2019 AICPA Peer Review Conference Frequently Asked Questions (FAQs)

ENHANCING AUDIT QUALITY
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I have been hearing a number of reviewers hesitant to do pre-issuance reviews due to potential negative impact and being considered "associated" with a firm which I believe they are not. Could you clarify that to encourage involvement as pre-issuance reviewers?

Can you provide a brief overview of the hearings process?

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ENHANCING AUDIT QUALITY

The statistics you show emphasize the peer review process is identifying more non-conforming engagements. But what are the number of non-conforming engagements in total? Has that been increasing or decreasing?

Recent results from the enhanced oversight process have shown that while peer reviewers are identifying non-conforming engagements at a much higher rate, the overall rate of non-conforming engagements has remained roughly the same. This is not entirely unexpected as the first step of the enhanced oversight process was to implement reforms and improve peer reviewer performance. With more non-conforming engagements being properly identified, we anticipate that the number of non-conforming engagements will decrease over time as firms have had a chance to remediate any issues. Initial analysis already shows that remedial actions assigned as part of a peer review work. For example, firms that were required to have an external party review their engagements or quality control document saw their peer review report rating improve 86% of the time.

With the recent focus to enhance audit quality, what is the AICPA doing to help small firms that perform audits?

In addition to all of the free resources that are included on the enhancing audit quality webpage, we encourage firms to consider joining the PCPS. It’s a great investment for the wealth of resources you can use in your practice, regardless of your size, and all firm staff are eligible for the benefits and discounts of PCPS membership. For more information, click here!

I have been hearing a number of reviewers hesitant to do pre-issuance reviews due to potential negative impact and being considered "associated" with a firm which I believe they are not. Could you clarify that to encourage involvement as pre-issuance reviewers?

Generally speaking, performing a singular pre-issuance review for a firm would not cause a peer reviewer to be “associated” with a firm. Neither would performing a pre-issuance or post-issuance review related to a firm’s implementation plan or corrective action. When making the determination of whether they are associated with another firm, peer reviewers should use their professional judgment, considering the nature and extent of the work they are performing for the other firm. For further discussion, please refer to the October 2019 Reviewer Alert.
Can you provide a brief overview of the hearings process? Firms enrolled in the program have the responsibility to cooperate with respect to all matters related to the peer review. Interpretation No. 5H-1 gives examples of actions that could cause a firm to be considered failing to cooperate once a firm’s peer review has commenced.

In instances where the firm has failed to cooperate, the firm will be advised by certified mail, or other delivery method providing proof of receipt, that the AICPA Peer Review Board will appoint a hearing panel to consider whether the firm’s enrollment in the AICPA Peer Review Program should be terminated. Rules of procedures for these hearings have been established and are available on the peer review website.

REPORT ACCEPTANCE QUESTIONS
When does the 120-day presentation requirement start? If reviews are presented to Report Acceptance Body (RAB) after the 120-day threshold due to reviewer delays, are those reviews factored into the benchmark calculation? According to the RAB Handbook, RABs are responsible for ensuring peer reviews are presented to a RAB in a timely manner, ordinarily within 120 days of the receipt of the working papers, peer review report and letter of response, if applicable, from the team captain or review captain, or within 60 days for Engagement Reviews meeting certain criteria. Any peer reviews presented to the RAB after the 120-day threshold should be factored into the benchmark calculation, however, the AE can indicate what portion of the overall percentage was due to reviewer delays or other delays outside of their control.

Does the RAB take into account the peer reviewer’s recommendation when assigning a corrective action or implementation plan? Yes, the RAB will consider the peer reviewer’s recommendation when assigning a corrective action or implementation, however, the RAB may ultimately decide that a different corrective action or implementation plan is more appropriate. Peer reviewers should describe the basis for their recommendation in the SRM so that the RAB can make the most informed decision possible when deciding on a corrective action or implementation plan. Reviewers are also reminded that corrective actions or implementation plans that directly address the systemic cause of any findings or deficiencies are likely to be the most effective.

When is it appropriate for a firm to request a waiver on corrective actions? When is it appropriate for a firm to not remediate a non-conforming audit engagement? Committees will waive actions only after it has considered all replacement options. Some examples where it is appropriate for a corrective action or implementation plan to be waived include:

- The firm represents it is no longer performing the types of engagements that were the source of the deficiencies and the systemic cause did not extend to other aspects of the firm’s practice.
- The firm has given up its auditing and accounting practice and represents it has no plans to perform audit or accounting engagements in the future.
- The firm has been sold and is no longer practicing and not licensed to practice (although this does not relate to situations where the firm no longer exists, but the partners have taken the clients to other firms).
- The firm has already performed the actions under consideration by the RAB, for example a CPE course, and submitted evidence of its completion.
With respect to remediating non-conforming audit engagements, firms need to comply with the relevant auditing standards, for example AU-C section 585. A firm’s failure to appropriately remediate findings, deficiencies and nonconforming engagements is a strong indicator of a tone at the top weakness and the team captain should consider whether a related deficiency is appropriate.

**PEER REVIEW WORKPAPER QUESTIONS**

**Should the peer review report date be changed when an additional FFC is required by a RAB? Does this cause compliance problems with Yellow Book?**

The peer review report date does not need to be revised every time the technical reviewer or RAB requires revisions to other peer review documentation. It may be appropriate depending on the significance of the additional work, however, for example if additional engagements need to be reviewed. Peer reviewers, technical reviewers and RAB members should use professional judgment when considering if the date of the peer review report should be changed.

That said, a reviewed firm would be in compliance with the Yellow Book requirements, as long as the firm has met the spirit of the requirement to have a peer review performed by an independent reviewer. This also includes consulting with the GAO when more than a three-month due-date extension has been requested by the reviewed firm.

**Can reviewers issue multiple FFCs with the same systemic cause or is aggregation required? Can reviewers aggregate matters with different systemic causes into one FFC?**

Matters should be evaluated and aggregated based on the systemic cause, if any. If multiple matters identified are the result of a single systemic cause, they should be aggregated onto a singular FFC form, if possible.

Paragraph .76 in the Aggregating and Evaluating Matters section of PRP Section 1000 states: “Proper application of the standards assists team captains in evaluating the systemic cause of matters and, as a result, the type of report to issue. Use of professional judgment is essential in determining whether the aggregation of the matters noted during the review are findings and whether one or more findings is a deficiency or significant deficiency for purposes of reporting on the results of the peer review.”

**When is it acceptable to leave a matter that contributed to a non-conforming engagement on an MFC and not elevate it to at least an FFC?**

This is based on reviewer judgment. Remember, the focus of a system review is the reviewed firm’s system of quality control. It may be acceptable to leave a nonconforming engagement on an MFC form when the underlying issue is determined to be isolated or not directly related to an issue with the firm’s system of quality control.

Even if the non-conforming engagement is not referenced in an FFC form or the peer review report, the firm’s representation letter should confirm it will remediate nonconforming engagements included on MFC forms.

**Should two elements of quality control be noted for one matter or should the focus be on one?**

This depends on reviewer judgment. As a reminder, an MFC form should include a summary of the reviewer’s description of the matter including, where possible, the underlying cause of the matter. The reviewer should ensure that each issue with an element of a firm’s system of
quality control (whether it is related to the design or compliance with the firm’s policies and procedures) is documented and communicated to the firm.

Ultimately, the reviewer should collaborate with the firm to determine the condition in the firm’s system of quality control that resulted in the identified issues. The more questions you ask the firm, the more likely you will narrow in on the true systemic cause.

QUALITY CONTROL RELATED QUESTIONS
Has the AICPA considered providing guidance to firms when there are changes to the Quality Control standards between a firm’s peer reviews so they understand their professional obligations on an ongoing basis?
The AICPA provides several resources to members to keep professionals up to date on current quality control standards and changes to them. The Peer Review team also continuously evaluates our communication strategies to ensure we are helping firms stay up to date of changes.

Is a firm’s policy what is written in their quality control document, or what they actually do?
Statements on Quality Control Standards (SQCS) requires firms to establish and maintain a system of quality control and to document its policies and procedures and communicate them to the firm’s personnel. Therefore, peer reviewers should assess whether the firm’s quality control policies and procedures are properly documented, properly designed and properly complied with.

What EQCR policies and procedures would be appropriate if I am peer reviewing a sole practitioner?
Appropriate EQCR policies and procedures are dependent on the nature of the firm’s accounting and auditing practice. For guidance as to what is required, please refer to QC Section 10, A Firm’s System of Quality Control. If your peer review client is struggling with the development of EQCR policies and procedures, the AICPA has developed a practice aid that may help.

CLARIFIED PEER REVIEW GUIDANCE QUESTIONS
Why don’t we have Peer Review Standards in one place indexed so we don’t have to look all over for guidance?
As a result of feedback from the peer review community, the Peer Review Board is working on a project to clarify peer review program guidance. The objective of this project is to make the Peer Review Program Guidance easier to read, understand and apply for firm, peer reviewers and general administrators of the program. While this is a long-term project and a specific end date has not been established, the PRB will provide updates at each Open Session meeting related to progress that has occurred.

Will the Clarified Peer Review Standards provide examples of known factors (both inherent and control risk) to consider when performing the peer review risk assessment? Additionally, will there be a matrix to assist the peer reviewers to consistently perform peer review risk assessments?
Yes, it is anticipated that risk assessment guidance in the Clarified Peer Review Standards will be enhanced to assist peer reviewers when performing this step.
PEER REVIEW CHECKLIST AND OTHER FORM QUESTIONS

Can you explain the process related identifying which questions in the peer review engagement checklists are bolded?

Bolded questions in the employee benefit plan engagement checklist are determined by a practice monitoring task force established by the Peer Review Board to identify potential enhancements to the Peer Review Program’s procedures to aid in improving audit quality with respect to specialized industry engagements. Members of this task force are specialists in ERISA and have extensive experience in peer review. Responsibilities for these task forces are to establish consistent measures for deficiencies nationally and to develop consistent benchmarks for use by peer reviewers in performing reviews of ERISA engagements. Finally, as a reminder, while there is a presumption that a “no” answer to a bolded question would lead to a non-conforming engagement, circumstances may lead the peer reviewer to determine just the opposite. In these situations, the peer reviewer should thoroughly document their rationale.

What should a reviewer do if a checklist is issued after the commencement date of a review?

Reviewers are expected to use the version of engagement checklist(s) that are effective at the commencement of a review. If new checklists are released after the review commences, you do not have to use the newer versions. However, you may want to read the “What’s New in the PRPM” section of the most recent Reviewer Alert describing the checklist changes to determine if there are any clarifications that may be helpful for your review.

How will the checklists be updated for hosting as it is related to independence?

Hosting services are an example of a non-attest service. Peer review engagement checklists already include questions on non-attest services; these questions are not meant to be an all-inclusive list of the non-attest services that a firm could potentially provide. However, we will consider updating the non-attest examples in our checklists for our next update (expected to be April 2020). In the interim, reviewers are reminded that guidance on hosting services is available on the AICPA Ethics webpage.

If my peer review client needs assistance with the peer review information form in PRIMA, particularly with respect to engagement codes, where can I direct them?

The engagement codes listed in the enrollment form and the peer review information form are not intended to be all-inclusive and we recognize that not all engagements that a firm performs fit nicely into one of the current buckets. Firms should use their best judgment when completing these forms and may direct questions to the peer review hotline. You can direct your peer review client to this link to the PRIMA Help article, “Codes Used in PRIMA.”

Have you ever considered sending the peer review risk alerts to all AICPA members, so that firms are aware of issues?

Any individual may access peer review alerts at any time through the Reviewer Alert section of the AICPA’s Peer Review webpage. They are published at least quarterly but may be published more frequently, if the need arises. Please encourage your peer review clients to check the webpage periodically, particularly before their peer review.
**INDUSTRY SPECIFIC QUESTIONS**

What should a reviewer look for when reviewing a firm’s testing and documenting of user controls on a SOC report?

Reviewers should refer to the standards provided in AU-C Section 402, *Audit Considerations Relating to an Entity Using a Service Organization*, to determine if the reviewed firm complied with the professional standards. Paragraphs of note include .13 - .14 and .A21 - .A24.

What is the difference between a carrying and non-carrying broker-dealer?

Interpretation 63-2 in PRP Section 2000 states: Carrying broker-dealers include all broker-dealers who clear customer transactions, carry customer accounts or hold custody of customer cash or securities. Examples of carrying broker-dealers include:

(a) clearing broker-dealers who receive and execute customer instructions, prepare trade confirmations, settle the money related to customer trades and arrange for the book entry (or physical movement) of the securities and

(b) carrying broker-dealers that hold customer accounts or clear customer trades for introducing broker-dealers.

Non-carrying broker-dealers are those broker-dealers who do not clear customer transactions, carry customer accounts or hold custody of customer cash or securities. Examples of non-carrying broker-dealers are:

(a) introducing broker-dealers who introduce transactions and accounts of customers or other broker-dealers to another registered broker-dealer that carries such accounts on a fully disclosed basis and does not receive or hold customer or other broker-dealers securities and

(b) a broker-dealer whose business does not involve customer accounts, such as proprietary trading firms, investment banking firms and firms that sell interest in mutual funds or insurance products.

Additionally, *Interpretation No. 59-1* in PRP Section 2000 highlights considerations a reviewer should make when determining which broker-dealer engagements to select.

What is an example of an insufficient risk assessment on a Type B Program?

One of the most common departures from standards found during enhanced oversights of single audit engagements is a lack of documentation, including lack of documentation of risk assessment for Type B programs. Without documentation of the assessments there is a lack of evidence that major programs have been properly selected.

The Uniform Guidance states that the auditor must include in the audit documentation the risk analysis process used in determining major programs. Therefore, it is necessary for the auditor to develop adequate audit documentation as required by Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS). Additionally, the Uniform Guidance states that the auditor must identify high-risk Type B programs using professional judgement and the criteria in 2 CFR 200.519. Reviewers should understand that, unlike the Type A program risk assessment step, auditors can use much more professional judgment, including the consideration of the inherent risk, in the Type B risk assessment process. Refer to the *June 2018 Governmental Reviewer Alert* for Identifying High-Risk Type B programs.

As part of identifying risk in federal programs, the Uniform Guidance requires auditor consideration of current and prior audit experience; oversight by federal agencies and pass-through entities; and inherent risk of the federal program. Refer to 2 CFR 200.519(b) - (d) for criteria for federal program risk the auditor must consider. Except for known material
weaknesses in internal control or compliance problems as discussed in 2 CFR 200.519(b)(1), (b)(2), and (c)(1), a single criterion in risk would seldom cause a Type B program to be considered high risk.

Reviewers should also consider if the documentation supporting risk assessment for Type B programs is in accordance with AU-C Section 230, Audit Documentation. AU-C Section 230.08-0.09 indicates,

.08 The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand
  a. the nature, timing and extent of the audit procedures performed to comply with GAAS and applicable legal and regulatory requirements;
  b. the results of the audit procedures performed, and the audit evidence obtained; and
  c. significant findings or issues arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions.

.09 In documenting the nature, timing and extent of audit procedures performed, the auditor should record
  a. the identifying characteristics of the specific items or matters tested;
  b. who performed the audit work and the date such work was completed; and
  c. who reviewed the audit work performed and the date and extent of such review.

Reviewers are reminded that verbally verifying that procedures were performed, without documentation required by professional standards, is considered an engagement that has not been performed in accordance with GAAS or GAS in all material respects.


INDEPENDENCE QUESTIONS
Should the auditor view the independence non-attest services documentation as a "live" document throughout the engagement?
As a rule of thumb, documentation of non-attest services may need to occur at various times throughout the attest engagement. First time non-attest services should be documented before they are provided. If the non-attest service engagement is changed in some manner (for example, scope changes in client personnel or changes to independence threats), independence may need to be re-evaluated. It would also be necessary to update documentation if the client requests additional non-attest services to be provided.

You may find the following tools and aids helpful:
Beyond inquiry, how should a Team Captain test compliance with hosting basics? Team Captains may look at any engagement letter(s) the firm has with the attest client and see what the document(s) say about the firm being the client’s (1) sole host of an information system; (2) being the custodian of its data or records such that the client’s records are incomplete; and (3) electronic security or back up service provider. If the engagement letter(s) assert the firm will do any of these, the firm is more than likely providing hosting services, which would impair independence.

Given that auditors cannot perform management responsibilities, are we still able to assist clients with implementation of ASC 606? Significant assistance to attest clients may involve a separate engagement. This type of engagement would be considered a non-attest service. Since implementation of an accounting standard is not specifically addressed in the Non-Attest Services subtopic of the independence rule, two things would need to occur:

1. The safeguards required by the Non-Attest Services subtopic would need to be applied, which include, among other things, not performing management responsibilities, and
2. The conceptual framework would need to be utilized to evaluate the service to determine whether threats are at an acceptable level and, if not, implement additional safeguards to eliminate or reduce threats to an acceptable level.

Generally, if assistance involves explaining the steps to achieve the core principles of ASC 606, independence would likely not be impaired when the safeguards called for by the general requirements are met. But if a responsibility of management is performed by the auditor, independence would be impaired.

You may find the following tools and aids helpful

- **Non-Attest Services Toolkit** not only provides insights into non-attest services but includes a tool that can be used to satisfy the documentation requirement.
- **Documentation FAQs 1-7** are just a few of the many non-attest services FAQs developed by staff to assist with understanding the non-attest services landscape.
- **Project Management FAQs 1-2** are some of the many non-attest services FAQs developed by staff to assist with understanding the non-attest services landscape.
- **Conceptual Framework for Independence Toolkit** which assists members in the implementation of the conceptual framework approach in cases for which there is no guidance in the **AICPA Code of Professional Conduct** (AICPA code) that addresses a particular relationship or circumstance.