

Reviewer Focus

Welcome to the April 2014 edition of ***Reviewer Focus***. We designed this communication 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. The information contained herein has **not** been approved by the AICPA Peer Review Board and thus does not constitute—other guidance as defined in the *AICPA Standards for Performing and Reporting on Peer Reviews*.

This edition of Reviewer Focus contains five articles:

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Interpretation 101-3, Nonattest Services: What a Peer Reviewer Should Know

Peer reviewers should increase their attention on whether attest engagements are being performed in accordance with AICPA Ethics Interpretation 101-3, *Nonattest services* (ET 101.05)(Interpretation 101-3), including the requirement that the practitioner be satisfied that the individual assigned to oversee the nonattest services possesses the skills, knowledge and/or experience (SKE) to do so.

System Review engagement checklist profiles and quality control policies and procedures questionnaires address Interpretation 101-3, as do Engagement Review engagement questionnaires. *Further, the April 2014 System and Engagement Review engagement checklists have additional and improved questions on nonattest services and SKE intended to improve the focus on this significant guidance.* Since this will continue to be an area of focus, peer reviewers are expected to be familiar with Interpretation 101-3, upcoming changes to the interpretation and the peer review impact of noncompliance.

What Should You Know?

When providing attest services to clients, practitioners must be independent, in both mind and appearance, and comply with the requirements of Interpretation 101-3 when providing nonattest services to their attest clients.¹ The provision of nonattest services to an attest client may result in self-review² and management participation³ threats to independence. In some case, the threats created by certain nonattest services are so significant that the services would impair independence. Interpretation 101-3 provides specific guidance to CPAs on the types of nonattest services that would and would not impair independence. For those nonattest services that are permitted, the guidance requires that specific safeguards (i.e., general requirements) be implemented by both the CPA and client management in order to reduce the self-review and management participation threats to an acceptable

¹ This article focuses on the independence requirements of CPAs when providing nonattest services to clients under AICPA professional standards. Some regulatory bodies, such as the SEC, PCAOB and GAO, have established independence requirements that may be more restrictive with regard to the provision of nonattest services for an audit client

² A self-review threat exists when a CPA reviews, as part of an attest engagement, evidence that results from his or her firm's own nonattest work.

³ A management participation threat exists when a CPA assumes responsibilities that are the role of client management during the performance of the nonattest service which causes the CPA to function as management in connection with the service.

level. This allows a CPA to act with integrity and exercise objectivity and professional skepticism during the performance of the attest engagement.⁴

Interpretation 101-3 provides examples of common nonattest services that CPAs provide to their clients. As part of the peer review, peer reviewers should be satisfied that the firm has identified all nonattest services provided to attest clients and determine that none of the services would expressly impair independence under Interpretation 101-3. For those nonattest services that would not impair independence, peer reviewers should also be satisfied that the firm has complied with all of the required safeguards set forth in Interpretation 101-3 as discussed below.

The first safeguard is a key underpinning of the rule: the CPA must not assume management responsibilities⁵ on behalf of the attest client. If a CPA were to assume management responsibilities while performing nonattest services, the management participation threat would be considered so significant that independence would be impaired. Various examples of management responsibilities are provided within Interpretation 101-3.

The remaining safeguards involve responsibilities that the client must agree to. The CPA should be satisfied that client management performs all of these functions in connection with the nonattest services (either through documentation or verbal discussions with the client):

- Assume all management responsibilities;
- Oversee the nonattest service, by designating an individual, preferably within senior management who possesses suitable skill, knowledge, and/or experience, or SKE;
- Evaluate the adequacy and results of the services performed; and
- Accept responsibility for the results of the services.

The individual designated by the client to fulfill these responsibilities will likely depend on the nature of the client's organization and the nature of the nonattest services engagement. In an owner-managed business, it may often be the owner, but depending on the nature of the nonattest services and the qualifications (i.e., skill, knowledge, and/or experience, or SKE) of other client employees or individuals, it also could be the controller, bookkeeper or another employee. In larger organizations or for more complex services, the client is more likely to designate a senior officer to oversee the services. The employee or individual responsible for overseeing the nonattest services should be in a position to understand the services sufficiently to oversee them but does not need to possess the technical qualifications to perform or re-perform the services.

CPAs are expected to use their professional judgment and experience to determine whether the individual designated by the client can fulfill these responsibilities. In cases where the client is unable or unwilling to assume these responsibilities, the self-review and management participation threats would be so significant that independence would be impaired. For example, if the individual overseeing the nonattest service does not possess suitable skill, knowledge, and/or experience (SKE) to do so, there would be no one other than the CPA to make the significant judgments that become necessary during the performance of the nonattest services.

⁴ Less restrictive independence requirements exist when performing nonattest services for a client for which the CPA only performs engagements under the Statements on Standards for Attestation Engagements (SSAEs). See Interpretation 101-11—*Modified Application of Rule 101 for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements* [[ET section 101.15](#)].

⁵ Management responsibilities are those activities that involve "leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources."

Peer reviewers should use their professional judgment to determine if the practitioner satisfied these Interpretation 101-3 requirements. Compliance may be evidenced by documentation, or it may be supported by non-documented means, for instance, by assessing:

- the practitioner's and the firm's level of understanding of the guidance as communicated through discussions
- the firm's policies and procedures to communicate and educate its staff on the guidance
- whether the practitioner is familiar with the circumstances at the client and able to clearly explain the thought process and rationale regarding the conclusion reached and,
- whether the practitioner's conclusions were appropriate.

However, CPAs must establish and document, *in writing*, their understanding with client management regarding the following:

- Objectives of the engagement;
- Services to be performed;
- Client's acceptance of its responsibilities;
- CPA's responsibilities; and
- Any limitations of the engagement.

In fulfilling this requirement, CPAs may use their discretion in determining the specific method of documentation. For example, if the CPA performs bookkeeping services for an audit client, the CPA may decide to document the required elements with respect to the bookkeeping services in the audit engagement letter. The understanding also could be documented, for example, in a separate engagement letter specific to the bookkeeping services engagement, a memo to the audit files or a checklist that the CPA completes as part of the audit. The peer reviewer should request to see such documentation as part of the firm's peer review.^{6 7}

Reviewers should consult with Interpretation 101-3 directly for further guidance. Non-authoritative [FAQs](#) issued by the AICPA Professional Ethics Division provide additional guidance to CPAs on the application of Interpretation 101-3, including the application of the required safeguards, assessment of the client's skill, knowledge, and/or experience and illustrative sample language that may be used to document the understanding established with the client.

The AICPA Ethics team's short NonAttest Services video provides an understanding of the recent revisions for maintaining independence as well as an overview of the general requirements when providing nonattest services. The team offers a variety of resources, including the on-demand/CD titled Ethics: Non-Attest Services, Integrity and Objectivity.

What Changes are Coming?

While continuing to help your peer review clients understand current Interpretation 101-3 requirements, we recommend that you also update them on enhancements which will be effective for engagements covering periods beginning on or after December 15, 2014:

⁶ Failure to prepare the required documentation would not impair independence, but would be considered a violation of Rule 202, *Compliance With Standards* [[Rule 202.01](#)], provided that the member did establish the understanding with the client.

⁷ The documentation requirement does not apply to nonattest services performed prior to the client becoming an attest client. However, upon the acceptance of an attest engagement, the member should prepare written documentation demonstrating his or her compliance with the other general requirements during the period covered by the financial statements, including the requirement to establish an understanding with the client.

- Preparing financial statements, reconciliations or cash to accrual conversions for an attest client constitutes performing a nonattest service and the “general requirements” must be implemented in order to maintain independence.
- Performing multiple nonattest services can increase the significance of threats and so before agreeing to perform nonattest services, the member should evaluate whether the performance of multiple nonattest services in the aggregate creates a significant threat to the member’s independence that cannot be reduced to an acceptable level by the application of the safeguards contained in the general requirements of Interpretation 101-3. In situations where a member determines that threats are not at an acceptable level, safeguards in addition to the general requirements of Interpretation 101-3 should be applied to eliminate the threats or reduce them to an acceptable level. If no safeguards are available to eliminate or reduce the threats to an acceptable level, independence would be impaired.

In addition, the AICPA’s Professional Ethics Executive Committee (PEEC) adopted a revised AICPA Code of Professional Conduct (code) that will be effective December 15, 2014. In the revised code the numeric citations and titles of interpretations have all changed. For example, the guidance from Interpretation 101-3, *Nonattest Services* [ET section 101.05] is now found in various interpretations in the Nonattest Services subtopic [ET 1.295] such as:

- *Scope and Applicability of Nonattest Services* interpretation [ET 1.295.010]
- *Cumulative Effective on Independence When Providing Nonattest Services* interpretation [ET 1.295.020]
- *Management Responsibilities* interpretation [ET 1.295.030]
- *General Requirements for Performing Nonattest Services* interpretation [ET 1.295.040]
- *Documentation Requirements When Providing Nonattest Services* interpretation [ET 1.295.050]

The revised code will be housed in a new system with expanded features, which is expected to be live by the 3rd quarter of 2014. Until then, interested parties are encouraged to view the version of the [revised Code](#) that was submitted to the PEEC for approval at its January 28, 2014 meeting (subject to editorial review). To assist users in locating content from the prior code in the revised code, the PEEC created a mapping document. The mapping document is available in an Excel format at [mapping](#) and can also be found in appendix D in the revised code.

Peer Review Impact

[Supplemental Guidance \(3100\)](#) section “Implications of Interpretation No. 101-3, Performance of Nonattest Services” provides guidance on how to address Interpretation 101-3 compliance issues in a peer review. It indicates that:

- when a firm performs an engagement when it lacks independence, the engagement would be deemed as not being performed or reported on in conformity with applicable professional standards (i.e. “nonconforming”) (except on compilation engagements where the accountant’s report has appropriately noted the lack of independence).
- However, if a firm fails to meet the documentation requirements of Interpretation 101-3’s requirement to establish and document in writing (before performing nonattest services) his or her understanding with the client (objectives, services, client’s acceptance of and the practitioner’s responsibilities and limitations), that alone does not cause an impairment of independence and therefore does not automatically result in a nonconforming engagement.
- when a firm fails to meet other requirements of Interpretation 101-3 (relating to the practitioner being satisfied that management has agreed and can assume all management responsibilities, has an individual with SKE to oversee the service, can evaluate the adequacy and results of the services performed and accept responsibility for the service results), then independence has been impaired and the engagement would be deemed nonconforming.

Consult the Supplemental Guidance section for additional guidance.

Now is the Time for Peer Reviewers to Understand Implementation Issues Associated with the GASB's New Pension Standards

The new Governmental Accounting Standards Board (GASB) pension standards will have a significant impact on the financial reporting of pension amounts by employers that participate in governmental pension plans. While the implementation of the GASB's employer standard—GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*—is not required until June 30, 2015 year-ends, now is the time for peer reviewers and peer review clients to become aware of the numerous implementation issues facing governmental pension plans (in particular multiple-employer plans), the governmental employers that participate in those plans (employers or participating employers) and their auditors.

The AICPA State and Local Government Expert Panel (SLGEP) has been charged with addressing the various accounting and auditing implementation issues that have resulted from the new GASB standards. The bottom line conclusion by the SLGEP is that if these implementation issues are not properly addressed by plans and their participating employers, the result could lead to auditors having to issue modified audit opinions on participating employer financial statements. From a peer review perspective, a major concern is that auditors will not familiarize themselves with the employer and auditor implementation issues. If this occurs, there may be an increased risk for audit failure (that is, giving a clean audit opinion without having sufficient appropriate audit evidence) especially since the employer pension amounts could be larger than any other amounts reported in the employer financial statements. If such an engagement is selected for peer review, this would be considered a material departure from applicable professional standards, which could impact the firm's peer review.

This article is to make you aware of the issues, the guidance issued to date, future guidance, and other resources available for your own purposes and so that you can begin educating your peer review clients. The remainder of this article will cover the following topic areas:

- A background and high-level summary of the GASB's pension standards;
- Whitepapers and related auditing interpretations that have been issued by the SLGEP relevant to cost-sharing multiple employer plans (cost-sharing plans), participating employers and their auditors;
- An expected whitepaper and related auditing interpretations (and related timing) on issues associated with agent multiple-employer plans (agent plans), participating employers and their auditors;
- A new pension chapter under development for the AICPA Audit and Accounting Guide, *State and Local Governments (SLG Guide)*;
- Information on how to register for a Governmental Audit Quality Center (GAQC) Web event series on the GASB's pension standards and related implementation issues to be held May 6 and May 7; and
- How to access audit and other resources on governmental pensions.

Background and High-Level Summary of the GASB's Pension Standards

In June 2012, the GASB issued two new standards that will substantially change the accounting and financial reporting of public employee pension plans and the state and local governments that participate in such plans. GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most governmental pension plans. GASB Statement No. 68, referred to at the outset of this article, revises and establishes new financial reporting requirements

for most governments that provide their employees with pension benefits. GASB Statement No. 67 is effective for financial statements for periods beginning after June 15, 2013. GASB Statement No. 68 is effective for financial statements for fiscal years beginning after June 15, 2014.

There are numerous accounting and auditing issues facing all types of governmental plans (especially, cost-sharing and agent plans) and participating employers. With the implementation of GASB Statement No. 68, employers will be required to recognize a liability as employees earn their pension benefits (that is, as they provide services to the government). While the changes to reporting bring major improvements, the changes are extensive and complex.

The GASB has put together numerous [educational resources relating to the pension standards on its Web site](#) that include podcasts, fact sheets, articles and more which are all available to the public.

Whitepapers and Related Auditing Interpretations Relevant to Cost-Sharing Plans, Participating Employers, and Their Auditors

For the first time, employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan. This new employer accounting raises numerous issues about how employers will obtain information from the plan such that they can support the pension amounts reported in employer financial statements. The AICPA SLGEP released two whitepapers which address numerous implementation issues from various perspectives including cost-sharing plans, participating employers, and employer auditors.

The first whitepaper titled, [Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting](#), addresses issues related to how employers participating in cost-sharing plans obtain necessary information to properly recognize and disclose pension amounts in their financial statements and how their auditors obtain sufficient appropriate audit evidence to support their opinions on employer financial statements. [Read the whitepaper for much more detail](#) on why the SLGEP concludes that if a cost-sharing plan issues financial statements, but does not voluntarily prepare certain additional schedules and engage its auditor to opine on the schedules (as recommended by the SLGEP), that it may be necessary for participating employer auditors to modify the employer's audit opinion. It is important to emphasize that unaudited information provided by the plan to participating employers to support allocations or pension amounts would not be sufficient appropriate audit evidence for employer auditors to base their opinions.

The second whitepaper titled, [Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements](#), addresses the role of census data in single-employer and cost-sharing plan financial statements and the plan auditor's responsibility for such census data. It should be of primary interest to cost-sharing plans and their auditors. The SLGEP addresses the responsibility of the cost-sharing plan to obtain all necessary information and the plan auditors to obtain sufficient appropriate evidence regarding the completeness and accuracy of all census data underlying certain financial statement elements of the plan. [Read the whitepaper for more detail to further understand](#) the plan auditor's responsibility to identify and assess the risks of material misstatement of these elements.

Related Auditing Interpretations Issued

In addition to the above described whitepapers, the SLGEP, working with the AICPA Audit and Attest Standards Team, developed a series of auditing interpretations that primarily address specific questions pertaining to both the auditors of the cost-sharing plans and participating employers. These interpretations support certain of the conclusions reached in the SLGEP whitepapers above and include interpretations of AU-C 500, *Audit Evidence*, AU-C 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and AU-C 805, *Special*

Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement. [Access the auditing interpretations.](#)

Whitepapers and Auditing Interpretations Relevant to Agent Plan, Participating Employers, and Their Auditors

Like cost-sharing plans, once GASB Statement No. 68 is implemented employers participating in agent plans will need to recognize their specific pension amounts in their financial statements. A major challenge faced by each employer participating in an agent plan is how they will obtain accurate and reliable information to recognize their individual pension amounts including net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The SLGEP is still working on a whitepaper that will include recommended best practices for agent plans, participating employers and their auditors. The SLGEP is also working with the AICPA Audit and Attest Standards Team on a series of related auditing interpretations. The whitepaper related to agent plans is expected to be issued in April 2014 and will be made available to the public on the [GAQC's GASB Matters page](#). The auditing interpretations are expected in June 2014.

New SLG Guide Chapter is Under Development

In addition to the above, a new governmental pension chapter for the SLG Guide is under development. The chapter will cover various plan and employer auditor considerations, including ramifications when an employer auditor is not able to obtain sufficient appropriate evidence in order to opine on the pension amounts included in employer financial statements. The timing of the issuance of this chapter is still uncertain but the GAQC will issue an announcement when it is available.

Register Now for Upcoming GAQC Web Event Series on Pensions

This GAQC Web event series, is intended to provide key information to financial statement preparers (both plans and employers), as well as their auditors, on the issues related to cost-sharing and agent plans including those described in the various SLGEP whitepapers and related auditing interpretations. **If your firm is a GAQC member, read [GAQC Alert #248](#) for GAQC member registration information and more details.** Because of the widespread applicability of the GASB's new pension standards, the GAQC will be opening the events to non-GAQC members (with CPE Option only) so if you are not a GAQC member you can use the following information to register for one or both of the events:

- **May 6, 2014, 1:00 PM - 3:00 PM (Eastern Time):** *The GASB's Pension Standards Part I: Considerations for Cost-Sharing Plans, Participating Employers and Their Auditors.* [Register now for the May 6th offering of "Part I" for individuals or groups.](#)
- **May 7, 2014, 1:00 PM - 3:00 PM (Eastern Time):** *The GASB's Pension Standards Part II: Considerations for Agent Plans, Participating Employers and Their Auditors.* Click here to register individuals and groups. [Register now for the May 7th offering of "Part II" for individuals or groups.](#)
- [Register for the "Two-Part Series" for individuals or groups.](#)

Resources on Pensions Currently Available

The GAQC has added a new resource center to its Web site to highlight auditing issues related to audits of state and local governmental entities. The whitepapers discussed above can be found on this new section titled [GASB Matters](#). In addition, this page provides links to education resources GASB has made available, upcoming AICPA conferences with extensive coverage of pensions and other GAQC communications. As additional guidance is issued by the SLGEP, it will be posted to the GAQC's GASB Matters page.

AICPA Peer Review Program Manual Update

As reported in the [March Reviewer Focus](#), the revised AICPA *Peer Review Program Manual* Update 00-9 (April 2014) (Manual), including updated checklists, was made available in early April. You can download sections of the Manual from the **In the Spotlight** section on the [Peer Review Interest Area](#) page, as well as the [2014 Peer Review Program Manual](#) page or the [2014 Team and Review Captain Checklists](#) page. If you are a subscriber, you should have received your hard copy in mid-April.

Further details on the conforming changes made to the Manual can be found in the [March Reviewer Focus](#) as well as the [Release Notes](#).

Peer reviewers should adhere to the revised guidance, forms and checklists for peer reviews commencing on or after April 1, 2014.

Functionality Updates to Sections 4800, 4900 and 6300 of the Peer Review Program Manual

As discussed in the March 2014 Reviewer Focus, the 2014 Peer Review Program Manual (PRPM) includes Excel versions of:

- PRP section 4800, Summary Review Memorandum (4800)
- PRP section 4900, Team Captain Checklist (4900)
- PRP section 6300, Review Captain Summary (formerly the Review Captain Checklist) (6300)

These documents were converted to Excel to make them more user-friendly. However, PDF fillable versions to accommodate reviewers that do not have (or wish) to use Excel are also available.

Based on feedback received on the functionality of these documents, updates (available shortly) have been made to the versions available on the [Team and Review Captain Checklists](#) page, as follows:

- For the Excel versions of 4800, 4900 and 6300:
 - Reset print settings to adjust orientation (portrait/landscape) and scaling (fitting columns/rows on one page) when applicable so that the document can be printed more efficiently.
 - Reset files to default to opening initially to the first tab. Once resaved, the file will open to the tab that was last used. Reset files so the cursor defaults to top of the tab.
- For the PDF versions of 4900 and 6300, eliminated calendar date drill down. Per the instructions, a date is not necessary. Since the intention was to make these forms simpler, only an "X" indicating that the step is completed is required.

The Excel files default to show expanded versions of possible applicable questions in additional rows (see the "+"s). Users are welcome to minimize the rows that don't apply.

These and any future additional functionality updates will be posted only to the versions available on the [Team and Review Captain Checklists page](#). Therefore, team and review captains should consider using those versions instead of the versions on the CDs sent with the PRPM loose leaf version.

Additional feedback on the PRPM may be submitted to prsupport@aicpa.org.

Save the Dates – Upcoming Webcasts and Conference

May 12, 2014 1-3pm EDT - Are You Ready for Your Peer Review? This webcast will benefit CPA firms undergoing peer reviews in 2014. Please forward the details to your new peer review clients or your current clients you believe could benefit from the webcast. The webcast will provide firms with an overview of the AICPA Peer Review Program and what they can expect during their review. Our

presenters will be Toni Lee-Andrews (Chair of the Peer Review Board's Education and Communications Task Force) and James Brackens (AICPA VP, Ethics & Practice Quality). Click [here](#) to register. If you are interested in attending the webinar but not receiving CPE credit, please email prsupport@aicpa.org.

June 2, 2014, 2-4pm EDT - Peer Review Update. This webcast will benefit all peer reviewers as it will cover changes in guidance from the last year. Our speakers will be Rick Reeder (Chair of the Peer Review Board), Anita Ford (Chair of the Peer Review Board's Standards Task Force) and James Brackens (AICPA VP, Ethics & Practice Quality). You'll hear a high level overview of changes to Standards and Guidance that have occurred in the last year. You'll also hear about short- and long-term enhancements to audit quality being planned by the PRB. Click [here](#) to register. This webcast counts toward meeting the peer reviewer training requirement. If you are interested in attending the webinar, but not receiving CPE credit, please email prsupport@aicpa.org.

2014 Peer Review Conference and How To Course



The AICPA Peer Review Team will host our annual conference from August 4-5, 2014, with optional sessions on August 3, in Denver, Colorado. Please join us in Denver for the annual conference and to celebrate Peer Review's 25th Anniversary! Check out our [conference web page](#) for more details. Registration will be available in early May.

How-To Course

Co-sponsored by the Colorado Society of CPAs, the AICPA is hosting its annual "How To Conduct a Review Under the AICPA Practice-Monitoring Program" course at the Peer Review Conference in Denver, Colorado on August 4-5, 2014. You can network and meet with experienced peer reviewers during meals, breaks and at the reception. Registration will be available in early May.