THE NEW QUALITY CONTROL STANDARDS AND
PEER REVIEW STANDARDS
Effective January 1, 2009

By Chris Rouse and Howard Poarch

Quality Control Standards

Quality Control Standards No. 7, *A Firm’s System of Quality Control*, becomes effective January 1, 2009. SQCS No.7 supersedes the previous Standards and is applicable to firms that provide audit, review, compilation and other attest services. The objectives of a system of quality control are to provide the CPA firm with reasonable assurance that the firm is complying with professional standards.

A firm’s system of quality control includes policies and procedures that address each of the following elements of quality control.

- Leadership responsibilities for quality within the firm (“tone at the top”)
- Relevant ethical requirements
- Acceptance & continuance of client relationships and specific engagements
- Human resources
- Engagement performance
- Monitoring

SQCS No. 7 makes three important changes from the previous Standards.

- It adds the element of Leadership to the Standards. This element recognizes the importance of a quality-oriented culture in a firm, and requires firms to assign management responsibilities so that commercial considerations do not override the firm’s commitment to quality. Policies and procedures relating to assignments, evaluations and promotions, compensation and performance of duties should demonstrate the firm’s overarching commitment to quality.

- It requires the firm’s quality control policies and procedures to be in writing. This can be accomplished through a QC (Quality Control) Document or by completing the Quality Control Policies and Procedures Questionnaire. To comply with the new Standard, the QC Document should be prepared by January 1, 2009. Both a model QC Document and the Questionnaire are available on the AICPA website (www.aicpa.org).
Firms must establish criteria to determine which engagements will have a “quality control review”. A quality control review is an independent review by a qualified person of the report, financial statements and workpapers, including a discussion with the engagement practitioner-in-charge. Guidance for establishing criteria is available on the AICPA website, and firms should also consider consulting with their peer reviewer on appropriate criteria.

The firm is required to communicate its quality control policies and procedures to its personnel. This is easily done by providing all personnel with a copy of the firm’s policies and procedures, or by making it available electronically. This communication should include (a) a description of the quality control policies and procedures and the objectives they are designed to achieve, (b) the message should state that each individual has a personal responsibility for quality and (c) require each individual to be familiar with and to comply with the firm’s policies and procedures.

**Peer Review Standards**

The AICPA Peer Review Board issued revised *Standards for Performing and Reporting on Peer Reviews* and Interpretations that are also effective on January 1, 2009.

The most significant change for firms is the new reporting model, as noted below.

<table>
<thead>
<tr>
<th>Current Standards</th>
<th>Revised Standards</th>
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<tbody>
<tr>
<td>Unmodified - No LOC</td>
<td>Pass</td>
</tr>
<tr>
<td>Unmodified - LOC</td>
<td>Pass with Deficiency(ies)</td>
</tr>
<tr>
<td></td>
<td>(Deficiency(ies) in report)</td>
</tr>
<tr>
<td>Modified – LOC</td>
<td>Fail</td>
</tr>
<tr>
<td></td>
<td>(Significant deficiency(ies) in report)</td>
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</tbody>
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The report has been streamlined and will consist of only three paragraphs. The report will state “Firms may receive a peer review rating of pass, pass with deficiency(ies) or fail. XYZ firm has received a peer review rating of (pass) - (pass with deficiency(ies) - (fail)).” The letter of comment (LOC) has been eliminated and replaced with an informal Finding for Further Consideration form which is not a part of the peer review report. The review will be focused on the systemic cause of matters, findings and deficiencies. Matters and Findings will be covered in exit conferences. Only deficiencies will be included in the report and the significance of the deficiencies will determine whether a firm receives a peer review rating of pass with deficiency(ies) of fail.
Report reviews and engagement reviews will be combined. The new review will be called an engagement review. The report will follow the same format as in system reviews, ie, pass, pass with deficiency(ies) or fail.

The Administering Entity (ie, the Alabama Society of CPAs Peer Review Committee) will provide the State Board of Accountancy the results of peer reviews it administers (ie, pass, pass with deficiency(ies) or fail) unless the firms “opt out” of the notification program and provide the State Board copies of the peer review report themselves.

The new standards require firms that are inspected by the PCAOB and other firms performing audits for non-SEC issuers pursuant to the standards of the PCAOB to have their peer review administered by the National Peer Review Committee. All other firms will continue to be administered by the administering entity of the state where their head office is located.

Now is time to begin preparing for your next review. Use the AICPA web site resources and discuss these matters with your peer reviewer.

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