

PEER REVIEW: MAINTAINING QUALITY IN A CHANGING ENVIRONMENT

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Coastal Peer Review, Inc.



Coastal Peer Review

Administered by The North Carolina and
Maryland Associations of CPAs

Session Presenter

Michael Manspeaker, CPA

- Member of the Auditing Standards Board
- *CPA on Staff for Coastal Peer Review*
- Assurance practice member of SEK, CPAs
- Former member AICPA Accounting and Review Services Committee and Technical Standards Committee

Topics we will cover

- Introduction to Coastal Peer Review
 - Overview of Peer Review Process
 - Enhancing Audit Quality
 - Hot Topics in Peer Review
 - Quality Management and Peer Review
 - Common Peer Review Issues
 - Resources
 - How to become a Peer Reviewer
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Coastal Peer Review, Inc.

Before 2021, the NC Association of CPAs and the Maryland Association of CPAs each administered peer reviews in their respective states.

Changes to peer review administration beginning in 2017 caused most peer review administering entities to reimagine their process and organization.



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In June 2020, both the North Carolina Association of CPAs Board of Directors and the Maryland Association of CPAs Board of Directors approved joint peer review administration through a newly created entity, Coastal Peer Review, Inc.

The Coastal Peer Review Committee and RABs have members from both NC and MD.



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Coastal Peer Review Staff

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Overview of the Peer Review Process

Peer review is an integral part of maintaining quality and protecting the public interest.

What are the benefits of peer review?

- Affirms a firm's ability to perform engagements in conformity with professional standards
 - Affirms a firm's understanding of changes in professional standards
 - Offers an opportunity to obtain outside perspective on quality assurance and technical standards
 - Protects public interest and instills confidence in our profession
 - Suggests tips for preventing and remediating deficiencies
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What is a peer review?

System review

- An evaluation of a firm's system of quality control and the firm's compliance with its system, including a review of selected engagements

Engagement review

- An evaluation of the engagements selected for review with no evaluation of the firm's system of quality control

System review and engagement review

- Both aim to improve quality

What type of peer review do you need?

System review

If you perform

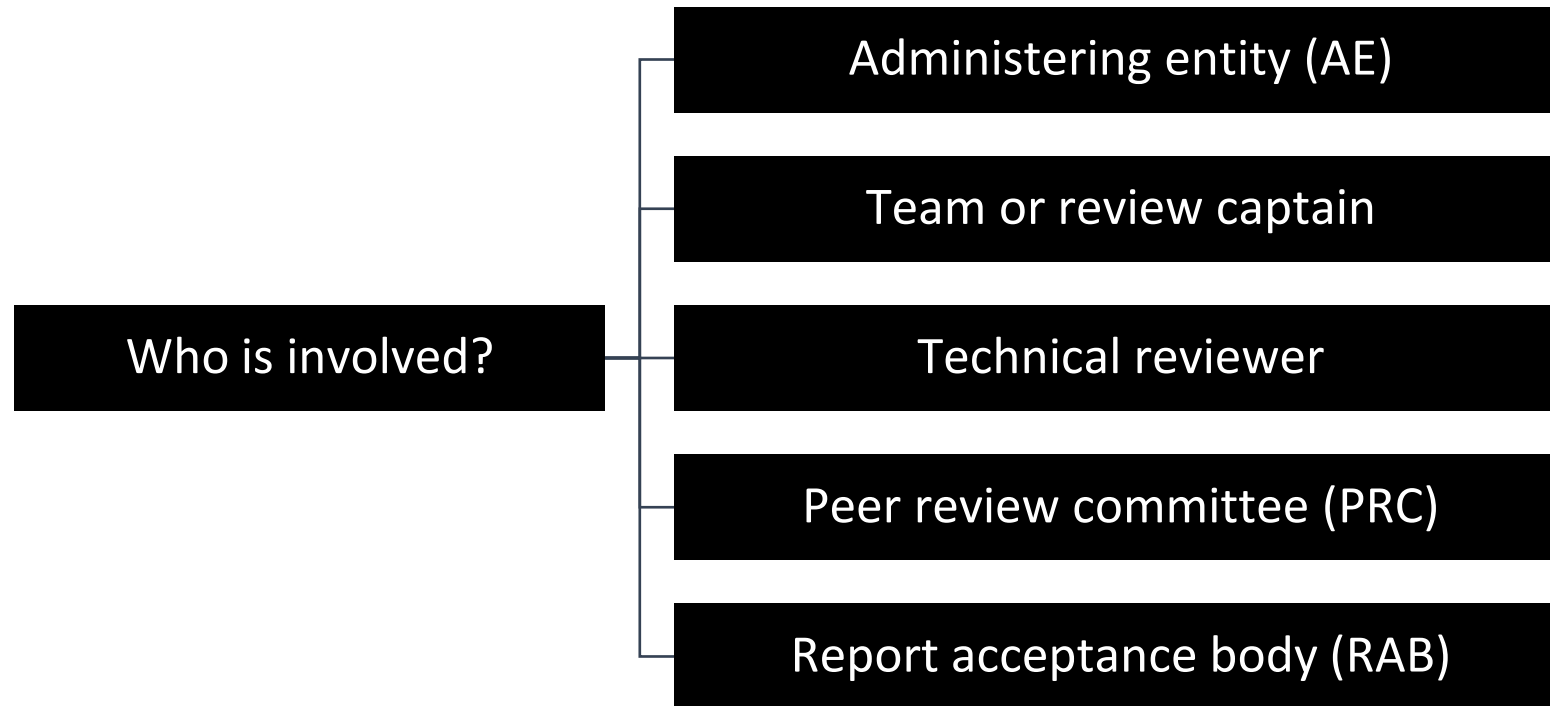
- Audit engagements
- Examinations under SSAEs

Engagement review

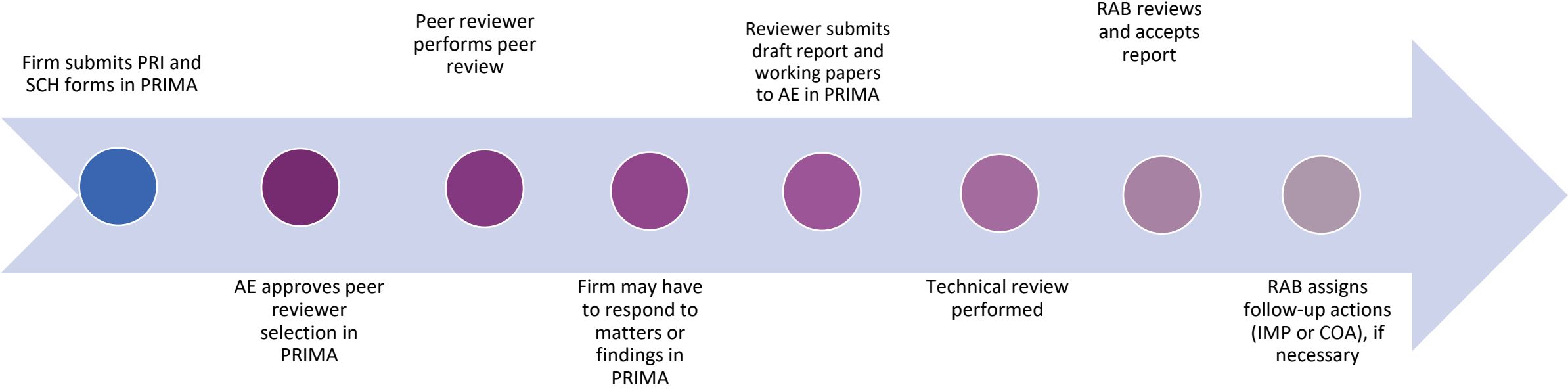
If you only perform

- Services under SSARs
- Services under SSAEs other than examinations

Common terms used in peer review



Peer review process



What will my firm do in PRIMA?

- Complete peer review information (PRI) and scheduling information (SCH) forms
 - Complete engagement summary form (engagement reviews)
 - Respond to matters (MFCs) and findings (FFCs)
 - Acknowledge and provide supporting documentation for COA and IMP
 - Request enrollment, extensions, year-end changes, and resignations
 - Give permission to your AE to provide certain objective information about your peer review to your state board of accountancy
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When is your peer review due?

Login to PRIMA to verify your due date.

If you can't get your review done 'on time,' don't hesitate to reach out to your administering entity to discuss your options.

PRIMA help articles

[Requesting a due date extension in PRIMA](#)

[Requesting an Extension for Corrective Actions or Implementation Plans through firm self service](#)

Peer Review Added Value

- Consultation on new and challenging practice areas, including quality management standards
 - Practical recommendations regarding peer review issues
 - Best practices regarding general firm management issues
 - Advocate for small and medium size firm challenges with standard setters (Auditing Standards Board surveys of peer reviewers)
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Important Elements of the Peer Review Process

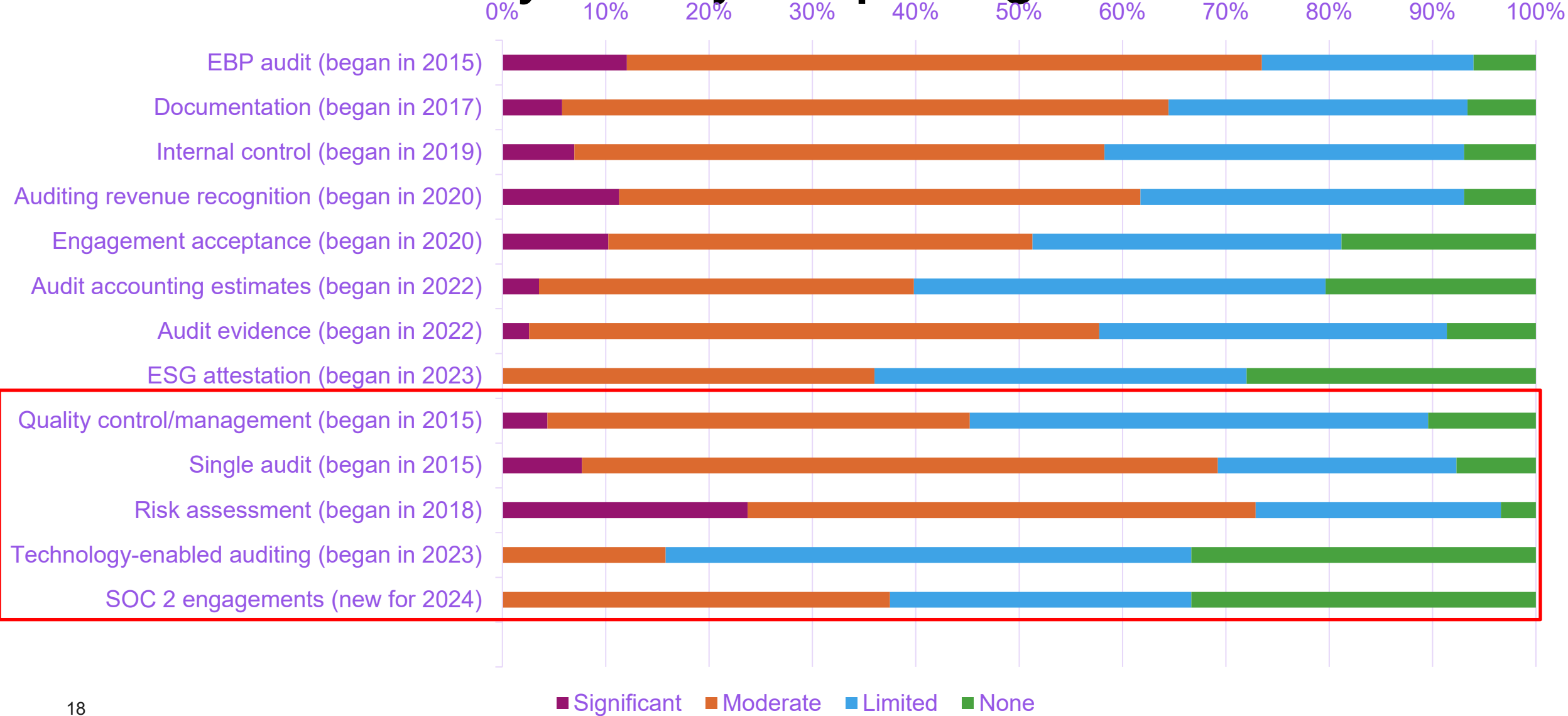
The AICPA Enhancing Audit Quality Initiative

The AICPA Quality Management Standards

AICPA's EAQ initiative



Peer reviewer survey: Quality is improving



2025 EAQ areas of focus



Technology-enabled auditing



Risk assessment



Single audit



Quality management



Emerging attest engagements

Hot topics in Peer Review

- Technology
- Alternative Practice Structures and Private Equity Investments
- Engagements under *Governmental Auditing Standards*
- SOC engagements
- Emerging areas initiative

Due diligence around the use of technology

- Firms should ensure they are performing appropriate due diligence related to technology and making sure it is the right tool(s) for the firm and that it is implemented correctly
- These procedures may include:
 - Independent testing
 - Obtaining SOC reports

Enhance risk assessment by using technology

- Part 1 of the AICPA-issued “Use of Technology in an Audit of Financial Statements” practice aid is titled “The use of automated tools and techniques in the auditor's risk assessment” and covers the following:
 - The use of technology in performing risk assessments
 - The value of obtaining an understanding of the entity's use of technology to help auditors determine their use of technology
 - Examples of automated tools and techniques for performing risk assessment procedures

Private equity investments and Alternative practice structures

- Private equity (PE) firms are investing in the non-attest practices of CPA firms through alternative practice structures (APS)
- Attest and non-attest services are provided by separate but closely-aligned firms
- Arrangements represent additional risks for a Peer Review
 - Gain a thorough understanding of the arrangement (structure and objectives)
 - Consult with AICPA technical staff
 - Complete PRP Form 5100 and submit via PRIMA

APS and Peer Review: What is being done

- **Monitoring** PE investments and transactions as we believe the greater risk will be when the PE investors exit from the CPA firm
- Included a question in the 2025 ASB survey to **gauge what people are seeing** in reviews related to APS
- Revised the APS checklist (**PRPM 5100**) to assist peer reviewers with identifying potential risks associated with PE investments; made this checklist a **required submission via PRIMA**
- **Increased awareness of all stakeholders to the risks around APS**, including training and communications within *PR Prompts*, Peer Reviewer Forums, Are You Ready?, and Reviewer alerts
- Proposal to move peer review administration to NPRC

For-profit entities receiving federal funds

- Why is this an issue?
- Influx of federal funding to for-profit entities which required various types of audits
- Increased need for accountability and audits around these funds
- Many new federal programs with changing or delayed requirements
- **Quality continues to be a focus!**

System and organization controls (SOC)

● SOC engagement deficiencies

- Missing report elements
- Inadequate documentation
- Insufficient evidence
- Over-reliance on SOC tools

● Engagement team oversight

- Need for technical expertise
- Non-CPA involvement

● Audit findings

- User auditors not adequately addressing controls at subservice organizations

Emerging areas initiative

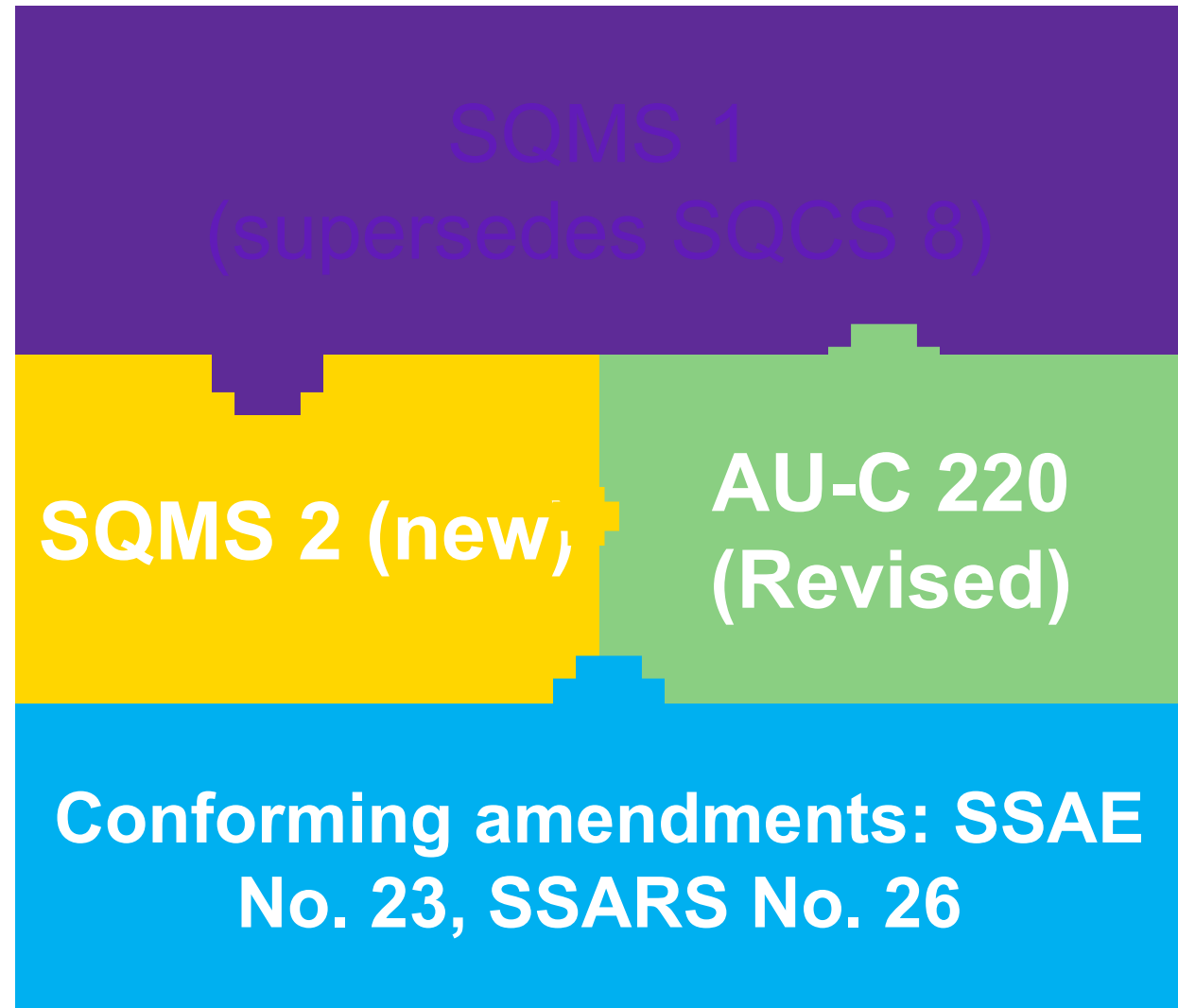
- Address rapidly evolving needs of firms
- PRB developing framework:
 - Defining and identifying emerging areas
 - Assessing their risk levels
 - Determining appropriate responses
- Goal: Present framework in November 2025

Quality Management and Peer Review

Statements on Quality Management Standards

- Statement on Quality Management Standards (SQMS) 1, *A Firm's System of Quality Management*
- SQMS 2, *Engagement Quality Reviews (New!)*
- SAS No. 146, *Quality Management for Engagements Performed in Accordance with Generally Accepted Auditing Standards*
- Related conforming amendments (SSAE No. 23, SSARS No. 26)

Affects every firm that performs engagements in accordance with SASs, SSAEs or SSARS.

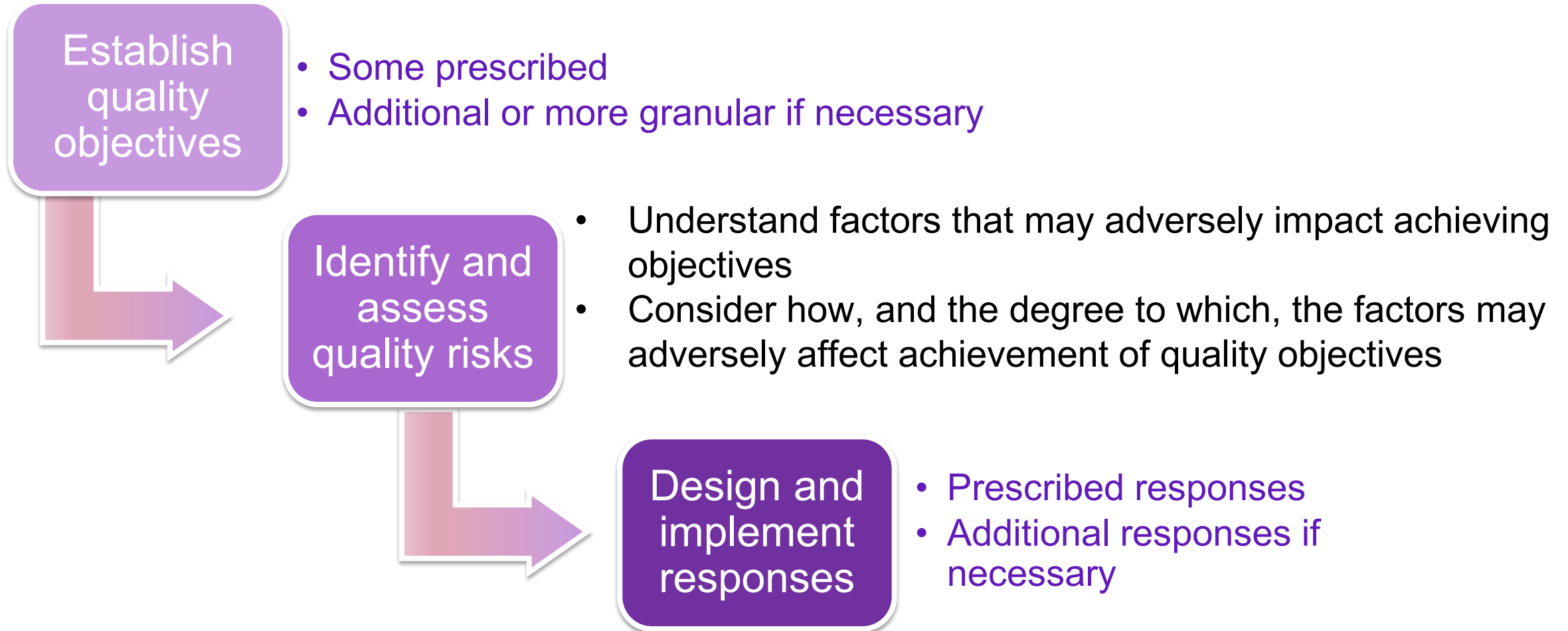


SQMS 1: The System and Its Components

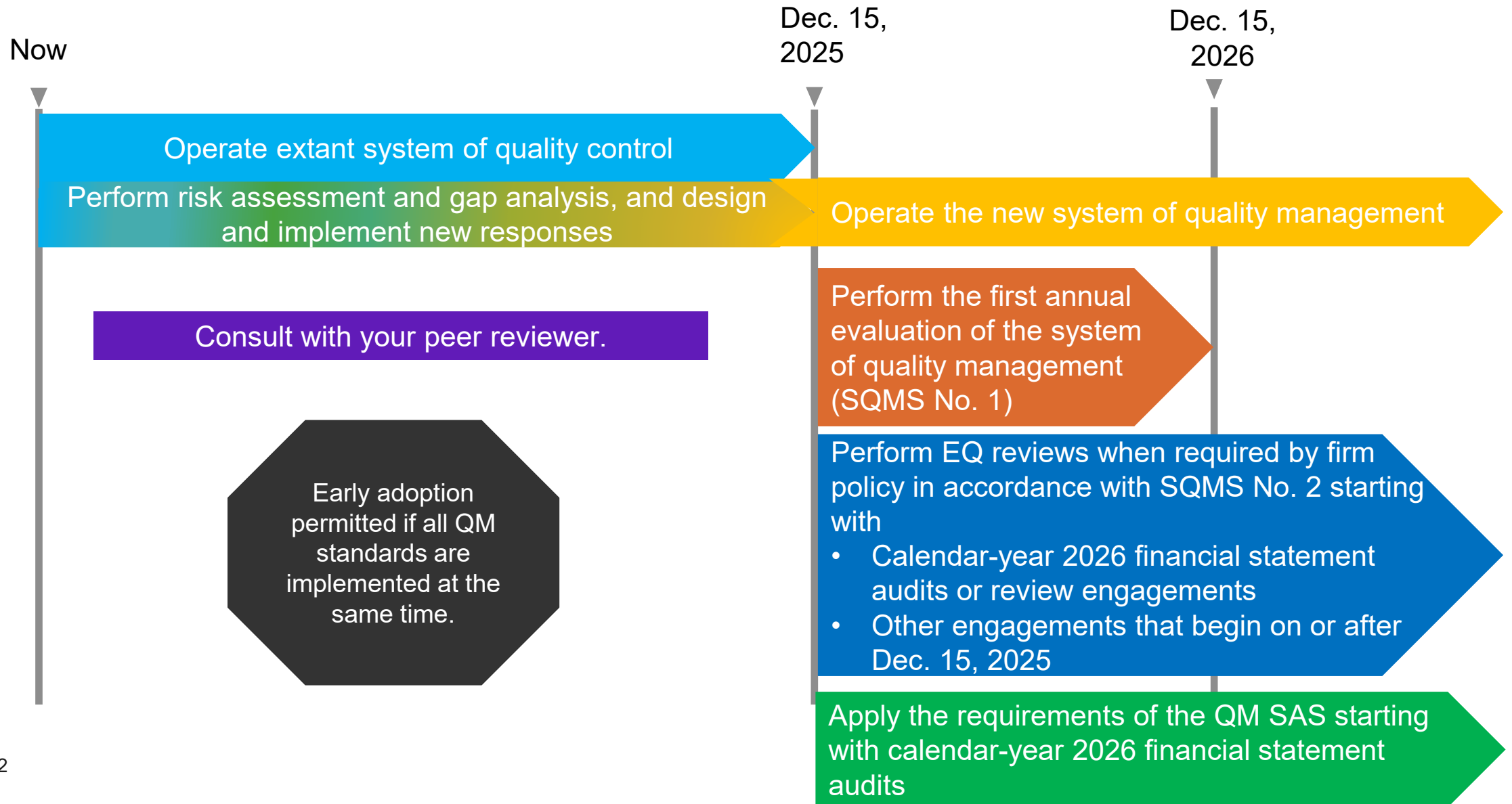
QC Sec. 10	New SQMS 1
No equivalent	Firm risk assessment process
Leadership responsibilities for quality within the firm	Governance and leadership
Relevant ethical requirements	Relevant ethical requirements
Acceptance and continuance of client relationships and specific engagements	Acceptance and continuance of client relationships and specific engagements
Engagement performance	Engagement performance
Human resources	Resources
No equivalent	Information and communication
Monitoring	The monitoring and remediation process



SQMS 1: Risk assessment process



Understanding effective dates



Proposed Peer Review QM checklists

- **PRP 4500QM:** Evaluating the design of a firm's SOQM – Sole practitioners
- **PRP 4550QM:** Evaluating the operating effectiveness of a firm's SOQM – Sole practitioners

- **PRP 4600QM:** Evaluating the design of a firm's SOQM – Firms with two or more personnel
- **PRP 4650QM:** Evaluating the operating effectiveness of a firm's SOQM – Firms with two or more personnel

Ways to provide your feedback:

[Survey](#)

Email prptechnical@aicpa.org

Proposed 4500QM and 4600QM – Design of a firm's SOQM

- Focus areas will include items such as the firm's risk assessment process, monitoring, and documentation
- Other components will have questions such as:
 - Did the firm's SOQM risk assessment documentation address all quality objectives required by QM section 10 as it pertains to the component?
 - If the firm established any other quality objectives in addition to the quality objectives required by QM section 10, describe your planned procedures and evaluation of the additional quality objectives.
 - Did the firm identify and assess appropriate quality risks to the achievement of the firm's quality objectives?
 - For each quality risk, did the firm design appropriate quality responses?

Proposed 4550QM and 4650QM – Operating effectiveness of a firm's SOQM

- Input quality response description
 - Input operating effectiveness procedure
 - Select from procedures library (➤ describe other alternative procedures
 - Input comments and finding noted
- Procedures library includes key and enhanced procedures; alternative procedures not included in the library are acceptable, but must be documented within the checklist



Scenario 1

- The firm does not update its system of quality control at all during the Peer Review year to account for the quality management standards.
- The firm performs audit engagements and therefore has a system review

Scenario 2

- The firm does not update its system of quality control at all during the Peer Review year to account for the quality management standards.
- The firm does not perform audits or examinations and therefore has an engagement review.

Scenario 3

- A firm completes its design and implementation of its system of quality management on June 30, 2026, the same date as its Peer Review year end.

Scenario 4

- The firm did not identify quality risks or quality responses for the “Information & Communication” component.

Scenario 5

- The firm identified an appropriate set of quality responses based on the assessment of risk; however, the firm failed to implement and operate the one or more of its quality responses requiring the firm to communicate inspection results to appropriate staff.

Scenario 6

- The firm developed its system of quality management but failed to properly document all necessary components.

PRSU No. 2: QM changes

- Requires peer reviewers to submit completed QM checklists to all AEs
- Describes QM documentation that peer reviewers are likely to evaluate when planning a Peer Review
- Indicates reviewers will likely need to consider the results of the reviewed firm's (at least annual) evaluation of its QM system
- Describes Peer Review control risk factors for consistency with the eight components described in the QM standards



Split Year Peer Reviews

Split Year Peer Reviews

- Firms with accounting and auditing practices are required to design, implement, and operate a QM system in accordance with the QM standards by December 15, 2025. If a firm implements the QM standards on the required effective date and its Peer Review year-end is March 31, 2026, which standards will be used to evaluate the reviewed firm's system for the year-ended March 31, 2026?
- The peer reviewer will evaluate both the QC and the QM system if both were in effect during parts of the peer review year.

Split Year Peer Reviews

If the period under review is a split-year and the reviewed firm implemented the QM standards by the required effective date of December 15, 2025, are Peer Reviewers required to

- A. Select engagements with years ending (or report dates issued for financial forecasts, projections, and agreed upon procedures engagements) before *and* after the firm implemented the QM standards? It depends!
- B. Test other components of the firm's system before *and* after the firm implemented the QM standards? It depends!

Split Year Peer Reviews

If a firm's Peer Review covers a split-year, should the Peer Reviewer tailor the Peer Review report?

Yes, the report will refer to QC and QM system

Split Year Peer Reviews

Can a Peer Reviewer opine on a firm's QM system when the reviewed firm's Peer Review year end is March 31, 2026, and reviewed firm management has not yet performed its annual assessment of its system as required by the QM standards? In this situation, should the report reflect a scope limitation?

This is not a scope limitation or peer review issue since the annual assessment would not yet be due.

Split Year Peer Reviews

Is a reviewed firm permitted to implement the QM standards at the beginning of its Peer Review year to avoid having a Peer Review that covers a split-year?

- Is a reviewed firm permitted to accelerate its Peer Review year end to November 30, 2025 (i.e., request a change in Peer Review year), which falls before the effective date of the QM standards?
- **Yes, and yes with permission of the AE**

COMMON AREAS OF NON-COMPLIANCE



Common Peer Review Issues

- Complex areas of GAAP (leases, revenue recognition, non-profit accounting)
 - New standards, especially those that require changes to reports, engagement and representation letters.
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Must Select Engagements

- Yellow Book/ Single Audit
- ERISA
- SOC

Resources and contact information

A&A Focus Series

- A&A Focus webcasts: Experts highlight news and topics critical to accounting, auditing, and assurance practitioners, provide member-only resources, and curate additional information
 - Monthly, one-CPE credit hour event
 - Free for AICPA members
 - Register once and gain access to all events, including non-CPE credit replays
- A&A Focus Newsletter: Provides more information on the topics discussed during the webcasts, related resources, and a look ahead to the next event



Reviewer Forums

●The AICPA's 2025 quarterly Reviewer Forums are underway! Join us to hear periodic updates and key recent developments in the AICPA Peer Review Program

- CPE eligible
- Register [here](#)
- Email prsupport@aicpa.org to suggest content!



Reviewer Alerts

- Designed to focus your attention on current issues to assist you in more effectively performing your Peer Reviews and enhancing the quality of the work performed by your Peer Review clients
- Typically distributed quarterly
- Past versions are available on the Peer Review website



PR Prompts

- Semi-annual newsletter intended for Peer Reviewers to provide to their Peer Review clients
- Content is compiled by the AICPA and includes newly effective/recently issued audit and accounting standards, and new available resources
- Past versions are available on the Peer Review website



Contact information

- Have a PRIMA-related question?
 - Contact the Peer Review Operations Hotline at (919) 402-4502 (option 2)
 - Email prsupport@aicpa.org
- Have a Peer Review technical guidance question?
 - Contact the Peer Review Technical Hotline at (919) 402-4502 (option 3)
 - Email prptechnical@aicpa.org
 - Submit a [Peer Review Technical Hotline Submission Form](#)



Becoming a Peer Reviewer

Qualifications:

- Member of AICPA and Active CPA License
- Active in public practice at supervisory level in A&A with five years recent experience
- Associated with a firm that received a PASS report
- Knowledge of Professional Standards (including Peer Review and QC/QM standards)

Benefits you, your firm and your profession!

Where we are: 2024 reviewers by age

	30-40	40-50	50-60	60-70	70-80	80-90	90+	Total
2024 reviewers	18	117	168	176	89	15	2	585
<i>Percent</i>	3.1%	20.0%	28.7%	30.1%	15.2%	2.6%	0.3%	100%
2023 reviewers	16	106	175	188	96	19	3	603
<i>Percent</i>	2.7%	17.6%	29.0%	31.2%	15.9%	3.2%	0.5%	100%

In 2024, nearly 60% of active reviewers were in the 50-70 year age group (no change from 2023); the average age of reviewers in 2024 was exactly 60 years old

Questions and Discussion