

REVIEWER ALERT



October 2016

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Upcoming Changes Approved at the September 27, 2016 Peer Review Board (PRB) Open Session

The following agenda items can be found on the [AICPA website](#). See the following [webpage](#) for meeting highlights and an overview of other changes the PRB approved during the meeting.

Allowing Firms with No AICPA Members to Enroll in the AICPA Peer Review Program (Program) Guidance Changes (Agenda Item 1.4*)

Final changes to the Standards and Interpretations are included as Agenda Item 1.4A. Conforming changes to the Report Acceptance Body Handbook are in Agenda Item 1.4B and other related Peer Review Program Manual sections are included in Agenda Item 1.4C, effective for reviews commencing after the implementation of PRIMA, the PRISM replacement system. Key aspects of the final guidance are:

- Allows 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
- Other changes throughout the manual to conform to the approved changes within the Standards and Interpretations.

Enhancing Audit Quality Initiative Conforming Guidance Changes (Agenda Item 1.5*):

Additions to PRP section 2000 *Interpretations* 14-3, 14-4, and 24-2, as well conforming manual changes. Key aspects of the final guidance are:

- Interpretations 14-3 and 14-4 clarify an enrolled firm's initial peer review due date when the firm is transitioning from not performing engagements within the scope of peer review to performing engagements subject to peer review. While this guidance supports the current practice for most Administering Entities, the changes will be available in January 2017.
- Interpretation 24-2 clarifies that peer review documentation must be submitted electronically, authorized by the reviewed firm representative and free from specific firm and/or client information, effective for reviews commencing after implementation of PRIMA.
- Conforming changes that apply the term "Reviewed Firm Representative" as the appropriate person(s) within the firm to sign the MFC, FFC and the Firm Representation Letter, effective for reviews commencing after implementation of PRIMA.

Guidance Changes Related to the SSARS *Omnibus* – 2016 (Agenda Item 1.6*)

In August 2016, the ARSC approved guidance changes presented in SSARS *Omnibus*—2016. The new SSARS incorporates Compilation of Prospective Financial Information guidance into AR-C section 80, previously AT section 301, and conforms language in reference to Preparation of Prospective Financial Information throughout AR-C section 70. In response, the PRB approved the following changes, effective for reviews commencing on or after January 1, 2017.

- Removed "historical" preceding financial statements throughout PRP section 1000, as a conforming change.
- Added Interpretation 104-5, which clarifies that a reference to financial statements for engagements performed under SSARS are to be taken as a reference to such other financial information, if applicable.

Technical Reviewer Acceptance of Reviews with Preparation Engagements (Agenda Item 1.7*)

The RAB Handbook allows technical reviewers to accept Engagement Reviews that meet certain criteria. The PRB has approved changes to PRP section 2000 *Interpretations* 137-1 and 3300 that also allow the technical reviewer to accept engagement reviews when MFCs noted only relate to preparation engagements performed under SSARS, effective for reviews commencing on or after January 1, 2017.

*see agenda item for further information

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REMINDER: Peer Review Guidance Changes Effective January 2017

During 2016, the PRB approved significant changes to the Peer Review Standards, Interpretations and other related guidance that will become effective for reviews commencing on or after January 1, 2017. The following summary of these changes is intended to provide you the groundwork to help you prepare for and perform reviews that commence on or after January 1, 2017.

Planning Changes

Beginning with reviews commencing on or after January 1, 2017, team captains will have to:

- Acknowledge they have read recent [Reviewer Alert](#) articles.
- Review the representation letter from the firm's previous review, in addition to the peer review report and FFC(s) to determine whether the actions taken by the firm addressed the systemic causes of any finding, deficiencies or significant deficiencies. The firm's failure to perform these actions, or suitable alternatives, may be indicative of deficiencies within the firm's system of quality control.
- Complete a new form (PRP Section 4500 or 4600) related to the review of the design of the firm's system of quality control. This enhanced form is available now on the [AICPA Peer Review website](#), and early implementation is encouraged. At a minimum, reviewers should familiarize themselves with this new form, prior to the commencement of any reviews scheduled in 2017.
- No longer complete the Managing Partner Questionnaire (current PRP Section 4750). This has been incorporated into the Team Captain Checklist.

Execution Changes

Beginning with reviews commencing on or after January 1, 2017, team captains will have to:

- Complete a new form (PRP Section 4550 or 4650) related to the testing of the firm's compliance with their system of quality control. This enhanced form is available now on the [AICPA Peer Review website](#), and early implementation is encouraged. At a minimum, reviewers should familiarize themselves with this new form, prior to the commencement of any reviews scheduled in 2017.
- Conduct a closing meeting to discuss the preliminary results of the peer review. The purpose of this meeting is to discuss the review team's preliminary matters, findings, deficiencies or significant deficiencies with senior members of the reviewed firm and remind the firm of their requirement to respond. This meeting will generally be held prior to the exit conference and typically would be on-site, preferably at least 30 days prior to the firm's due date. The exit conference would be held, usually via teleconference, after the firm has responded to any matters, findings, deficiencies or significant deficiencies and the team captain has assessed those responses.
 - This applies to Engagement Reviews as well, with the exception that both closing meeting and exit conference would be held via teleconference.
 - The closing meeting and exit conference may be combined if, for example, there are no matters, findings or deficiencies to discuss or all matters have been resolved, responded to and evaluated. In these situations, the combined meeting should be held in person.
- Determine the systemic cause in the firm's system of quality control for any matters identified, in collaboration with the firm.
- Evaluate, prior to the exit conference, the firm's responses to any MFC forms, FFC forms, deficiencies or significant deficiencies. The team captain should evaluate:
 - The firm's actions taken or planned to remediate any engagements identified nonconforming engagements on an FFC form or in the report
 - The firm's actions taken or planned to remediate any findings or deficiencies noted in the firm's system of quality control
 - The timing of the remediation, either taken or planned

Additional questions have been added to the SRM, to assist reviewers in their assessment of the firm's response.

Reporting Changes

Beginning with reviews commencing on or after January 1, 2017, the following changes to the Peer Review Report will be required:

- Similar to the clarified audit report, information included in the peer review report has been reorganized and headings are required for select paragraphs.
- The report title has been modified to be more descriptive of the purpose of the review. For example, “System Review Report” has been changed to “Report on the Firm’s System of Quality Control”
- The paragraph outlining the must-select engagements that were selected should indicate when singular selections were made. For example, the report would state “an audit of an employee benefit plan” if only one was selected.
- For deficiencies or significant deficiencies:
 - Reviewer recommendations are no longer required
 - Closing the loop on nonconforming engagements is no longer required
 - Team captains should include a reference to the applicable requirement of Statements on Quality Control Standards
 - Team captains should reference nonconforming engagements that resulted from the deficiency or significant deficiency, including any relevant must-select industries or practice areas

Firm Representation Letters

Reviewers should be aware that there are now separate firm representation letters for System Reviews and Engagement Reviews. Firm representation letters for Engagement Reviews should now be dated the same day as the peer review report, similar to a System Review. Finally, firms should not remove required representations from their letters, however, additional information may be included if deemed appropriate.

Additional information regarding these changes can be found on the Peer Review website. This includes the [meeting materials from the May PRB meeting](#) where these changes were discussed and approved. Included in these materials is an [example timeline](#) (page 173 of the PDF) of when certain procedures should be performed in a peer review that commences after January 1, 2017.

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New Course on Quality Control-A Firm’s System of Quality Control

The peer review team would like to ask peer reviewers to alert their peer review clients of a [new course on Quality Control \(QC\)](#) developed by the AICPA, in addition to the new free [Practice Aid](#). We have received numerous requests from both reviewers and firms for resources to help firms prepare for the increased focus on QC for peer reviews performed in 2017.

This on-demand eight-hour CPE course is based on the highly successful QC workshops which were offered by over 40 State Societies in the fall of 2015. The course contains video lectures from one of the nation’s top subject matter experts and goes beyond the theory of quality control to discuss best practices in applying the Standards.

We encourage you to recommend this course to your peer review clients in order to help them develop or maintain a strong system of quality control.

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Update on Audits Subject to Government Auditing Standards and Single Audit

As mentioned in the June Reviewer Alert, new federal regulatory requirements have changed the rules for performing single audits, including but not limited to, the introduction of a required periodic study of single audit quality. **The first study may scope in audits performed with year-ends as early as April 2017.** It is critical for you to understand these changes.

Uniform Guidance and a New Quality Study

Effective for years ending on and after December 31, 2015, audits which were formerly performed under OMB Circular A-133 must be performed under the [Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#) (Uniform Guidance). Among the changes are revisions to the major program determination process, threshold changes and modifications to the compliance requirements subject to audit.

The Uniform Guidance also requires the federal government to conduct a government-wide audit quality project once every six years and to make the results public. The first quality study will likely occur in 2019 and will include audits submitted to the federal government during 2018.

Single Audit Quality Challenges

Previous federal studies of single audit quality have indicated quality challenges in this area. More recently, during 2014 and 2015, the Program engaged experts in public practice to review a statistical sample of “must-select” engagements, including single audits. These experts found that **44%** of the selected engagements did not conform to applicable professional standards in all material respects. Issues identified in the reviews were significant, including missed major programs and failure to perform internal control testing.

Ensuring Your Peer Review Clients are Up-To-Speed

In light of the significant changes in this area and the history of quality challenges, you should consider taking the following steps to ensure your peer review clients are up-to-speed on the Uniform Guidance:

1. Confirm that your peer review clients are aware of the following major changes resulting from the [Uniform Guidance](#):
 - a. The threshold for a single audit was increased from \$500,000 to \$750,000
 - b. The auditee’s requirements for preparing the Schedule of Expenditures of Federal Awards, a key source for determining the scope of a single audit, has changed
 - c. Low risk auditee criteria has been updated
 - d. The minimum Type A program threshold is now \$750,000
 - e. The risk criteria and/or risk assessment strategy for both Type A and Type B programs has been revised
 - f. The effective date provisions are such that auditors may need to test older federal awards against “pre-Uniform Guidance” compliance criteria and newer federal awards against the Uniform Guidance compliance criteria
 - g. Each auditee’s entire reporting package is now required to be made public, including your auditor’s reports and Schedule of Findings and Questioned Costs
2. Go over the various tools and resources available on the AICPA website, including:
 - a. The free, archived version of the GAQC web event, [“Avoiding Common Deficiencies in Yellow Book and Single Audits.”](#) No GAQC membership is required to listen to this no-CPE archive.
 - b. The AICPA’s free [AICPA Competency Framework: Governmental Auditing](#), which includes single audit competencies, and take the free knowledge checks on the

AICPA's [Competency and Learning site](#) to assess whether there are gaps in your understanding of the Uniform Guidance.

- c. The AICPA's exam-based [single audit certificate program](#) as a way to demonstrate your competencies surrounding single audit engagements and to show your commitment to performing high-quality audit engagements.

We hope you will find these tools and resources helpful as you perform peer reviews of single audit engagements under the Uniform Guidance and as your peer review clients begin to prepare for the upcoming federal quality study.

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Regulatory Developments Related to Certain Offerings Exempt from SEC Registration

Reviewers and firms should be aware of recent regulatory developments surrounding crowdfunding and other small business capital-raising. Upon issuance of final rules by the SEC implementing applicable provisions of the JOBS Act, both Regulation Crowdfunding and the small business capital-raising rules known as Regulation A+ have implications for practitioners providing A&A services and issuing reports that may be used in connection with required issuer SEC filings. These Regulations impose a number of requirements, including the content and reporting framework of financial statements to be provided to the SEC. Highlights of each regulation and A&A practitioner impact are as follows:

- Crowdfunding allows capital raising at three different aggregate offering levels up to \$1,000,000. Under Regulation Crowdfunding, effective May 16, 2016, financial statements filed with the SEC are required to be reviewed or audited depending on the offering level. Under these rules, a practitioner may not be aware that a client plans to use their report in an SEC filing at the time of engagement, performance of services or when that report is issued.
- Regulation A+ rules became effective in 2015 and expand the exemption from registration for small business issuers based upon two tiers of offerings: Tier 1 is offering of up to \$20M and Tier 2 is offering of up to \$50M. Financial statements for all Regulation A+ issuers must be audited, and audits for Tier 2 issuers are subject to the more restrictive SEC independence requirements, which prohibit the auditor from preparing the financial statements.

Accordingly, the PRB has included this as a Peer Review Area of Focus for emerging industries and risks in connection with the EAQ initiative, and it continues to be monitored by the Standards Task Force and AICPA staff for any necessary peer review specific responses in the future. In the meantime, reviewers and firms are encouraged to familiarize themselves with various AICPA resources available to assist in the navigating potential opportunities and risks associated with entities known to have made, or contemplating, such exempt offerings. Links to such resources are as follows:

- Enhancing Audit Quality Initiative – [Emerging Industries and Risk Areas](#), Crowdfunding and Other Small Business Capital-Raising (Regulation A+)
- AICPA Financial Reporting Center – [Crowdfunding and Regulation A+ Webpage](#)

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AICPA Enhancing Audit Quality (EAQ) Initiative, Highlights and Progress 2016

To demonstrate the progress the profession has made toward greater audit quality since the release of the [6-Point Plan to Improve Audits](#), the American Institute of CPAs (AICPA) has issued a report detailing the past year's activities and accomplishments as part of its EAQ initiative. [AICPA Enhancing Audit Quality Initiative, Highlights and Progress 2016](#), outlines the CPA profession's work to enhance the quality of private company audits in the areas of Pre-licensure, Standards and Ethics, CPA Learning and Support, Peer Review, Practice Monitoring of the Future and Enforcement.

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2016 PRB Annual Oversight Report

The PRB Annual Report on Oversight (report) has been posted to the [AICPA's website](#). The purpose of the report is to provide a general overview of the peer review program and the results of the Program's oversight procedures. The report concludes that the objectives of the AICPA Peer Review Board's 2015 oversight process were met. The report provides valuable statistics and information about the Program that peer reviewers and the general public will find useful and informative.

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Bundle & Save on the Advanced Auditing for Defined Contribution Retirement Plans Course + Exam

Join fellow peer reviewer, Ray Nowicki, as he instructs this highly-interactive, in-person course on defined contribution (DC) plans on November 3-4, 2016. Through a series of case studies and learning exercises, you'll enhance and grow your expertise in auditing DC plans as well as cover key topics within the *Advanced Defined Contribution Plans Audit Certificate Exam*. Topics covered include, planning and general procedures, internal control, sampling and more. [Register Now](#). **Please note this course does not qualify for peer reviewer must-select training requirement.**

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Peer Review Conference Case Solutions

The Conference Case solutions have been added to the [AICPAConferences.com](#) website. To download the solutions, you will need to log in to the [website](#). Once logged in, go to the "Handouts" tab, and click on the September 6, 2016, "View Handout" button for the conference case sessions 4, 5 or 6.

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