

Reviewer alert

November 2020

Dear Peer Reviewers,

This edition of the Reviewer alert contains the articles below:

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November Peer Review Board Meeting Update

On November 6, the Peer Review Board (PRB) met and discussed the following topics:

- The reviewer alert article related to evaluating peer review implications of ASC 606 implementation issues. Feedback from the PRB meeting has been incorporated into the article,
- An update on recent task force activities,
- Recent developments with PRIMA, including a recent meeting with administering entities to discuss various concerns.

Meeting Highlights

Summaries of other items discussed are included in the meeting highlights, which will be available soon on the AICPA's peer review web page. Any questions regarding the meeting highlights can be directed to [Peer Review Staff](#).

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What's New in the Peer Review Program Manual (PRPM) – October 2020 Update

As previously shared via a PRIMA Announcement and the revised September 2020 Reviewer alert, as of October 31, the October 2020 PRPM Update is available on the [peer review webpages](#) and in the Online Professional Library ([OPL](#)) to subscribers. PDF or excel documents have an "October 2020" date on the top. This update is effective for reviews commencing on or after November 1, 2020. The update reflects:

- Decisions from the [September 2020 Peer Review Board \(PRB\) meeting](#)
- Updates to engagement, supplemental and other checklists (see webpages and OPL for specifics). This includes:

- Updates to most audit checklists
- New checklists for the *Government Auditing Standards (Yellow Book) 2018 Revision*
- Updates of all SSARS and SSAE checklists to apply to either a System Review or Engagement Review (see below).
- Changes to SSARS and SSAE Profiles: One “SSARS Profile” was developed to apply to all SSARS engagements, and one “SSAE Profile” was developed to apply to all SSAE engagements. 20200P, 20250P, 20300P, 20900P, 20900A-P, 21000P and 21050P files were eliminated.
- A new “Risk Assessment Tool” which replaces the existing PRP 24150 tool in the System Review Practice Management Toolkit.
- Conforming changes

Engagement Reviews – Engagement Review checklists have been replaced by updated engagement checklists that apply to both System and Engagement Reviews (see above). Therefore:

If you used to use:	for the review of:	Now use:
23200	Compilations	20200
23250	Preparations	20250
23300	Reviews	20300
23400	AUPs	20900 or 20900A, as applicable
23500	Review Attestations	21050
23600	Financial Reporting & Disclosure	22300

In conjunction with these changes, PRP 6100 “Instructions to Firms Having an Engagement Review” Appendix B “Engagement Questionnaire”, (also known as 24260) and any references to it (including in PRP 6300 “Review Captain Summary”), have been eliminated. Profiles are now in the engagement checklists and available as separate files, as in System Reviews. The review captain will request completed SSARS and/or SSAE Profiles (see above) from the reviewed firm for each engagement selected.

Deferral of SAS 134-140 – Since the effective dates of SASs 134-140 have been [deferred](#) for one year due to the coronavirus pandemic, related updates to checklists have been deferred to, at the latest, our Fall 2021 update. If a peer reviewer identifies noncompliance related to early implementation of these standards, it should be documented in the “Explanation of “No” Answers and Other Comments” Section of the applicable checklist, and correlated to the most appropriate question number(s) already in the applicable checklist. Contact the AICPA Accounting and Auditing Technical Hotline at (877) 242-7212 for questions on implementing the new standards and contact the AICPA Peer Review Technical Hotline at (919) 402-4502 with questions related to peer review implications.

PRIMA – Use 4400, 20900, 22040, 22110 and 22120 as the engagement checklist number in PRIMA when inputting MFCs documented on the “A” versions of those checklists.

Reminders –

- Checklist updates are only made when needed, for instance due to a professional standard update that is expected to impact upcoming peer reviews, or to incorporate enhancements. Not all checklists are updated with each PRPM update.
- Early implementation of updated checklists and practice aids is permitted at the peer reviewer’s discretion.

Next PRPM Update:

The next update is currently scheduled for April 2021.

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Evaluating Peer Review Implications of ASC 606 Implementation Issues

Peer Review Staff have received numerous questions on how to assess potential noncompliance with ASC 606 during a peer review. For any peer review, you should evaluate the specific circumstances surrounding ASC 606 implementation, individually and in the aggregate, to determine whether to deem the engagement as nonconforming. As stand-alone issues, you would generally treat these scenarios as follows:

Scenario	Nonconforming	Comments
<p>The firm’s client did not implement ASC 606 when required, and based on peer review procedures performed¹, there is no evidence that implementation was considered.</p>	<p>Yes</p>	<p>If the firm’s client did not implement ASC 606 for financial statements when required and the reviewed firm did not perform any assessment related to its impact before the issuance of the financial statements, the engagement would be considered nonconforming. Even if it is determined after issuance (e.g., as a result of a peer review) that the impact would have been immaterial, the engagement would still be considered nonconforming.</p> <p>For non-public entities, ASC 606 was initially required for reporting periods beginning after December 15, 2018. In May 2020, the FASB delayed the effective date for annual reporting periods beginning after December 15, 2019 for entities that had not yet issued financial statements. Delaying implementation was optional.</p> <p>The FASB’s action resulted in a period of time when ASC 606 was required for entities with a reporting period beginning after December 15, 2018 that <i>issued financial statements</i> prior to the FASB decision on June 3, 2020.</p>

The firm's client did not implement (or partially implemented) ASC 606 when required, but there is evidence that, prior to the issuance of the related financial statements, the firm determined the impact would be immaterial.	No	If the client did not implement or partially implemented the standard because it had determined the impact was immaterial, it is likely the engagement is <i>not</i> nonconforming. The reviewed firm should be able to provide evidence of its consideration of the client's evaluation to the extent required by the relevant professional standards.
The firm's client did not properly implement (or partially implemented) ASC 606 when required, such that the impact to the financial statements is material.	Yes	In this scenario, the client's and firm's understanding of the Standard was not sufficient to identify a material misapplication of the Standard. Thus, the engagement is likely nonconforming.
A firm's client early implemented ASC 606	No	Early implementation of ASC 606 is permitted.

1 – There is no expectation that peer reviewers perform procedures out of the ordinary when reviewing an engagement in order to determine if ASC 606 has been appropriately implemented. The chart is designed to assist peer reviewers in determining the implications of potential noncompliance with ASC 606 identified through normal peer review procedures.

As a reminder, you should consider the above scenarios in the aggregate. For example, if a firm early implemented ASC 606 but made a material error in that implementation, the engagement would be deemed nonconforming.

Additionally, you should use your judgment when determining if an engagement is nonconforming if the revenue stream is immaterial, such as when documentation does not address ASC 606 implementation of an immaterial component audit during a group audit.

Since ASC 606 is a relatively new pronouncement, there are acceptable variations of application in practice. You should avoid basing a “no” answer on a personal preference; rather, you should identify unreasonable judgments that lack support under professional standards. We recommend utilizing the [Issue Advisory Hotline](#) should you have any disagreements with your peer review clients about whether ASC 606 (or any other accounting and auditing standard) was properly complied with.

You can also contact the [A&A Technical Hotline](#) with any questions you have related to whether an engagement you are reviewing complies with professional standards.

Finally, if the engagement is determined to be nonconforming in a(n):

- Engagement Review, this would result in a deficiency.
- System Review, the team captain should evaluate the pervasiveness of the implementation issues and the systemic cause in determining whether the matter should be elevated above a matter.

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Coronavirus Impact on Review Periods and Monitoring

Due to Coronavirus, firms may have their peer reviews significantly after their peer review year-ends. Firms and reviewers should consider the impact this may have to the review period and to the firm's monitoring process.

Review Period

For peer reviews that are commencing more than a year after the year-end, the firm and reviewer may discuss with the administering entity changing the peer review year-end to a more recent date. State board licensing requirements should be considered, and the next peer review period may be less than three years from the current peer review period to put the firm back on cycle in accordance with Interpretation 58-3.

Monitoring

[Statements on Quality Control Standards No. 8](#) requires firms to perform monitoring procedures annually, including a review of engagements. Paragraph .A71 states that a firm may substitute the peer review for the internal inspection of "engagement documentation, reports, and clients' financial statements for some or all engagements for the period covered by the peer review." For firms that substitute their peer review for their internal inspection of engagements, team captains need to consider the impact to the peer review and the firm's system of quality control if the peer review is not performed shortly after the peer review year-end. Team captains need to evaluate if the firm performed monitoring in accordance with the relevant standards in these situations.

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Quick Hits

Survey says! Survey response deadline extended

We emailed you our annual peer review customer satisfaction survey on Monday, November 9, 2020. If you haven't already responded, please take a few minutes to provide us with your candid and invaluable feedback. If you perform 8 or more peer reviews each year, choose High Volume Reviewer in question 1 and any other applicable role. Otherwise, choose Low Volume Reviewer and any other applicable role. To give you some extra time, we've extended the deadline to Monday, November 30, 2020. We look forward to hearing from you!

Take the Survey

The EAQ Team Needs Your Help!

The Enhancing Audit Quality Initiative (EAQ) is looking for your insight. COVID-19 audit implications and auditing revenue recognition are areas of focus for EAQ in 2020 and 2021. If your firm or a firm you have peer reviewed has experienced any challenges with matters relative to COVID-audit implications (such as valuation, asset impairment, remote working, etc.) or auditing ASC 606 (such as implementation, contract duration, performance obligations, reasonableness of estimates, etc.), let us know. As peer reviewers, you have unique access to recent audit results that would go a long way in developing EAQ's messaging and strategy moving forward. Your insights will help EAQ identify common challenges in practice and develop resources that address potential quality concerns. Submit your insights to deana.thorps@aicpa-cima.com.

2020 Peer Review Conference Resources and Training Courses

Conference Cases Available on the Website

The conference cases (with solutions) from the 2020 Peer Review Conference are now available on the website and can be accessed through the links below:

- [System Review Case Studies \(with solutions\)](#)
- [Engagement Review Case Studies \(with solutions\)](#)

The conference cases are a great resource and educational tool! If you have any questions about any of the solutions, please feel free to [contact peer review staff](#).

Responses to Unanswered Questions Submitted During the Conference

Did you have a question that didn't get addressed during the Peer Review Conference? Were you not able to attend the Conference, but curious as to what types of questions were asked? If so, check out our [Peer Review Conference FAQ](#) document!

Staff have reviewed all the questions submitted during the Conference, specifically with an emphasis on those that weren't addressed during a session and have provided responses where possible. If you have any questions about what is included in these resources, [contact peer review staff](#)!

Need to Meet a Peer Review Training Requirement?

Several of the sessions at this year's Peer Review Conference have been or will be converted to on-demand CPE eligible training courses available for purchase. If you were unable to attend and need to take a course to fulfill your peer review training requirement, consider taking one of the following on-demand courses:

- Peer Review Update session (fulfills [training requirement for ongoing qualification](#) for team captains and review captains)
- Employee Benefit Plans Must-Select Update (fulfills [training requirement for ongoing qualification for reviewers of EBP engagements](#))
- Engagements under Government Auditing Standards Must-Select Update (fulfills [training requirement for ongoing qualification for governmental engagements](#))
- Breakout Session for Technical Reviewers (fulfills training requirement for technical reviewers)
- Breakout Session for Peer Review Committee Members (fulfills training requirements for CPAs on Staff; optional training for RAB members).

Quarterly/Monthly Compilation/Preparation Engagements Reminder

A reminder, each set of financial statements issued during the peer review year should be counted as one engagement. Therefore, the team/review captain should indicate that 12 engagements have been performed in the Review Summary in PRIMA when the reviewed firm compiles (or prepares) monthly financial statements for one client.

New Functionality Added to PRIMA - Reviewer Performance

In September, functionality was added to email reviewers when a reviewer performance feedback form is issued. The email includes:

- Subject line: Information Only – Reviewer Performance (IFBK case ID)
- Member Name and Member Number

- How to login to your PRIMA account
- Who to contact if you have questions about the correspondence.

Refer to the PRIMA Help Articles [Navigating Reviewer Home Screen in PRIMA](#) and [Viewing Reviewer Feedback Forms \(Reviewer\)](#) for additional information.

Resources Related to COVID-19!

In August, the EAQ team released a [COVID-19 Audit & Assurance Toolkit](#). The Toolkit provides information on topics such as remote auditing, financial reporting considerations, and other industry-specific guidance. Additionally, there have been several Journal of Accountancy publications released over the past several months, including:

- [Tips for auditing with changed controls during the pandemic](#)
- [Going concern tips for auditors during the pandemic](#)
- [Quiz: Are you ready to audit during the pandemic?](#)
- [Quiz: Are you ready to audit these areas of heightened risk?](#)

Additionally, approximately 4,500 new single audits are expected to result from federal funding responses to COVID-19, many for local governments and healthcare entities. And your peer review clients may be performing these engagements for the first time! The Governmental Audit Quality Center, the GAO and others have developed resources that can help you or your peer review clients navigate these potentially new waters. (Please note that some GAQC resources are for members only). These resources include, but are not limited to:

- [COVID-19: GAGAS Audit Alert](#)
- [Journal of Accountancy Article- Tips for single audits amid pandemic uncertainty](#)
- [Federal Programs Expected to be included in the 2020 OMB Compliance Supplement Addendum](#)
- [GAQC Summary of UG Applicability for New COVID-19 Related Federal Programs](#)
- [GAQC Upcoming Web Events](#)
 - [OMB Supplement Addendum and the Latest COVID-19 Single Audit Implications](#), Thursday, December 10, 2020, from 1:00pm – 3:00pm ET
 - [An Audit Primer for Auditors of For-Profit Entities Receiving HHS Provider Relief Funds](#), Tuesday, December 15, 2020, from 2:00pm – 4:00pm ET
 - OMB Revisions to Grant Guidance: What You Need to Know, Thursday, January 28, 2021, 1:00pm-3:00pm ET
- [GAQC Archived Web Events](#)
 - Preparing for your First Single Audit: An Auditee Perspective
 - 2020 Supplement and COVID-19 Single Audit Implications
 - Single Audit Fundamentals Series

Reviewers are also encouraged to visit the [GAQC Uniform Guidance Resources page](#) to access other resources relating to performing single audits under the Uniform Guidance.

Journal of Accountancy: 9 Tips for Successful Auditing of Revenue Recognition

FASB's new revenue recognition standard and the coronavirus pandemic are presenting dual challenges for auditors of private company financial statements. The standard itself requires numerous new judgments, estimates, and disclosures that require close auditor attention to

some of the most important metrics that their clients report. The pandemic makes auditing revenue recognition even more difficult because companies' operations, processes, and controls have changed in many cases. These [tips](#) can help practitioners succeed amid all this difficulty.

Revenue Recognition: New Resources Available

As a reminder, we've launched a [suite of revenue recognition resources](#) to help practitioners understand ASC 606, including how to audit clients under the new standard, as well as how to provide guidance to them without impairing their independence. This also includes resources included in the [PCPS Revenue Recognition Toolkit](#). Check them out!

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