

May 2016 Reviewer Alert

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What's New in the *Peer Review Program Manual (PRPM)* – May 2016 Update

The following changes will be available by late May 2016 on the [peer review webpages](#), and in the Online Professional Library ([OPL](#)) to subscribers:

Changes approved at the Peer Review Board's [May 3, 2016 open session](#) effective upon approval (see specific Agenda Item for further information):

- [Confidentiality of the Program](#) (Agenda Item 1.2D):
Changes to PRPM Section 1000 Standards paragraphs .133 and .146, related interpretations, and related PRPM 3300 RAB Handbook (Chapter 1, IIIA and VB) were incorporated. Key aspects of the final guidance are:
 - Peer reviews should be presented to the RAB within 120 days of receipt of the working papers by the AE. However, there are circumstances that may delay presentation.
 - Administering entities and the AICPA are unable to provide information regarding a firm or its peer review to third parties unless allowable by paragraph .146 of the Standards or if permission is granted by the firm. If permission is granted by the firm, the AE or AICPA may disclose objective information only.

These are the only changes from the [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#) that are effective now. Due to the significance of other changes from the exposure draft that are effective for reviews commencing January 1, 2017 or later, please consult the [May 3, 2016 open session](#) Agenda 1.2 materials for further information. Additional communications regarding the changes and training for reviewers will be provided over the next few months.

- [SEC Independence](#) (Agenda Item 1.4):
Changes to PRPM Section 2000's Interpretations 52-1, 59-1, and 59-2 were incorporated. The changes help reviewers identify the risk that a firm may not be aware they are subject to SEC independence rules and the risk that they could be issuing reports when they are not independent.
- [Peer Review Documentation Retention Policy](#) (Agenda Item 1.5):
A new PRPM Section 2000 Interpretation 25-3 was incorporated. The new interpretation allows the AICPA to retain certain peer review documentation (or data derived from that documentation) beyond relevant retention requirements to comply with peer review standards and guidance. In addition, anonymized peer review data may be retained to

monitor trends in peer review, facilitate research and otherwise promote quality in the accounting and auditing services provided by CPA firms.

Other changes effective for reviews commencing on or after June 1, 2016

The following checklists have been updated for the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (“Uniform Guidance”) of 2 CFR 200, Subpart F:

- 22110 Supplemental Checklist for Review of Audit Engagements Performed in Accordance With Government Auditing Standards (Yellow Book) December 2011 Revision
- 22120 Supplemental Checklist for Review of Agreed Upon Procedures and Other Attestation Engagements Performed in Accordance With Government Auditing Standards (Yellow Book) December 2011 Revision

In addition, a new Supplemental Checklist for Review of Audit Engagements of State and Local Governments Participating in Pension Plans Subject to GASB Statement No. 68 (PRPM Section 22130) is now available.

Other changes in process

Changes to the following PRPM sections from the above “SEC Independence” and “Uniform Guidance” updates are in process. Monitor the [peer review webpages](#), [OPL](#) and future Reviewer Alerts for updates to the following PRPM Sections:

- 4900 Team Captain Checklist
- 20400 General Audit Checklist
- 21200 Public Company Accounting Oversight Board Audit Engagement Checklist
- 20500 Governmental Audit Engagement
- 20600 Not-for-Profit Audit Engagement Checklist
- 22100 Part A and B Supplemental Checklists for Review of Single Audit Act/A-133 Engagements

Update regarding Technical Reviewer and RAB Training

The Peer Review Board (Board) approved initial and ongoing training requirements for technical reviewers and initial training requirements for report acceptance body (RAB) members. This is part of the overall initiative to increase the qualifications/expertise of everyone involved in the peer review process, not only just peer reviewers. The effective date for these requirements is January 1, 2017. Individuals becoming technical reviewers after January 1, 2017 are required to meet the technical reviewer initial training requirement. They then need to meet the ongoing training requirement in each subsequent calendar year. Current technical reviewers are required to meet the ongoing training requirement beginning in calendar year 2017. For the RAB training requirement, individuals joining a RAB after January 1, 2017 are required to meet the initial training requirement for RAB members.

- **Initial training requirements for new Technical Reviewers:**
Individuals should complete an introductory technical reviewer training course developed by the AICPA prior to (or shortly thereafter) commencing in that role. The course will be designed to train technical reviewers on the technical review process, responsibilities of technical reviewers, recent changes in peer review guidance impacting the technical review process, and address frequently asked questions of experienced technical reviewers. Current technical reviewers are grandfathered into the initial training requirement.

- Ongoing training requirements for Technical Reviewers:**
 For each calendar year after initial training requirements have been met, technical reviewers should complete a technical reviewer update course developed by the AICPA or attend the Annual Peer Review Conference. The course will be designed to update technical reviewers on recent changes in peer review guidance impacting the technical review process.
- Initial training requirement for new RAB members:**
 Complete an introductory RAB training course developed by the AICPA within 12 months prior to serving on a RAB. This course will be designed to cover the RAB process, responsibilities of RAB members, how recent changes in peer review guidance impact the RAB process, and will address frequently asked questions of experienced RAB members. Current RAB members are grandfathered into the initial training requirement.
- Optional ongoing training for RAB members:**
 The AICPA will develop a RAB Update webcast at least annually. This course will be designed to update RAB members on recent changes in peer review guidance impacting the RAB process and cover any changes to the RAB Handbook. This ongoing training would be made available to existing RAB members on an as-needed basis (e.g. when there are changes to the RAB Handbook) and is optional. These courses could be attended live or be downloaded and listened to shortly thereafter.

SEC Independence

Various audit and attest engagements may be subject to SEC independence rules due to regulatory requirements. There is a risk that firms are performing these engagements and do not realize that they are subject to SEC independence rules and may not be independent. Changes have been made to Interpretations 52-1, 59-1, and 59-2, which are effective June 1, 2016, to reflect the increased risk associated with these engagements. To generate discussion between the firm and the reviewer, questions will be added to the Scheduling Form, Team Captain Checklist, the Public Accounting Oversight Board Audit Engagement Checklist Engagement Profile, and the General Audit Checklist and related Engagement Profile (see discussion on timing within the "What's New in the Peer Review Program Manual (PRPM) – May 2016 Update section). Additionally staff is working with the Broker-Dealer and Investment Companies expert panels to develop a table of examples of the audit and attest engagements that are subject to SEC or PCAOB independence rules to assist in the identification of these engagements. A link to this table will be included on aicpa.org and will also be added to the Scheduling Form and General Audit Checklist and the Public Accounting Oversight Board Audit Engagement Checklist Engagement Profiles when it has been completed.

Summary of Recent PCAOB Staff Inspection Briefs

The PCAOB recently issued two staff inspection briefs previewing the inspection findings from their inspections of auditors of issuers and auditors of broker-dealers. While these Inspection Briefs are focused on the findings from the PCAOB inspection process, the findings noted are not necessarily unique to SEC issuers and broker-dealers and can be items of focus for firms and peer reviewers.

The Inspection Brief for audits of SEC issuers notes that firms inspected once every three years had an overall high number of audit deficiencies. The most frequent audit deficiencies identified included auditing internal control over financial reporting, assessing and responding to risks of material misstatement, and auditing accounting estimates including fair value measurements.

Due to the continued number and significance of the deficiencies identified, the PCAOB notes that firms should continue to focus their efforts on improving their systems of quality control, which may include performing detailed and comprehensive root cause analyses for these deficiencies. The full Inspection Brief from the PCAOB can be found on their website [here](#).

The Inspection Brief for audits of broker-dealers identified deficiencies in the following areas: auditor independence, financial statement audit procedures, audit procedures on supplemental schedules to the financial statements, and engagement quality review. The PCAOB did observe fewer independence impairments, but continued to observe situations where auditors were involved in the preparation of the financial statements or accounting records of their audit clients. The full Inspection Brief from the PCAOB can be found on their website [here](#).

Update on Quality Control Materials (QCM) Reports Used in Peer Reviews

Reviewers are required to understand a firm's policies and procedures for determining the reliability of the QCM utilized by a reviewed firm and determine if they are appropriately designed and implemented. The reviewer should also determine that the firm's QCM are reliable. Therefore a reviewer should be informed about the status of QCM reports and their acceptance.

- **Thomson Reuters Practitioner's Publishing Company (PPC):** QCM reviews with a year end of 12/31 are generally requested by this provider annually on predominantly the same set of guides and practice aids. Their current review for 12/31/15 was accepted on 5/12/2016.
- **CCH, a Wolters Kluwer business:** QCM reviews with a year end of 6/30 or 9/30 are generally requested by this provider annually on a rotating (every 3 years) set of guides and toolsets. Their current reviews for 6/30 and 9/30/15 were accepted on 2/2/2016.
- **John Wiley & Sons, Inc. Advantage Audit Guides:** The provider's first QCM review had a year end of September 30, 2012. No current review is scheduled. This report and the related acceptance letter are now stale and cannot be relied upon during peer reviews. The reviewer should perform additional procedures to assess the QCM as described in Interpretations 42-2 and 42-3.
- **CaseWare U.S.:** The provider's first QCM review with a year end of 11/30/15 was accepted on 2/2/2016.
- **BDO USA, LLP:** QCM reviews with a year end of 9/30 are generally requested by this provider triennially. Their current review for 9/30/15 was accepted 12/8/2015.
- **RSM (previously McGladrey & Pullen, LLP):** QCM reviews with a year end of 4/30 are generally requested by this provider triennially. Their next review for 4/30/16 is in its planning stages.

If a QCM provider is not on this list, they do not undergo a QCM review, and the reviewer should perform additional procedures to assess the QCM as described in [Interpretations 42-2 and 42-3](#). For QCM reviews in process, consult the [QCM Review Results](#) webpage for updates. Some tips:

- Check the searchable pdf tool to determine whether and when the *specific* QCM used by the firm you are reviewing has been subject to a QCM review, and the results.
- Do not assume all of the firm's QCM have been included in scope; the provider determines scope. Certain exclusions are mentioned in the report. Consider QCM:
 - for specific practices or industries, such as SOC or broker dealers

- in different formats, such as guides, toolsets, letter templates, etc.
- in different functionalities. Some QCM are “flat” and others involve interactive programs with built in functionality and logic.
- you should read the actual QCM review reports, which reminds the user to “carefully consider the scope of the QCM review, understand the intended uses and limitations of the materials, and the users’ responsibility for evaluating the QCM’s suitability and for implementing, tailoring and augmenting the QCM as appropriate”.

Peer reviewers with concerns about the reliability of certain QCM should contact the provider for guidance. If significant issues remain unresolved, they may contact nprc@prcpa.org.

Upcoming Events

Register to attend the 2016 Peer Review Conference and Optional Sessions

August 8-10, 2016 San Diego, CA

The AICPA Peer Review Team will host our annual conference from August 8-10, 2016, with optional sessions on Monday, August 8, in San Diego, California. Please join us for another exciting installment of our annual conference. [Register to attend the Peer Review Conference](#).

Becoming an AICPA Peer Review Team or Review Captain: Case Study Applications

August 10, 2016 San Diego, CA

The AICPA is hosting the “Becoming an AICPA Peer Review Team or Review Captain: Case Study Applications” course that will be held in conjunction with the Peer Review Conference in San Diego, California on August 10, 2016. [Register to attend the one-day training course](#). You can also [download the flyer](#) for more details.