June 2016 Reviewer Alert

This Reviewer Alert contains six articles:

1. What's New in the Peer Review Program Manual (PRPM) June 2016 Update
2. Quality Control Policies and Procedures Documentation for Firms
3. Exposure Draft – Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program
4. Spotlight on Audits Subject to Government Auditing Standards and Single Audit
5. Additional Reviewer Ongoing Training Option
6. Peer Review Conference

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

The following updates will be available by late June 2016 on the peer review webpages, and in the Online Professional Library (OPL) to subscribers:

Updated RAB Handbook - Reviewer Performance
Changes to PRP section 3300, *Report Acceptance Body (RAB) Handbook,* were incorporated as discussed at the Peer Review Board's May 3, 2016 open session (Agenda Item 1.6). Minor conforming changes were incorporated into paragraph .148 of PRP section 1000, *AICPA Standards for Performing and Reporting on Peer Reviews*; and Interpretations 137-1 and 166-1 of PRP section 2000, *Peer Review Standards Interpretations*. The changes address feedback from reviewers and firms on earlier implemented Reviewer Performance changes and are intended to strike a better balance of education and remediation in the process. Corresponding changes to the Feedback Form have been made.

Updated Checklists
As a peer reviewer, you should download the appropriate questionnaires and checklists from the PRPM each time you commence a review to ensure you have the most updated practice aids. You are expected to use the most recently updated versions for each peer review you perform.

The following PRP sections have been updated or added, and should be used for reviews commencing on or after July 1, 2016:
- PRP section 4900, *Team Captain Checklist*
- PRP section 20400, *General Audit Engagement Checklist*
- PRP section 20500, *Governmental Audit Engagement Checklist*
- PRP section 20600, *Not-for-Profit Audit Engagement Checklist*
- (New) PRP sections 22100 Part A-UG and Part B-UG, *Supplemental Checklists for Review of OMB Single Audit Engagements* (Audits of fiscal years ending prior to the effective date of the Uniform Guidance audit requirements should continue to be reviewed using PRP sections 22100 Part A and B, *Supplemental Checklists for Review of Single Audit Act/A-133 Engagements*)
- Related Profiles, as applicable

The changes relate to:
- SEC Independence - related to guidance approved at the Peer Review Board's May 3, 2016 open session (Agenda Item 1.4).

- o An additional question has been added to the PRP section 4900 to confirm that the team captain has discussed SEC independence rules and their possible implications with the firm.
  - o Additional questions have been added to PRP sections 20400 and 20600 to ask what independence standards apply to the client, and to determine if the auditor complied with applicable independence and ethics requirements and specifically SEC independence requirements.
- Risk Assessment – additional language regarding "Risks of Material Misstatement" to assist reviewers, and related enhancement of the inherent risk question for the highest risk audit areas
- Uniform Guidance – PRP sections 20500 and 20600 have been updated, and PRP sections 22100 Parts A & B-UG have been added, for:
  - o Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance)
  - o Enhancements to non-attest profile questions, the Major Program Determination Worksheet and the Audit Engagement Risk Assessment questions
  - o Conforming changes to other professional standards' references.

New Quality Control Checklists / Revised Staff Interview Form Available for Early Implementation
Since early implementation is permitted, several new checklists will be available on the [peer review webpages](#), specifically:

- PRP section 4500, *Guidelines for Review of Quality Control Policies and Policies for a Sole Practitioner with No Personnel*
- PRP section 4550, *Guidelines for Testing Compliance with Quality Control Policies and Procedures for a Sole Practitioner with No Personnel*
- PRP section 4600, *Guidelines for Review of Quality Control Policies and Procedures for Firms with Two or More Personnel*
- PRP section 4650, *Guidelines for Testing Compliance with Quality Control Policies and Procedures for Firms with Two or More Personnel*

In addition, a revised PRP Section 4700, *Staff Interview Questionnaire* is also now available for early implementation.

The [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#) approved at the Peer Review Board's [May 3, 2016 open session](#) (Agenda Item 1.2) requires the replacement of PRP sections 4500 and 4600, *Guidelines for Review of Quality Control Policies and Procedures* and the existing PRP section 4700, *Staff Interview Form*, with these new checklists effective for reviews commencing January 1, 2017 or later.

Quality Control Policies and Procedures Documentation for Firms

The peer review guidance changes outlined in the [Improving Transparency and Effectiveness of Peer Review Exposure Draft](#) were approved at the Peer Review Board's [May 3, 2016 open session](#) (Agenda Item 1.2). As such, PRP Sections 4300 and 4400 will no longer be included in the Peer Review Program Manual beginning on January 1, 2017. Therefore, firms should be advised against using these forms as their Quality Control (QC) document going forward. **We encourage reviewers to communicate these changes with their clients as soon as practicable** so that firms can start transitioning their QC policies and procedures from these forms, should they need to. The AICPA has numerous resources to assist firms in this transition. The following are details and links to some of these QC tools and resources.

[PCPS Toolkit](#)
- Free; no requirement to be an AICPA or PCPS member
- Includes the new checklists that peer reviewers will use in 2017 to take a closer look at quality control (AICPA members only)

[AICPA Audit and Accounting Practice Aid *Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice*](#)
- Free model QC documents for sole proprietors and small- to medium-sized firms
- New practice aid more easily customizable, replaces previous version from 2011
- Best practices, tips and suggestions for applying the quality control standard.

[AICPA's Drive Your Competitive Edge With Audit Quality Webcast](#)
- Free two-hour archived webcast
- Hear tips on how to identify and address risks in your system of quality control

[AICPA Self-Study Online Course on QC Matters](#)
- Provides comprehensive review of a firm's system of quality control standards
- Prepares you to compare your firm's existing system of quality control to the requirements in QC section 10, *A Firm's System of Quality Control* (AICPA, Professional Standards), and determine and implement any necessary changes to your firm's system

Exposure Draft – Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program

The Peer Review Board (Board) has issued an [exposure draft](#) intended to expand the effect of important initiatives such as Enhancing Audit Quality (EAQ) and Practice Monitoring of the Future. The exposure draft proposes to:

- Allow firms with no AICPA members to enroll in the Program;
- Expand the availability of administration by the National Peer Review Committee to firms with no AICPA members; and
- Make other minor changes.

Comments and responses should be sent to Lisa Joseph, Technical Manager, AICPA Peer Review Program, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110 or PR_expdraft@aicpa.org, and should be received by August 26, 2016.

If approved by the Board, final revisions to the *Standards* and Interpretations will be effective for enrollment on or after May 1, 2017.

Spotlight on Audits Subject to Government Auditing Standards and Single Audit

The following articles are most pertinent to peer reviewers of engagements subject to Government Auditing Standards and single audits performed under the Single Audit Act. However, some points (such as audit documentation) are relevant to all peer reviewers.

Audit Documentation
One of the most common departures from standards found during enhanced oversight regardless of the industry type was documentation. Oversight reviewers are finding that reviewers were not

identifying the engagements as nonconforming, even when the documentation did not support the overall audit opinion, if the firm was able to verbally explain and convince the reviewer that the procedures were performed. However, without evidence of this in the file, the firm has not complied with audit documentation standards and therefore, the reviewer should not give the firm credit for performing the undocumented procedures. Refer to the April 2016 Reviewer Alert for Lessons Learned from Enhanced Oversight – Audit Documentation.

Certain documentation requirements specific to engagements subject to Generally Accepted Government Auditing Standards (Yellow Book) are being identified in peer reviews and enhanced oversights and warrant special attention from peer reviewers as discussed below.

Yellow Book Independence
Yellow Book contains specific requirements for documentation related to independence which may be in addition to the documentation that auditors have previously maintained. The 2011 Yellow Book Chapter 3 emphasizes that documentation is required for the evaluation of each of the elements of independence, which consists of:
- management's ability to oversee the nonaudit services, including whether management has skills, knowledge, and experience
- significant threats that require the application of safeguards along with the safeguards applied
- understanding established with the audited entity regarding the nonaudit services to be performed

Failure to document one or more of these elements is considered a departure from professional standards that causes the engagement to be deemed nonconforming. The reviewed firm and reviewer should be aware that verbal explanation and vague completion of a checklist does not provide for a thoughtful evaluation and documentation of management's abilities related to each nonaudit service and will be unlikely sufficient to comply with the standards. In addition, the reviewed firm should document and thoroughly address the self-review threat and safeguards, if applicable, especially if the auditor prepares the auditee's financial statement.

The peer reviewer should evaluate whether the firm's methodology for meeting the requirements is appropriate. If the reviewed firm has not documented each of the required elements the peer reviewer should prepare an MFC and address the nonconforming engagement in accordance with peer review guidance. Refer to PRP 3100 Supplemental Guidance for further discussion about the independence requirements of the 2011 Yellow Book. Also refer to the several resources available through the Governmental Audit Quality Center (GAQC) that discuss the Yellow Book, including archived Web events and practice aids that are free and open to all AICPA members, and the April 2015 Reviewer Alert.

Internal Control and Compliance
Documenting and testing compliance and evaluating internal controls are issues that continue to challenge auditors. The Office of Management and Budget (OMB) requires auditors to obtain and document an understanding of internal control over each direct and material compliance requirement sufficient to plan the audit to support a low-assessed level of control risk. The auditor is then required to identify key internal controls and plan and perform tests of controls and test of compliance sufficient to support the opinion on federal programs.

Prevalent single audit deficiencies sometime missed by peer reviewers and being found by expert oversight reviewers include:
- Lack of documentation of testing of internal controls over each direct and material compliance requirements

- Lack of documentation supporting the assessment that applicable compliance requirements were not direct and material

Failure to document these elements is considered a departure from professional standards that results in a nonconforming engagement.

Clarification of the Review of Compliance Audits during Peer Review
Paragraph 63-1a from the Standards Interpretations contains the requirement that the compliance section of an engagement subject to the federal Single Audit Act be reviewed if the firm performs such an engagement.

Some compliance audit requirements (including, but not limited to, single audits required by state regulations or other audits required by awarding entities) may closely mirror the federal Single Audit Act. However, these engagements, if not purported to be performed and reported on in accordance with all aspects of the federal Single Audit Act, should not take the place of reviewing the compliance requirements of the federal Single Audit during a peer review. This is to maintain consistency in the application of the Standards program-wide and also to ensure the protection of the public related to the Federal Single Audit Act engagements. Although we recognize there may be risk associated with other types of compliance audits, you should consider these engagements in the peer review risk assessment and document that assessment in the Summary Review Memorandum (SRM). Engagements performed by the firm and selected for peer review that are not purported to be performed and reported on in accordance with all aspects of the federal Single Audit Act, should not be included in the engagement statistics for Single Audit Act engagements on the SRM. Such engagements should instead be reflected as —All others subject to GASǁ, if appropriate, with explanatory comments about the nature of the engagement.

In addition, PRP Section 22100 Part A and 22100 Part B Supplemental Checklists for Review of OMB Single Audit Act Engagements were developed for the review of engagements performed under the federal OMB Single Audit Act. If a compliance audit not performed under the requirements of federal OMB Single Audit Act is selected for peer review, you should consider and explicitly document the applicability of these checklists, if used, and other appropriate aids to review such an engagement.

Required Government-Wide Evaluation of Single Audit Quality
Peer reviewers and firms should be aware that the quality of single audits will be under more extensive federal scrutiny due to a provision in the Uniform Guidance requiring a government-wide audit quality review every six years, with results of reviews made public. This study will determine the quality of single audits by providing a statistically reliable estimate of the extent that single audits conform to applicable requirements, standards, and procedures. The prior federal single audit quality study results issued in 2007 resulted in more than 50% of audits being either unacceptable or limited reliability. As noted in the Examples of Matters in Peer Reviews, many of the same departures continue to recur and the resources listed in the article below help to address these issues.

Engagements selected for review in the next study will be those engagements that are submitted to the Federal Audit Clearinghouse no earlier than 2018 and, therefore, the study will likely occur in 2019 or 2020 as determined by the OMB. As engagements reviewed could be fiscal years ending during 2017, which is possibly the second year after implementation of the Uniform Guidance, it is important for audit firms to invest sufficient time and resources to help ensure a successful implementation of the Uniform Guidance and all of its requirements.

Accessing Key Single Audit Related Information
Below are various links to key single audit information for reference:
- GAQC Single Audit Resources for A-133 and the Uniform Guidance

- The Uniform Guidance codified in [Title 2 of CFR, Subtitle A, Chapter II, Part 200](#)
- How to access the Uniform Guidance
  - [Electronic Code of Federal Regulations (e-CFR)](#) version
- OMB Federal Financial Management Web site
  - Access [Compliance Supplement](#)
  - Various additional UG related documents at: http://www.whitehouse.gov/omb/grants_docs
  - [Office of Federal Financial Management Web page](#)
- Access COFAR guidance including Frequently Asked Questions (FAQ), archived webcasts, and other information
  - Visit [https://cfo.gov/COFAR/](#) for all resources
- [Federal Audit Clearinghouse](#)

Confirming Population Completeness

In the past years, the Department of Labor and the AICPA discovered an alarmingly high percentage of firms performing employee benefit plan engagements that were not enrolled in the peer review program when they should be, or did not have employee benefit plan engagements included in the scope of their peer review. In addition to addressing this problem by increasing the focus on the [evaluation of population completeness](#), we are now collecting firm EINs to enable electronic matching with relevant databases.

We are currently performing comparisons to the Federal Audit Clearinghouse to detect these types of departures from peer review requirements. **Reviewers should help reinforce the importance of providing complete information about the firm's engagements for its peer review, and to evaluate whether the engagement listing provided by the firm properly includes audits of entities subject to the OMB Single Audit Act, if applicable.** Such an engagement should be included in the scope of the current peer review and reviewed by a qualified team member and properly reflected in engagement statistics. Reviewers may want to refer their firm clients to the [Peer Review Compliance and Completeness](#) resources which discusses the consequences of noncompliance.

Single Audit and Employee Benefit Plan Exam-Based Certificates

In response to member needs and audit quality issues, Member Learning & Competency (ML&C) and quality center staff, along with external subject matter experts, recently launched two certificate programs to provide a way for highly proficient practitioners to demonstrate their competencies surrounding single audit engagements and employee benefit plans and to distinguish themselves in the marketplace. The program is based on the respective competency frameworks and guides, with a focus on common deficiency areas in practice.

The [Single Audit Certificate Web page](#) provides the information needed to determine which certificate is appropriate and to register for an exam. It also provides the various optional learning opportunities that are available to enhance single audit knowledge. The [Employee Benefit Certificate Web page](#) provides the same opportunities to enhance employee benefit plan knowledge. A frequently asked questions document that covers important aspects of the programs can also be found on each site.

Governmental and Single Audit CPE Opportunities

The GAQC has recently announced rebroadcast opportunities for some of its most popular CPE Web events during its annual "summer fun" week from June 21 to June 24. The timing of the rebroadcasts will also benefit members with a June 30 CPE measurement period that need to earn a few more CPE credits.

For GAQC Members Only:

- June 21, 2016, 1pm to 3pm ET: The Continued Complexities of Auditing Governmental Pension Plans and Participating Employers
- June 22, 2016, 11am to 1pm ET: Revenue Recognition in a State and Local Government Environment
- June 22, 2016, 1pm to 3pm ET: Now is the Time for Auditors to Get Ready for the Uniform Guidance Audit Requirements
- June 23, 2016, 11am to 1pm ET: Sampling in a Single Audit Environment
- June 23, 2016, 1pm to 3pm ET: 2016 State and Local Government Audit Planning Considerations
- June 24, 2016, 11am to 1pm ET: Avoiding Common Deficiencies in Yellow Book and Single Audits
- June 24, 2016, 1pm to 3 pm ET: GAQC Annual Update Webcast

GAQC members please see GAQC Alert #309 for member registration information and discounted pricing. If you are not a member of the GAQC and are interested in learning more about membership, please visit the GAQC Web site to learn more.

Government and Employee Benefit Plan Reviewer Training Requirements
New training requirements for reviewers of engagements performed in accordance with the Yellow Book and employee benefit plan audits are effective with reviews commencing on or after May 1, 2016. Qualified training will be offered at the following conferences;
- AICPA Not-for-Profit Industry Conference on June 27th
- AICPA Peer Review Conference optional day on August 8th

For more information on all of the revisions to the reviewer training requirements, please revisit the September 2015 Reviewer Alert and the reviewer training FAQ. More details can be found on the Training for Reviews of Certain Must-Select Engagements page, including references to the approved training courses.

Additional Reviewer Ongoing Training Option

In an effort to increase the number of ongoing training options available to reviewers, the Peer Review Board has approved an additional training option to the reviewer training framework that would meet the requirements for ongoing qualification training. This additional option is a Peer Review Update live seminar course, which is similar in terms of content and length to the Peer Review Update on-demand self-study course which is currently available on cpa2biz.com. The course could be offered at the choice of the state societies, for example as a standalone course or in conjunction with other courses.

1) Please see the Peer Review CPE and Events webpage for more information on this new training option. This training option is expected to be available in the coming weeks. Current offerings include the peer review sessions at the AICPA National Advanced Accounting and Auditing Technical Symposium on July 21st, the AICPA Peer Review Conference on August 8–10th, and the AICPA Peer Review Update on-demand self-study course.

Peer Review Conference

Registration is underway for the Peer Review Conference, to be held in San Diego on August 9-10 with optional sessions on Monday, August 8. Don't miss the ever-popular conference cases and exchange of ideas, which will incorporate guidance changes, particularly related to the Improving Transparency and Effectiveness of Peer Review Exposure Draft.

New this year – attend the Peer Review Conference online! The Online Conference allows you to attend the conference remotely, in real-time. ALL CONTENT for the conference will be available to you, and you will earn CPE credit for all sessions that you attend virtually. It's a great way to save on travel expenses while still experiencing the conference material. For more details, please visit the registration website.

PLEASE NOTE: The hotel room block is almost sold out. If you plan to attend the Conference, please make your hotel reservations as soon as possible so that we can secure a second hotel for overflow, if necessary.