

REVIEWER ALERT



April 2017

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What's New in the Peer Review Program Manual (PRPM) – April 2017 Update

The following updates will be available by late April 2017 on the [peer review webpages](#), and in the Online Professional Library ([OPL](#)) to subscribers. PDF or excel documents will have an "April 2017" date on the top. The updates will be effective for reviews commencing on or after May 1, 2017.

- PRPM section 20500, *Governmental Audit Engagement Checklist (20500)*, has been updated for GASB Statement No. 72, *Fair Value Measurement and Application*.
- PRPM section 20500 Engagement Profile, and PRPM section 4800, *Summary Review Memorandum*, have been updated to incorporate a new question for engagements performed in accordance with Government Auditing Standards, when the auditor assisted with preparation of financial statements as a non-attest service and significant threats were not identified.
- Guidance Effective For Reviews Commencing after the Implementation of PRIMA (on May 1, 2017) as discussed in the [October 2016 Reviewer Alert](#) and [September 2016 Peer Review Board Agenda Items 1.4 and 1.5](#), related to:
 - Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program
 - Enhancing Audit Quality Initiative Conforming Guidance Changes

As a result of the above, changes were incorporated into PRPM sections:

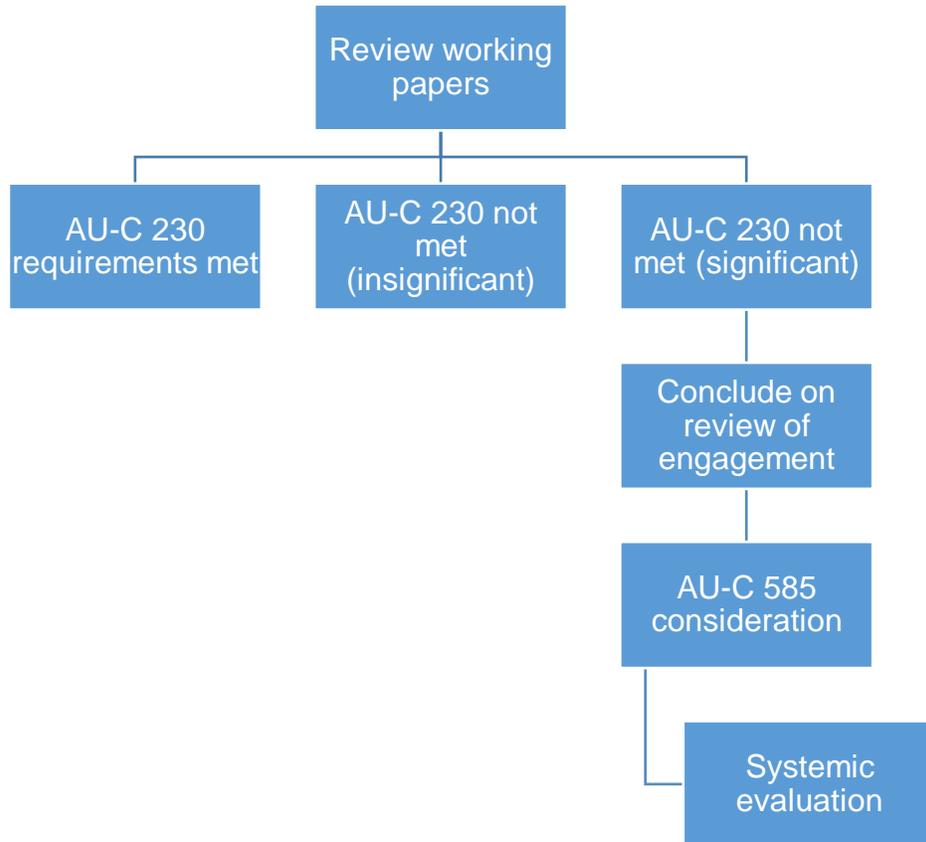
- 1000 Standards
- 2000 Interpretations
- 3100 Supplemental Guidance
- 3300 Report Acceptance Body Handbook
- 4100 Instructions to Firms Having a System Review

- 4960 Instructions for Use of Findings for Further Consideration (FFC) Forms for System Reviews
- 6100 Instructions to Firms Having an Engagement Review
- 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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Not Documented, Not Done: Additional Guidance

In April and November 2016, Reviewer Alerts were issued addressing the topic of audit documentation. To address questions received after the issuance of those Alerts, the Peer Review Board (PRB) has developed the following flowchart and expanded guidance for peer reviewers who identify instances where audit documentation does not meet the requirements of AU-C 230, *Audit Documentation*:



Overview

In reviewing an engagement and completing the engagement checklist, the reviewer must determine whether the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and support the auditor’s opinion.

Meeting the requirements of AU-C 230 provides evidence of the auditor's basis for his or her audit opinion as well as evidence that the audit was planned and performed in accordance with generally accepted auditing standards (GAAS) (AU-C 230.02).

When reviewing an audit engagement, if the peer reviewer determines that audit evidence, which is necessary to support the audit opinion, was not documented in accordance with AU-C 230, the reviewer should conclude that the audit was not conducted in accordance with GAAS and that the auditor failed to obtain sufficient appropriate audit evidence to support the audit opinion.

Reviewing Working Papers

When reviewing the documentation of the evidence obtained as a result of the audit procedure performed, the reviewer should consider whether the requirements of AU-C 230 were met.

AU-C 230.08 requires an auditor to document:

- the nature, timing, and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements
- the results of the audit procedures performed, and the audit evidence obtained and
- significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments.

AU-C 230 Requirements Met

If the requirements of AU-C 230 were met but clarification is needed (for example, when the auditor's conclusion does not appear consistent with the results of the audit procedure), the reviewer may obtain clarification through discussions with the auditor. Obtaining such clarification would not, in and of itself, result in a "no" answer on the engagement checklist.

AU-C 230 Requirements Not Met (Insignificant)

If the requirements of AU-C 230 were not met, but the audit procedure being reviewed was not necessary in order for the auditor to support the audit opinion (for example, testing of a low-risk, immaterial prepaid expense balance), the auditor's failure to document the procedure would not, in and of itself, result in a "no" answer on the engagement checklist.

Determining whether an audit procedure was necessary in order for the auditor to support the audit opinion requires the exercise of professional judgment.

AU-C 230 Requirements Not Met (Significant)

If the requirements of AU-C 230 were not met, and the audit evidence is necessary in order for the auditor to support the audit opinion (for example, testing of a material intangible asset with high valuation risk), the reviewer should:

- Not accept oral explanation as a substitute for compliance with AU-C 230
- Not give the auditor "credit" for performing the procedure in accordance with GAAS
- Mark a "no" answer for that procedure on the engagement checklist and
- Mark a separate "no" answer on the engagement checklist to memorialize the auditor's failure to document the procedures in accordance with AU-C 230.

Conclude on the Review of the Engagement

If the reviewer determines that audit evidence necessary to support the audit opinion was not documented in accordance with AU-C 230, the reviewer should conclude that the audit was non-

conforming (i.e. was not performed and/or reported on in conformity with applicable professional standards in all material respects), the reviewer should document the matter on an MFC form.

AU-C 585 Consideration

If the engagement subject to review is deemed non-conforming, the reviewer should remind the firm of its obligations under AU-C 585, *Consideration of Omitted Procedures After the Report Release Date*.

The firm should investigate the issue questioned by the reviewer and determine what action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports.

The firm should then advise the reviewer of the results of its investigation, including parties consulted, and document on the MFC form prepared by the reviewer the actions planned or taken or its reasons for concluding that no action is required.

If the firm takes action, the reviewer should review documentation of the action (for example, the firm performed and documented the procedure(s)) and consider whether the action is appropriate.

If the firm does not take appropriate action, the reviewer should evaluate whether this is indicative of a deficiency in the firm's tone at the top.

Systemic Evaluation

When completing an MFC form, the reviewer should seek to understand the underlying cause of the matter. Gaining this understanding will involve analysis of the firm's quality control policies and procedures and discussion with the firm's partners and/or personnel.

When audit procedures or audit evidence were not documented in accordance with AU-C 230, these discussions should address whether the procedures were performed but not documented as required or whether the procedures were not performed at all. Additionally, the reviewer should ascertain whether the personnel understood the requirements of AU-C 230 and should address the sufficiency and appropriateness of audit evidence necessary to reduce audit risk to appropriately low level.

Once the underlying cause of the matter is understood, the reviewer must use professional judgment to determine whether the matter meets the definition of a finding, deficiency or significant deficiency.

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Free Audit Documentation Tools Available For Auditors

The Peer Review Enhanced Oversight Program recently identified a lack of adequate documentation as a common audit issue. In addition to the guidance for reviewers detailed in the previous article, the AICPA has developed a free toolkit available at aicpa.org/documentation to help auditors document appropriately and comply with the standards. The toolkit includes a training program firms can present to their staff, a tool for evaluating SOC 1 reports, model working papers and more. These documentation tools are a component of the PCPS Invigorate the Focus on Quality Toolkit found at aicpa.org/pcps/quality.

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Limited Review of Engagements in a System Review

A limited review of an engagement occurs when not all the significant audit areas of the engagement have been reviewed. A reviewer may find a limited review of an engagement in a system review useful in certain scenarios including, but not limited to:

- The review team concludes there was a failure to reach an appropriate conclusion on the application of professional standards in all material respects on:
 - One or more of the engagements reviewed, or
 - One or more of the elements of the firm’s system of quality control (either during tests of design or compliance).
 - For example, suppose a reviewer finds a firm has not properly documented its assessment of all SOC® reports in the review of an EBP engagement. In response, the reviewer should expand scope (refer to PRP Section 1000 para. 68 *Expansion of Scope*) to other EBP engagements and review to see if the firm properly documented its assessment of any SOC reports in those engagements. The reviewer wouldn’t necessarily need to review other areas for the additional selections.
- Because of risk assessment procedures where an engagement selection may be warranted, but not required.
 - Highly specialized type of EBP engagement where the reviewer has already satisfied the must-select requirement.
 - For example, a reviewer selects a 401(k) plan to review in its entirety, but also reviews certain high-risk areas of a DB plan.
 - Non-carrying broker dealer engagements.
 - Specialized industries identified in the category of “other audits” when the reviewer has already met a reasonable cross section of the firm’s accounting and auditing practice.

If a reviewer performs a limited review of an engagement, the team captain should refer to documentation guidance provided in PRP Section 4800 SRM, *Scope of Work Performed*, footnote 3:

“For engagements on which not all the significant audit areas were reviewed, include the engagement hours that relate to the portion of the engagement that was reviewed and note the fact in the comment section.”

The team captain should document the following;

- The purpose of the limited review of the engagement
- The methodology used in determining the hours incorporated into the scope and
- The conclusions reached by the limited review

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Population Completeness: Employee Benefit Plan (EBP) Audits

As part of the AICPA's 6-Point Plan to Enhance Audit Quality, AICPA Peer Review Program (program) staff is currently analyzing publicly available information from the Department of Labor's (DOL) EFAST2 database. The objective is to verify whether auditors performing 2014 and 2015 employee benefit plan (EBP) audits are properly enrolled in peer review and whether EBP audits were properly included within the scope of the firm's peer review. Staff performed similar DOL investigations a few years ago that revealed that over 20% of the firms investigated were not compliant with peer review enrollment or scope requirements. Staff also recently concluded a similar investigation of the Federal Audit Clearinghouse for firms performing single audits, which revealed that approximately 5% of firms investigated were noncompliant.

Firms that are not enrolled in the program as required by AICPA membership bylaws or their state regulatory authority will be referred to AICPA Professional Ethics Division or the appropriate regulatory or licensing authority.

Firms that omitted an EBP audit from the scope of their peer review will be notified that their most recent peer review acceptance letter will be recalled. The firm will be subjected to a hearing panel to determine if the firm's enrollment in the program should be terminated or if the firm will be allowed to have a replacement review. Notifications to impacted firms and reviewers are expected to begin after April 17, 2017.

For reviews in progress, Staff is currently sending pre-emptive communications to firms, reviewers and administering entities (AEs) to prevent a peer review from being accepted when it appears that an EBP audit may be inappropriately excluded from the scope of the current review.

How Reviewers Can Help:

- Reinforce to firms the importance of providing complete information about the firm's engagements for its peer review on the scheduling form and listing of engagements.
- Emphasize to firms that the engagement listing should include engagements that the firm **expects to perform with periods ending during the peer review year**.
- Advise the firm to consult their AE about an extension of the peer review due date, if a firm has been engaged to perform its only EBP audit for a period ending during the peer review period, that will not be complete until after the exit conference date.
- Respond timely if reviewer receives a notification about an engagement omission.
- Refer to the [November 2014 Reviewer Focus](#) articles about Evaluating Population Completeness and Replacement Reviews for more information.

Additional Guidance:

The [Peer Review Compliance and Completeness](#) alert available in the peer review interest area on aicpa.org provides information relevant for the current project, such as:

- Provides tips for reviewers and firms to avoid common errors
- Emphasizes the importance of ensuring completeness of the engagement population
- Describes potential ramifications of noncompliance, including potential termination from the peer review program and referral to the appropriate regulatory or licensing authority

Voluntary Correction Program: Reviewers and firms should be aware of an option to avoid the risk of being terminated from the program by voluntarily notifying their AE of an omission or other

material departure in the firm's most recently accepted review. Firms that voluntarily notify the AE of a material omission or other material departure will have the acceptance of the review recalled. The firm will be allowed to submit a replacement review to the AE, due approximately 90 days after the firm's notification to the AE. To take advantage of this option:

- notification from the firm must be prior to the AICPA or AE being otherwise notified of or discovering the omission or misrepresentation, and
- prior to the firm receiving notification from another regulatory or monitoring agency.

Staff expects to send a communication about this completeness project and the Voluntary Correction Program to enrolled firms that may be impacted by this project after April 17, 2017.

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PRISM Goes Offline April 20, 2017 and PRIMA Launches May 1, 2017

As a reminder, PRISM will be offline beginning April 20, 2017 at 10pm ET. PRIMA, the replacement for PRISM, will be launched May 1, 2017. We designed PRIMA to be intuitive and responsive to our changing environment. In addition, PRIMA will be easy to use and will have a robust knowledge base available to all users. [Register](#) for a free PRIMA training webcast on May 16, 2017 from 2-3:30pm ET.

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Save the Dates – Upcoming Peer Review Events

Save the dates for the following peer review events:

- [Free PRIMA Training Webcast](#) - Tuesday, May 2, 2017 2-3:30pm ET
After busy season, attend a webcast with a high level overview and demonstration of PRIMA.
- [Are You Ready for Your Peer Review?](#) – Wednesday, May 10, 2017 2-4pm ET. You may wish to refer your peer review clients to this webcast to better understand the peer review process and to prepare for their peer reviews.
- [Free EAQ – Peer Review Webcast](#) - Thursday, May 11, 2017 10am-12pm ET **(FREE CPE)**
Questions about audit quality? Join PRB members to hear answers to common inquiries and insights into the PRB's plans to help enhance audit quality.
- 2017 Peer Review Conference - August 14-16, 2017 (check aicpa.org in May to register)
Join us at the Loews Vanderbilt in Nashville, Tennessee for this year's conference.

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