

REVIEWER ALERT



May 2017

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Enhanced Oversight Findings

Overview

The Enhanced Oversight program continues to identify a significant number of engagements that are not performed in accordance with professional standards in all material respects (non-conforming) in the oversight sample. Listed below are the most common material departures from professional standards that were not identified by the peer reviewer for the Single Audit and Employee Benefit Plan engagements selected for oversight.

Single Audit and Yellow Book Audit Findings

The first bullet listed below was present on the majority of engagements that were identified as nonconforming. Peer reviewers should pay close attention to this section of the audit file. The most common findings were:

- No testing of internal control over compliance or lack of testing of internal control over *all* direct and material compliance requirements
- No documentation or limited documentation of understanding of internal controls over compliance
- No documentation of auditor analysis and judgement of which applicable compliance requirements were determined not to be direct and material
- Lack of documentation of specific procedures performed to test direct and material compliance requirements. This includes use of generic tickmarks, such as, vouched or tested
- No documentation of how sample sizes were determined including selecting a single sample for multiple grants
- Yellow Book independence documentation

Employee Benefit Plan Findings

Findings on these engagements have not been as consistent as the Single Audit findings. The majority of the findings relate to the bolded questions on the Employee Benefit Plan peer review

checklist. However, there have also been findings related to reporting and testing. The most common findings were:

- Lack of documentation supporting procedures performed to assess the design and implementation of internal controls, including documentation of reliance on service auditor's report
- The reviewed firm did not obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements (including appropriate leveling) and disclosures in the financial statements are in conformity with GAAP
- Lack of testing of participant data and participant elections
- Errors in the Auditor's report
 - reference to the wrong basis of accounting or
 - the report did not properly note that the prior year information presented was compiled in an initial audit
- Insufficient audit samples that do not support the auditor's conclusions regarding significant financial statement assertions
 - 6200 Instructions to Reviewers Performing Engagement Reviews
 - 6600 Instructions for Use of Findings for Further Consideration (FFC) Forms for Engagement Reviews

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Enhanced Oversight Sample Selection

Enhancing Audit Quality

In 2014, the Peer Review Board (PRB) launched an enhanced oversight program, the objective of which is to gather data on the factors driving audit quality to support auditors in quality improvement and raise awareness of common quality issues. The Enhanced Oversight are a critical part of the AICPA's Enhancing Audit Quality (EAQ) initiative. At the core of the EAQ plans are substantial improvements to peer review. Through better detection of non-conforming engagements, reviewed firms will remediate engagement deficiencies and improve their system of quality control. In addition, information obtained from engagements reviewed identifies global needs which assists the AICPA in developing tools and resources to assist firms in improving the quality of their audit practices.

Enhanced Oversight Feedback

AICPA Staff and Peer Review Board Oversight Task Force (OTF) members have received feedback that peer reviewers believe they are being targeted for Enhanced Oversight. These peer reviewers have been selected multiple times as part of the Enhanced Oversight samples. Most the enhanced oversight are randomly selected. The random sampling methodology is focused on enrolled firms, not peer reviewers. Since the primary focus of the random sample is on firm characteristics, some higher volume reviewers have been selected multiple times for oversight.

Enhanced Oversight Samples

Reviews selected for enhanced oversight are either random or target selections.

- Random sample selections are selected using a random number generator.
- Targeted sample selections consist of reviews meeting certain risk criteria for the reviewer, the firm, or both.

Random (Baseline) Sample Methodology

Each oversight year, a statistically valid random sample of reviews with must-select engagements is selected. Because it is statistically valid, the random sample acts as a baseline to compare the results from each oversight year. The random samples are selected by generating a report from PRISM that includes all scheduled reviews that include a must-select engagement on the background form. There is no consideration of the team captain or the team member in this sample selection. Using a random number generator, the sample is selected from this population. The AICPA uses the random sample to measure improvements in firm and peer reviewer performance. By using the same sampling methodology to select a statistically valid sample each oversight year, the AICPA can compare the results over time.

A-133 Random Sample

For the second oversight sample, in addition to the random sample of reviews that included all must-select engagements, a random sample of reviews that included single audit engagements was selected. The population for the second oversight sample included reviews performed between August 1, 2015 and July 31, 2016. The purpose of the sample was to determine the non-conformity rate of single audits subject to peer review and the most common characteristics of quality performers in contemplation of the OMB-mandated quality study expected to occur in 2020. As with the annual baseline sample, there was no consideration of the team captain or the team member in the sample selection. The only criterion for inclusion in the population was whether the review included a single audit engagement on the background form. Since reviews with single audits were included in two samples, reviews that included single audit on the background form had a higher likelihood of being selected for oversight.

Targeted Sample Methodology

For the targeted sample, all reviews that meet certain risk criteria are selected. Examples of risk criteria include, but not limited to:

- reviewers who perform a large number of reviews
- reviewers who perform a small number of reviews
- firms who received a pass with deficiency or fail report rating on their prior peer review
- reviewers who perform one or two engagements in a must-select category and the peer reviewed firm performs one or two engagements in the same must-select category
- reviewers who were selected for enhanced oversight who failed to identify a non-conforming engagement. These reviewers are selected after a sufficient amount of time has passed to allow for improved performance
- peer reviewers referred to peer review by Ethics

A review is selected for the targeted sample if the reviewer, the firm, or both, meet the risk criteria.

Reviewers Selected Multiple Times

A reviewer may have been selected multiple times for oversight if he/she met one or more of the risk criteria and performed reviews of firms with must-select engagements, with the likelihood of selection increasing with the number of reviews performed. As noted above, the random sampling methodology focused on the firm, not the reviewer performing the peer review. Since the sample focused on firm characteristics, reviewers may have been selected multiple times.

Sampling Changes

For the next sample (reviews performed between January 1, 2017 and December 31, 2017) and going forward, only one random sample will be performed; the Baseline sample. Accordingly, this will reduce the likelihood that a reviewer will be randomly selected. Also, for the next sample and

going forward, reviewers will not normally be selected for the targeted sample if they were selected for enhanced oversight four times in the last two years or two times in the current random sample. An exception to the limit on targeted selection can only occur with the explicit approval of the Vice President - Ethics & Practice Quality.

Enhanced Oversight Feedback

The PRB and AICPA Staff appreciate the demanding work of the entire peer reviewer community and welcome your feedback so we can continue to improve the enhanced oversight process. We've added questions to the peer review annual satisfaction survey. Particularly if you have been selected for enhanced oversights, please be sure to complete and submit the survey as we have certain questions specifically for your feedback. If you have any questions about the survey, please reach out to Kim Ellis at kimberly.ellis@aicpa-cima.com or 919.402.4509.

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How a TC Should Address the SRM Quality Control Planning Question

Question E of the "Other Planning" section of the SRM states "After evaluating the design of the firm's system of quality control using the Guidelines for Review of Quality Control Policies and Procedures (Sections 4500 and 4600), develop and document a plan for the nature and extent of compliance testing to be performed using the Guidelines for Testing Compliance with Quality Control Policies and Procedures (Sections 4550 and 4650)."

For this question, the reviewer should document whether anything from their evaluation of the design of the firm's system of quality control (QC) influenced the nature or extent of the testing procedures performed on the firm's compliance with its system of QC. For example, did you see a red flag during planning that made you think an area of the firm's QC should be tested in greater detail than is required? The following are some response examples:

During completion of PRP section 4500, I noted the firm's QC document had not been updated recently. Therefore, I plan to perform more than the required tests of compliance for the firm's leadership responsibilities for quality within the firm QC element to determine if the policies and procedures have been communicated to the firm's per diem personnel.

During my evaluation of the design of the firm's QCPP, the firm's EQCR policy criteria seemed narrow and vague. There appears to be a risk that the firm could fail to perform an EQCR on high-risk engagements. Therefore, during compliance testing, I plan to perform additional procedures focused on QC sec 10.38.

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Reviewer Resumes and Reviewers with FDICIA experience

There were some issues with the reviewer resume data migration from PRISM to PRIMA for a small population of reviewers. To determine if you were impacted, please log into PRIMA. If you go to update your resume (located under Reviewer Profile in the top right corner on the home screen), and do not see a place to enter in Industries on your resume, please email prsupport@aicpa.org.

Reviewers with FDICIA experience should consider updating their resume for a change to that practice area which has already been reflected in the Peer Review Information (PRI) that firms provide in PRIMA.

Specifically, former practice area code 7 (FDICIA with over \$500 million in assets) was split into:

- Code 7: Audits of Federally Insured Depository Institutions subject to the FDICIA with more than \$500 million or greater, but not more than \$1 billion in total assets at the beginning of its fiscal year.
 - These audits are subject to AICPA, SEC and PCAOB independence standards and interpretations.
- Code 8: Audits of Federally Insured Depository Institutions subject to the FDICIA with more than \$1 billion or greater in total assets at the beginning of its fiscal year, required to have an annual report on internal control
 - These audits are subject to AICPA, SEC and PCAOB independence standards and interpretations AND require a separate attestation on the assertion of management concerning the effectiveness of the institution's internal control structure and procedures for financial reporting.

If a firm with the new code 8 tries to schedule a reviewer with code 7 carried forward from PRISM, it will result in a scheduling error. Therefore, it is important that reviewers with FDICIA experience re-evaluate their FDICIA resume codes. Reviewers should also consider whether they have the appropriate attestation experience to review that engagement if their risk assessment concludes it should be reviewed.

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Archived Peer Reviewer Q&A Webcast

On May 11, members of the Peer Review Board held a two-hour webcast to address reviewers' questions and concerns. Questions addressed during the webcast included:

- Is Peer Review becoming more punitive?
- Are the Enhanced Oversight results reliable?
- Why is the PRB focused on engagements?
- Is the PRB targeting small firms?

Reviewers are encouraged to listen to the no-CPE archive of the event, which can be reached by registering [here](#).

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Save the Date – Upcoming Peer Review Event

Save the date for the following peer review event:

- 2017 Peer Review Conference - August 14-16, 2017 (check May 24 to register)
Join us at the Loews Vanderbilt in Nashville, Tennessee for this year's conference.