶¹

- Consulting
- Hosting
 - Fixed asset schedule
 - Tax provision
 - Hosting QuickBooks
 - Website
 - Disaster recovery

Hosting Key Point

62

- Access yes
- Accept responsibility for maintaining custody or control of the information –NO
 - If client has to ask you for the information later and they cant find it on their own – you have hosted!!!!

Hosting Issues

63

- Website
- General ledger
- Leases – prep for new lease rules
- Disaster recovery
- Cloud based products

SKE and Independence Memo

■ Page 139



BE Afraid, be very afraid!!! ⁶⁵



**Non profit jobs are
completely different**

BE Afraid, be very afraid!!!

66



Revenue Recognition

Leasing

Credit losses

New Audit Report

Pass with Deficiency or Fail ⁶⁷

- Leadership Responsibilities for Quality within the firm
- Relevant Ethical Requirements
Engagement Performance
- Human Resources
- Acceptance & Continuance of Client Relationships and specific engagements
- Monitoring

Top 5 Follow Up Actions

68

- Agree to take certain CPE
- Submit to subsequent review of engagement
- Submit proof of CPE taken
- Agree to hire consult. – pre-issuance reviews
- Submit to team captain revisit

What problems do we see when conducting a peer review?

69

- Wrong Report
- Use of Firm name on other than report
- No risk assessment
- No analytical procedures

What problems do we see when conducting a peer review?

70

- No programs
- No documentation
- No fraud documentation
- Misleading financial statements

What problems do we see when conducting a peer review?

71

- Bad CPE
- Not understanding how to use PPC properly
- Risk assessment not properly used
- No governance letter

What problems do we see when conducting a peer review?

72

- No internal control letter
- Missing footnotes
- No vie memo
- No going concern memo

What problems do we see when conducting a peer review?

73

- Only one NO in a NO/NO footer on a preparation statement
- Missing firm license
- Not submitting peer review report to yellow book client
- Rep letters incorrectly dated

What problems do we see when conducting a peer review?

74

- The review report did not refer to all financial statements included.
- Independence not documented
- SKE not documented
- Report did not reference all periods on financial statements
- Subsequent events not tested or documented

■ Cash Flow statement

75

- Gross vs net

- Financing and investing property classified

- Stop using extraordinary items – just Operating or not now

AICPA Resources – most FREE

76

- Risk Assessment toolkit
 - PCPS invigorate the focus on Quality Tool kit
 - Quality Control Practice Aids
 - Audit Documentation Toolkit
 - Free Resources from the quality Centers
 - The center for plain English accounting
-
- DON'T BE A DUMMY – USE THEM



Peer Review

78

- What are the top 5 things I need to change?
- Is AA work still something I want to perform?
- How do I get my Staff understanding these changes?
- Would I pass peer review today?

Peer Review Checklists

- Preparation Checklist

- Page 144



Peer Review checklists

Compilation Checklist

Page 157



Peer Review checklists

Review Checklist

Page 176



Unnecessary Work Papers

82

1. It was there last year – still needed?
2. The client gave it to me
3. I may need it next year
4. I might need it this year – recycle bin until end of job
5. It's an earlier version of existing work paper
6. I need it for tax work – put it in tax file dummy
7. We missed fraud 10 years ago, we always include it

Legal issue – too many WPS - more to find

CPA's In USA

83

- 644,000 individual licenses

- > 50% Huddled in 8 States

- 214,000 firm licenses

AICPA Peer Review Program Statistics

84

- **29,000 firms enrolled Peer Review**
- **Approximately 10,000 annually**
- **42 Administering Entities**

- Accounting Graduates 82,177
- CPA firm new hires 40,350

Graduates and CPA Candidates

86

- From 2005 to 2012
- Number of accounting graduates grew 40% per year
- Number of candidates who tested for the first time in a given year grew 20%

Greatest Strength/Weakness of Graduates

87

- Strengths

- Information technology skills
- Ability to work in teams

- Weakness

- Analytical thinking
- Communication skills
- Work ethic

Oversite every where

88

- Government Looks at AICPA Peer Review Program
- AICPA Oversites
 - States administering the Program
 - Individual Reviewers
- State Oversight
 - Individual reviewers
 - Committee Approval
 - Tech Oversight

Result of Constant Oversight

89

- Much fewer CPA's willing to perform Peer Reviews

Case Study

90

- 1. What is Changing in Peer Review?
- 2. Why is Peer Review Changing?
- 3. What can I do to assist in this process?
- 4. How many Firms have System Peer Reviews?

Case Study

91

- 5. How many Firms have Engagement Peer Reviews?
- 6. How many CPA's in USA?
- 7. What is my biggest peer review fear?
- 8. How do I end up with a Fail or Pass with Deficiencies?

Case Study

92

- 9. Do I have the recourses to perform Audits effectively?
- 10. Do I have the recourses to perform Reviews effectively?

Reasons for Pass with Deficiency(ies) or Fail

93

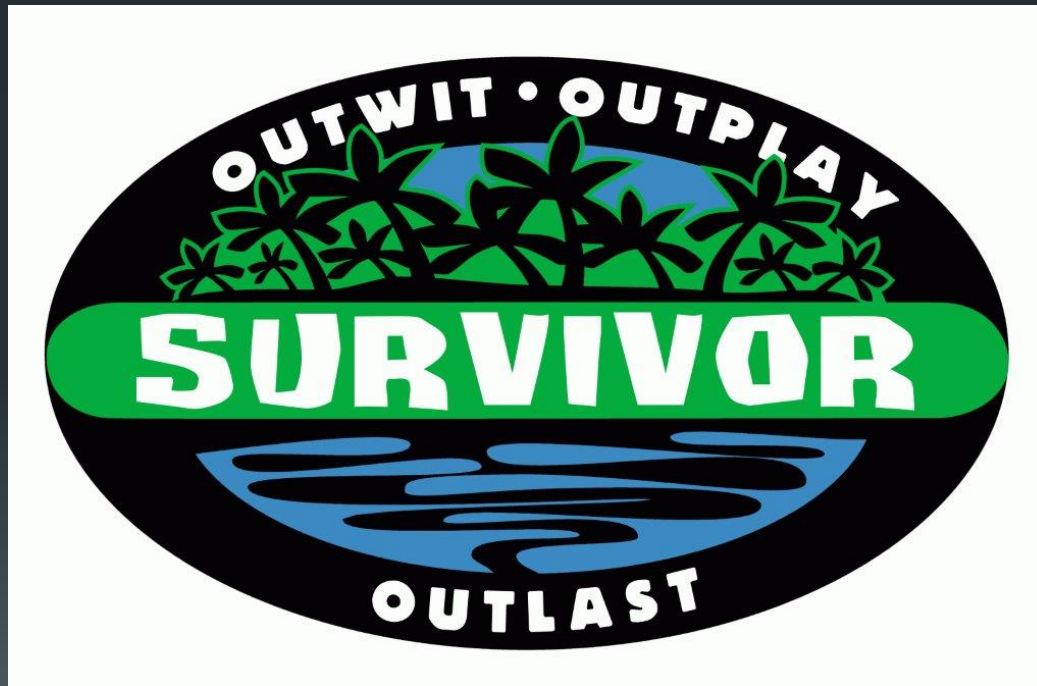
- Leadership Responsibilities for Quality within the firm - High
- Relevant Ethical Requirements
- Human Resources - High
- Acceptance & Continuance
- Engagement Performance - High
- Monitoring - High

Top 5 Follow Up Actions

94

- Agree to take certain CPE
- Submit to TC review of engagement(s) not performed in accordance with professional standards
- Submit proof of CPE taken
- Agree to hire consult. –
 - pre-issuance revs
- Submit to team captain revisit

What problems do we see when conducting a peer review?



Start Early

96

- Fewer Reviewers than in Past
- Exit conference two parts
 - Last day of field work
 - Final exit phone call
- You must start (have the peer reviewer in house) 2-3 month before due date to file timely!

Types of Peer Reviews

- System – Audits
- Engagement – Review and less

System Peer Review

- At your offices
- Looking at your systems related to SCQR's
- Looking for errors in system not so much individual errors
- Non-Conforming Engagements Cause Fails
- A significant learning experience



Engagement Review

- Send Materials to Peer Reviewer
- Including workpapers
- Individual Errors Matter
- Non-conforming engagements lead to Fail and Pass with Deficiencies



Case Study

101

- 1. What is a Quality Control Document?
- 2. How many pages should it be?
- 3. How to I make certain my staff understands the document?



Case Study

- 4. Please list the SQCS and give a quick meaning of each.

Case Study

- 5. Why are the SQCS's Important?
- 6. What is EQCR and when should I use it?
- 7. Do I have the recourses to effectively perform AA services in my firm?

Case Study

- 8. Do I have the desire to effectively perform AA services in my firm?
- 9. What percentage of my firm revenues come from AA services?
- 10. Should I get a Dog or Cat instead of purchasing PPC?

- If you perform A&A this is something you will need to prove you have the resources available to perform properly
- You probably need PPC for the areas you practice - No Exceptions



What I expect to see?

- Audit Reports
- Audits of Non-public Entities
- Quality Control
- Compilation and Review
- Maybe some of these
 - ERISA
 - Non-Profit
 - Construction
 - SSAE –agreed upon procedures

Exception for
Preparation only
services – NO NO!

- Not part of SSARS
- Were you engaged to prepare?
 - That is the question!!!!

Engagement Letters

- Tax - assistance with accounting
we will not prepare financial statements
- Section 70 – NO/NO Statements
- Compilations – New Language
- Reviews - Headers

No Assurance and
no disclosures are
provided on these
financial statements

Independence only Matters

111

- Compilations – report issue
- Reviews – Can't perform
- Audits – Can't perform
- Get over it!

Making it Clearer?

112

- The key here is for the accountant to have an understanding with the client related to what the accountant is hired to do—and also what the engagement will not include. There is no "tripping into" a preparation service—it is a very bright line in that the accountant is required to comply with the SSARSs only if he or she is engaged to prepare financial statements. Therefore, it is important that the accountant and the client understand whether the engagement is to include the preparation of financial statements. However, some additional considerations may help when making this determination with your clients.

Making it Clearer?

113

- If the accountant is merely engaged to assist the client in preparing financial statements (e.g., the accountant is engaged to just prepare journal entries and perhaps post to the client's cloud-computing application, or just to prepare certain note disclosures), then the accountant is engaged to provide accounting or bookkeeping services, and Section 70 of SSARS No. 21 does not apply. However, if the client's understanding is that the accountant will then prepare the financial statements based on those inputs, then Section 70 of SSARS No. 21 would apply.

Making it Clearer?

114

- If the accountant is providing bookkeeping or accounting services to a client and uses the accounting software to generate financial statements, the SSARSs may apply. The SSARSs apply only when the accountant is engaged (i.e., hired) to prepare financial statements, so if the understanding with the client is that the accountant is to provide certain bookkeeping services but that the financial statements are to be prepared by the accounting software, then the SSARSs would not apply. In those instances, it is advisable to include language in the engagement letter that clearly indicates the engagement does not include the preparation of financial statements.

One last time

115

- If you were not engaged to prepare a financial statement
- You do not fall under SSARS 21
- Got it?

After December 15, 2015

116

Independent Accountants Compilation Report

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1 and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I (We) have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (We) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Independent Accountant's Review Report

117

[Appropriate Addressee]

I (We) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's (owners') financial data and making inquiries of company management (owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Management's Responsibility for the Financial Statements

Management (Owners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I (We) believe that the results of my (our) procedures provide a reasonable basis for our conclusion. {Note: option of **my I our** should have been included at end of sentence.}

Accountant's Conclusion

Based on my (our) reviews, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

- 1. Where do firms screw up with Compilations?
- 2. Where do firms screw up with Reviews?
- 3. What are the minimum workpapers for a Compilation?

Case Study

119

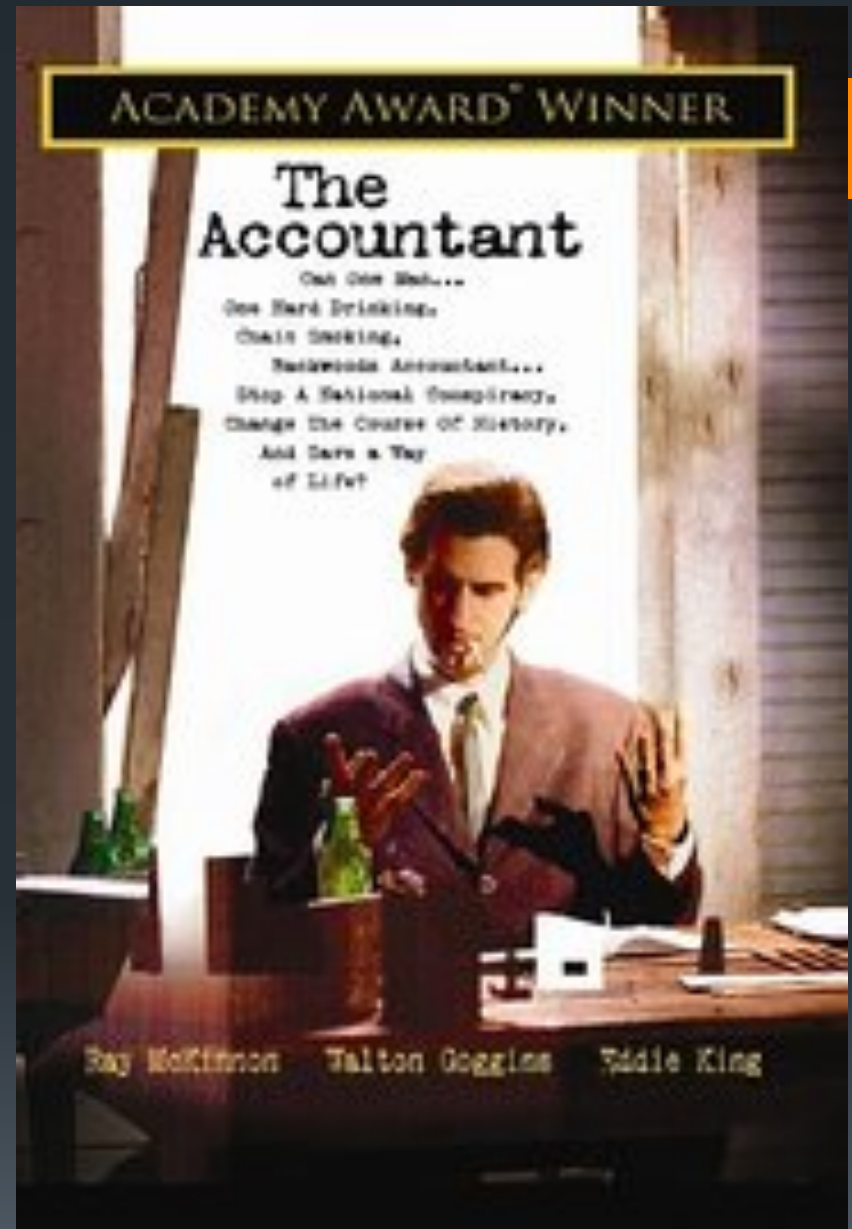
- 4. What are the minimum workpapers for a Review?

Case Study

120

- 5. What is a NONO statement?
- 6. When should I use a NONO statement in my practice?
- 7. What changes should I make to my business tax engagement letters?
- 8. Am I tired of this and want to retire?

2001 Academy Award Winner





Engagement Review

ENGAGEMENT REVIEW COVER LETTER

- We take an educational approach to all peer reviews. Your engagement review should help you improve the quality of your practice not only in financial statement preparation but also with internal controls. **The process will begin when you send me the materials listed below.** I will then review this information and call you with my questions.



Engagement Review

We will spend approximately 30 minutes to an hour via telephone discussing the financial statements you sent and any questions you may have regarding the peer review process or accounting procedures and any improvements deemed necessary.

Engagement Review

Please return the following ASAP:

- ***Signed engagement letter including retainer payment***
- ***Letter from CalCPA confirming Mark F Wille as your reviewer***
- ***Engagement Review Summary Form (Form 6100)***
- ***Copy of prior peer review report, FFCs and letter of response, if applicable***

Engagement Review

- *All correspondence from the California Society of Certified Public Accountants*
- *Copies of state board of accountancy current license for each CPA in firm and the firm license*

Engagement Review

- We are required to look at one engagement from each level of service (review, compilation with disclosure, compilation without disclosures, preparation financial statements, prospective financial statements, agreed upon procedures, etc) you provide, with a minimum of two engagements, and to include engagements from all partners. To that end, please send me the following information for each engagement selected:





Engagement Review

- A copy of the Financial Statements and the engagement letter between you and your client
- A completed copy of the Engagement Questionnaire. (Appendix B of the *Instructions to Firms Having an Engagement Review*).



Engagement Review

- **For Review Engagements**, please also include:
 - Documentation of your inquiry and analytical review procedures, including your expectations regarding the engagement.
 - Management representation letter between you and your client.

Engagement Review

- If you have performed non-attest services for the client (tax returns, bookkeeping, etc) then I will need documentation required under Ethics Interpretation. 101-3. (*This information is often disclosed in the engagement letter between your firm and your client*).
- Engagement Questionnaire Form 23,200 and 23,600





Engagement Review

- And, for **Compilation Engagements**, with or without disclosures:
 - If you have performed non-attest services for the client (tax returns, bookkeeping, etc) and your compilation report does not include “We are not independent with respect to...,” then I will need documentation required under Ethics Interpretation. 101-3.

Engagement Review

- Engagement Questionnaire Form 23,200 and 23,600 (for comps with disclosure) or 23,300 (for comps without disclosure)
- To obtain copies of all these documents from the AICPA peer review website, Google Peer Review Team Captain Checklist. Then, pick the most recent year for engagement review. *Please use the current year's materials. If you use old years, they will have to be redone.*



Engagement Review

- After I receive all of the above information and have conducted my review, I will contact you to schedule an *Exit Conference*, during which we will discuss any questions and comments I may have resulting from my review of the engagement.

Engagement Review

- Many firms get busy and do not return these documents until immediately before the scheduled peer review date. Your prompt return of the documents will confirm your peer review date and completion of this process. We look forward to assisting you with your peer review.
- Sincerely, your very best friend;
- Mark F Wille



Case Study

- 1. What is and engagement review?
- 2. What is being tested in and engagement review?
- 3. What is the easiest way to screw up my engagement review?



Case Study

- 4. What is the difference in documentation required in and engagement vs system review?
- 5. How much of my time will be required for an engagement review?
- 6. How much will and engagement review cost?



Case Study

- 7. Can I get an engagement review completed in a week?
- 8. List three things I will do to get prepared for my engagement peer review

System Review - How we start!

137

- **SYSTEM PEER REVIEW COVER LETTER**

- Preparing for the review early can alleviate a lot of the stress of peer review. Getting the information requested below prepared well in advance of the peer review generally takes off the pressure and gives you some time to consider the process of the review.

-

- **IN ORDER TO ENSURE THAT WE COMPLETE YOUR PEER REVIEW ON A TIMELY BASIS, THESE DOCUMENTS MUST BE RECEIVED 2 MONTHS BEFORE YOUR DUE DATE.**

-

System Review - How we start!

138

- Enclosed are materials that must be read and/or completed by your firm. All items must be sent to me in order to schedule the review. They are enclosed as follows:
 - ***Return signed engagement letter and retainer promptly to secure peer review dates.***
 - ***Letter from CalCPA confirming Mark F Wille as your reviewer***
 - ***Complete Forms 4500 & 4550 (sole practitioners) OR Forms 4600 & 4650 for other firms for review with the peer reviewer***
 - ***Have 2 staff members complete Form 4700***
 - ***The Firm's Quality Control Document.***
 - ***List Accounting and Auditing clients (Schedule attached).***
 - ***List professional personnel, showing name, position, and years of experience.***
 - ***CPE form completed for all CPAs (see attached)***

System Review - How we start!

139

- *Copy of prior peer review report, FFCs and letter of response, if applicable*
- *Correspondence with administering body (normally CalCPA).*
- *Copies of state board of accountancy current license for each CPA in firm and firm license*
- *Correspondence with any governing agency that has contacted firm or individual CPAs in the last 3 years (If applicable)*
- To obtain copies of all these documents from the AICPA peer review website, Google Peer Review Team Cap Checklist. Then, pick the most recent year for system review. *Please use the current year's materials. If you use old years, they will have to be redone.*

■

System Review - How we start!

140

- Please have the following ready when I arrive:
 - ***Annual monitoring*** for the last two years
 - CPE records for all CPA's
 - Independence confirmations for all
- Please call my office to confirm receipt. Once you have completed these items we will schedule the review. Thank you.

Sincerely,
Mark F Wille



What I do when I come out?

- Collect \$3 k
- Review two forms with firm
 - 4500's or 4600's
- Review staff form 4700
- Review QC manual - EQCR
- Review inspection and comment

What I do when I come out?

142

- Review firm and individual licenses
- Any discussion or correspondence with governing bodies
- Is the engagement listing complete?
- Review library for codifications not cliff notes

What I do when I come out?

143

- What are the Biggest Risks at firm
- Review CPE of 2 CPA's – names and comments
- Review type of CPE needed in firm

- All Engagements
 - Review the Financial statements for Errors
 - Engagement Letter
 - Rep Letter

- Review and Audit Engagements
 - Acceptance and continuance
 - Analytical procedures documentation
 - Industry comparison
 - Ratios
 - Documentation of management discussion

- Fraud discussion – 1 review/3 audit
- Expectations



Audit engagements

- 114 letter
- 115 letter
- Legal letter
- Risk assessment
- Major audit area testing

- Subsequent events
- 1st Year
- Walk Through
- VIE
- Going concern
- Confirms

- 1. What do I need to change in my monitoring?
- 2. What Specific CPE classes should I take this year to improve my AA practice?
- 3. What are the key things to document in an audit?

- 4. What are the key things to document in a review?

Case Study

151

- 5. What changes do I need to make to my QC Doc?
- 6. What is the biggest AA risk at my firm?

152



Case Study

- Please complete these risk assessment forms for your firm

Going concern - New

- Effective date 12/15/16
- Look forward period from issuance date – big change
- How does this apply to your clients?
 - Negative Equity
 - Net Loss for year
 - Either of these and a workpaper is required!

Substantial Doubt

- The entity will be unable to meet its obligations as they become due within the look forward Period.

Documentation Levels

156

- Level one
 - No going concern issue but document why it doesn't apply only in workpapers
 - Good Cash Flow
 - Tax Benefits cause Negative Equity
 - Thinly Capitalized – Franchise Example

Documentation Levels

157

- Level one
 - Document in the Workpapers
 - How what why when where

Documentation Levels

158

- Level two
 - Going concern is being worked on, entity will survive look forward period – workpapers and disclosure
 - Problem over come or over coming
 - Owner agrees to fund – confirm/capacity
 - Temporary

Documentation Levels

159

- Level two
 - Document in workpapers
 - How what why when where
 - Footnote

Documentation Levels

160

- Level three
 - Going concern is being worked on, but substantial doubt exists – workpapers, disclosure and report modification
 - Not Temporary
 - Workpapers – who what why where
 - Footnote
 - Report – even in a compilation



GOING CONCERN

If substantial doubt exists,

- Conditions giving rise to going concern
- Effects of conditions
- Management's evaluation of conditions and mitigating factors
- Possible discontinuance of operations
- Management's plans
- Information about recoverability



GOING CONCERN

If substantial doubt is alleviated,

- Conditions giving rise to going concern
- Effects of conditions
- Mitigating factors and management's plans



GOING CONCERN

If substantial doubt exists –

- An audit report must include a “going concern” paragraph and the wording is restricted
- Reviews and compilation reports may include an emphasis paragraph concerning going concern, but the term “substantial doubt” may not be used

Private Company Council - FASB



Private Company Decision-making Framework - PCDMF

165

Differential Factors

- Number of users
- Investment strategies of users
- Ownership and Capital
- Accounting recourses
- Learning about new financial reporting guidance - just how much can they be expected to know

Where it could Differ?

- Recognition and measurement
 - Display – presentation
 - Disclosures
 - Effective dates
 - Transition method
-
- What about FRF for SME's?

Public Business Entity

- SEC of any type
- Securities of any type
- Public of any type

Excluded from Scope of PCDMF

- Public Business entities
- Not for profit
- Erisa

PCC Projects

- Goodwill
- Interest Rate Swaps
- Common Control Leases
- Identifiable intangible assets

Goodwill

169

- User Relevance
 - Provided limited benefits to users
 - Disregard goodwill and goodwill impairment losses in analysis of financial condition and operating performance
- Cost and Complexity of current goodwill impairment test

Goodwill Solution

170

Current

- Do not amortize goodwill
- Test for impairment
- Reporting at unit level
- Two step test
- Option qualitative assessment

Goodwill Solution

171

Final alternative

- Amortize over 10 yrs. or less
- Test for impairment upon triggering event
- Entity level or reporting unit level
- One step test
- Optional qualitative assessment

Goodwill Benefits

- Significant cost savings
- Amortization reduces likelihood of impairments
- Test less frequently
- 12/15/14

Interest Rate Swaps - feedback

173

- Difficult to obtain fixed rate borrowing – must enter into swaps to convert to fixed rates
- Lack expertise to comply with hedge accounting
 - Cost benefit



Interest Rate Swaps - Solution

- Current GAAP
 - Fair value issues
 - Volatility
-
- PCC Alternative
 - Asset or liability at settlement value or FV
 - Interest expense approximated fixed rate debt

Benefits

175

- Practical expedient
- Reduces volatility
- Less costly and complex
- 12/15/14

Common control Leasing arrangements

176

- Brother sister operating and real estate entities
- May elect to not apply VIE guidance
- Requires specific disclosures on Lessor activity

Solution – to qualify

177

- Both entities under common control
- Private company lessee has leading arrangement with lessor entity.
- Substantially all activities between the entities is related to leasing – not related operating entities (excluded)
- If a guarantee of the others debt exists – the debt can not exceed the value of the real estate

Benefits

- Cost reduction
- Useful information for user
- 12/15/14



Identifiable intangible assets – business combination

180

- Current GAAP
- Recognize intangibles separately from goodwill in a business combination if – contractual/legal or separable
- Overly broad

- PPC Alternative – 9/14
- Do not recognize non competes
- Do not recognize customer relate intangible unless they are capable of being sold or licensed separately

The concept of Development Stage Enterprise is being removed from the Accounting Rules

181

- Conform with IFRS
- Decrease Confusion
- Decrease Cost of Accounting

Other PCC Stuff

- Uncertain Tax positions - not pursued at this time
- Share based comp – in process
- Partnership accounting – in process

Case Study

183

- What does PCC stand for?
- What does PCDMF mean?
- What is a Private entity?
- How many private entities do I have in my practice?
- What is goodwill alternative?
- What is interest rate alternative?

Case Study

184

- What is VIE alternative? And which clients should I consider using this alternative/
- When should I implement?
- How important is my firm library to my practice?

Revenue Recognition



Revenue Recognition

186

Current GAAP

- Numerous pieces of literature
- Broad concepts
- Many industry specifics
- Inconsistencies

Objective

- Single standard
- Consistent across industries
- Replace most of US GAAP

Revenue Recognition

187

- Single principal based standard
- Improve accounting contracts with customers
 - Robust framework
 - Increased comparability
 - Better disclosures
- More one with IFRS of course

Scope

188

All contracts with customers expect

- Lease contracts
- Insurance
- Financial instruments
- Guarantees
- Non monetary exchanges
- Contributions – non profits

Five Steps

189

- Identify contract
- Identify the performance obligations
- Determine the transaction price
- Allocate the transaction price to the performance obligation
- Recognize revenue when the entity satisfies a performance obligation

Implementation guidance

190

- Performance obligations satisfied over time
- Methods for measuring progress
- Sale with a right of return
- Warranties
- Principle vs agent
- Customer options of additional goods or services
- Customers unexercised rights
- Nonrefundable upfront fees
- Leasing'
- Repurchase
- Consignment
- Bill and hold
- customer acceptance
- Disclosures of disaggregated revenue

Disclosure Requirements

191

- Bunches
- 12/15/18 for private entities
- Discussion of delays

Case Study

192

- What is a principal based accounting standard?
- What are the benefits of this new standard?
- What clients of mine might be affected?
- Should I implement this standard early?

Keepers from Today

193





Thank You