

# Reviewer alert

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## May Peer Review Board Meeting update

On May 19, the Peer Review Board (PRB) met and discussed various topics including:

- Removing SEC registered broker-dealer engagements from the scope of the peer review program as discussed in further detail below.
- Extending the temporary suspension of Standards paragraph .08 (which requires the majority of the procedures in a System Review to be performed at the reviewed firm's offices). The suspension of this requirement is now in effect for reviews commencing on or before May 31, 2022.
- Modifying training requirements for technical reviewers to explicitly require the completion of a technical reviewer single audit training course every two years.
- The timing and the contents of a rough draft of the clarified standards for performing and reporting on peer reviews.

### *Meeting Highlights*

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

## SEC Registered Broker-Dealers removed from the scope of Peer Review

The Peer Review Board (PRB) has determined that audits and the related compliance and exemption engagements for SEC registered broker-dealers (BDs), including those dually registered with the SEC and the CFTC, should no longer be included in the scope of peer

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review. The Securities Investor Protection Corporation (SIPC) agreed upon procedures engagements will remain subject to peer review.

The AICPA established the Enhancing Audit Quality (EAQ) initiative in 2014 to support auditors in upholding audit quality in an evolving business environment. In the increasingly complex environment, audit quality has become an area of focus needing continual assessment and improvement and expenditure of resources in areas of need. Audits of SEC registered BDs has been one of those areas of focus for the last ten years, with the Peer Review Board (PRB) revising Peer Review Standards (Standards) to temporarily continue the inclusion of BDs in the scope of peer review, even though the engagements were subject to PCAOB inspection.

Since the dual inspection of BD audits has continued for ten years, the AICPA has determined that such engagements can be removed from the scope of peer review without creating a gap in inspection coverage and a corresponding risk to the public interest. However, to ensure there will be no gap in coverage in the event that, at some point in the future, the PCAOB determines certain BD audits will cease being subject to its inspection process, the PRB does not propose revising standards. Rather, strictly for purposes of the PRP, the proposal is to deem these engagements to be part of a permanent inspection program of the PCAOB.

As the PRB previously modified the Standards in such a manner that BDs would automatically be removed from the scope of peer review once a permanent inspection program was established, no changes to the Standards requiring exposure were required (paragraphs .06 and .07 state that engagements included in the scope of the PRP are those not subject to PCAOB permanent inspection). In addition, few changes are required to the Peer Review Program Manual (PRPM). The most significant change will be the removal of the supplemental checklist designed specifically for the review of these engagements (checklist 21,300). Refer to the [What's New in the Peer Review Program Manual \(PRPM\)](#) article below for more information.

The changes referenced above are not applicable to surprise examinations performed for SEC registered investment advisors. Refer to the [Peer Review Implications for Surprise Examinations for Investment Advisors](#) article for more information on these engagements.

#### *Broker-Dealers No Longer Considered a Must-Select Engagement*

The only BDs subject to peer review are CFTC-only registered BDs. Due to the limited population of these BDs, the PRB determined must-select designation for these engagements is not necessary.

Several changes to the PRPM will be necessary to remove BDs as a must-select engagement, including the peer review report, firm representation letter, and several interpretations. Conforming changes have been made throughout the PRPM. Refer to the [What's New in the Peer Review Program Manual \(PRPM\)](#) article for more information.

#### *Effective Date*

These changes are effective for reviews commencing on or after July 1, 2021. NPRC staff will be contacting firms that may be impacted by this change.

For more information, refer to the [May 19, 2021 PRB open session materials](#).

**What's new in the Peer Review Program Manual (PRPM) – June 2021 update**

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The June 2021 PRPM Update will be available on the [peer review web pages](#) and in the Online Professional Library ([OPL](#)) to subscribers by the end of June. PDF or excel documents will have a “June 2021” date on the top. The update will be effective for reviews commencing on or after July 1, 2021. Monitor PRIMA announcements for when the update is available.

The update will reflect:

- Decisions from the May 2021 Peer Review Board (PRB) meeting. This included changes related to SEC registered broker-dealer engagements, performing system review procedures remotely, and training requirements for technical reviewers as described above, which has resulted in various PRP Section updates, including to PRP 1000, 2000, and 3300 (see webpages and OPL for other impacted sections).
  - This also includes changes to the peer review report and firm representation letter, and the elimination of the 21300 SEC-Registered Broker-Dealer Audit and Attest Engagements Checklist after a transition period.
- Enhancements to various practice aids, including the:
  - 3400 Technical Reviewer’s Checklists
  - 4800 Summary Review Memorandum (SRM)
  - 4900 Team Captain Checklist
  - 6300 Review Captain Checklist
- Conforming changes made to practice management toolkits.

*Next PRPM Update:*

The next update is currently scheduled for October 2021.

### **FREE WEBCAST: Single audits and new QM (QC) standards – Get ready and prepare for change!**

Join us for a [free CPE webcast](#) for peer reviewers on June 11, 2021 from 1-2pm ET. Gain an understanding of the COVID-19 relief funding’s effect on single audits, and the proposed quality management standards. Jennifer Burns, AICPA’s Chief Auditor, and Kim McCormick, GAQC’s Executive Committee Chair, will tell you what’s important to know and what to discuss with your peer review clients. Please do not forward this webcast to those who aren’t also peer reviewers as this webcast will focus on the reviewer perspective.

### **Are your peer review clients performing new single audit services?**

Your peer review clients may be asked to perform their first single audit engagements as their clients navigate the requirements of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act allocated significant amounts of money in new aid to non-federal entities requiring many of them to undergo a single audit perhaps for the first time. Single audits are complex highly specialized audits focused on compliance with federal laws or regulations (and internal controls to ensure compliance) that apply to specific federal funds and require the financial statement audit to be performed under *Government Auditing Standards (GAS)*.

If your peer review client performs a single audit engagement, it will be required to have a system review, which includes a review of at least one single audit engagement (or the audit of

those compliance requirements **and** internal controls over compliance with those requirements). As you plan your upcoming peer reviews, we strongly encourage you to:

- talk to your peer review clients about whether they have performed a single audit related to the CARES Act,
- review publicly available information, such as the [Federal Audit Clearinghouse](#), if deemed appropriate, to determine the completeness of the firm’s engagement listing, even for firms undergoing an engagement review,
- determine if other procedures are necessary in the circumstances.

### Six-month single audit submission extension

On March 21, 2021, the Office of Management and Budget (OMB) issued [Memorandum M-21-20](#) which included a 6-month single audit submission extension for single audits of fiscal years through June 30, 2021, that have not been submitted. A brief overview of the extension as well as potential peer review considerations include:

- The extension is not linked to COVID-19 funds.
- There is precedent for OMB to revise its position regarding extensions. The [GAQC](#) is monitoring any activity and will send an alert if the OMB revises the extension.
- There may be more instances where the reviewer needs consult with their administering entity to consider various scenarios. Possible situations may include:

Scenario	Possible Responses
The firm is performing its first single audit (or its first audit that includes COVID-19 funds subject to Uniform Guidance) and issuance is expected within 3-months of the peer review due date.	The firm may request a 3-month extension so the single audit can be included within the scope of the peer review.
The firm’s current year engagements are subject to the extension, but the firm has a single audit from a prior year available that includes COVID-19 funds subject to Uniform Guidance.	The reviewer may review a single audit from a prior period if he or she determines this is appropriate considering Standards paragraph .58. If the reviewer selects a single audit that does not include funds related to COVID-19, the reviewer should gain an understanding of the firm’s procedures to ensure a quality single audit.
The firm has been engaged to perform its initial single audit, but issuance of the report is not expected within 3-months of the due date.	The reviewer will likely need to consult with the administering entity to determine if a due date extension beyond 3-months of the current due date is warranted. Additionally, the reviewer may perform alternate procedures (e.g. looking to see if the firm has taken appropriate CPE, has appropriate staffing to perform the engagement, has engaged a qualified 3 <sup>rd</sup> party EQCR etc.)

### Peer Review implications for surprise examinations for investment advisors

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Surprise examinations for investment advisors are performed under AICPA Standards and are within the scope of the AICPA Peer Review Program. They are also subject to Securities and Exchange Commission (SEC) Independence Rules and Regulations. Paragraph 6i of SEC Rule 206-4 requires audit firms performing surprise examinations to be 1) registered with and 2) inspected by the Public Company Accounting Oversight Board (PCAOB). Surprise examination engagements themselves are not inspected by the PCAOB, which means that to meet the second qualification in paragraph 6i the firm must perform other engagements that are inspected by the PCAOB (i.e. issuer and/or broker-dealer audits).

When performing a peer review of a firm that performed a surprise examination but did not perform other engagements subject to inspection by the PCAOB, consider the implications to the firm's system of quality control as they performed engagements without the proper qualifications. This will likely result in a client acceptance and continuance matter, but you should consider the systemic cause and determine if there are other impacts to the peer review results.

Firms that perform engagements under PCAOB Standards are required to be administered by the National Peer Review Committee. If you identify one of these engagements on a review administered by another administering entity, it is a good indicator that the firm may not be qualified to perform the engagement.

### **What to consider when reviewing engagements with digital assets**

Many companies are starting to invest in digital assets or perform a role in the digital asset space. Additionally, not-for-profits are being gifted digital assets. As such, more accounting firms are auditing digital assets and you may see them on engagements you peer review. Here are some things to consider:

*Quality Control Policies and Procedures – has the firm updated its quality control document to address:*

- Client acceptance and continuance – what types of parties and investments is the firm capable of accepting in the digital asset space
- Consultation resources – where to go with questions and when to involve subject matter experts (inside or outside the firm and if external, established protocols for evaluating specialists)
- Training – to address unique issues and risks related to digital assets, including changes in laws and regulations
- Review process – whether a pre-issuance review or engagement quality control review is needed

*Audit Engagements – did the firm document:*

- An understanding of the digital asset and the client's role in the digital asset ecosystem
- An understanding of internal controls related to the digital asset, including IT specialists, service organizations, and third-party service providers
- Audit procedures surrounding:
  - Fair value, including selection of the evaluation model and risks related to valuation (e.g. highly volatile, infrequent trading)
  - Existence (evidence may only be on the blockchain itself so how did the engagement team gain comfort to rely on the blockchain?)

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- Rights and obligations (ownership and control of the key)
  - Safeguarding of the asset (how the key is held and measures to prevent another party from obtaining access to the key)

If the firm hasn't updated its quality control document or didn't appropriately document or perform procedures on an audit engagement, consider the nature, timing, and extent of the firm's involvement with digital assets when determining the impact on the peer review.

Digital assets are diverse with unique digital asset ecosystems so risks and procedures will vary from audit to audit. This industry is constantly evolving and the AICPA's Digital Assets Working Group is continuously updating the [Digital Assets Practice Aid](#) and other resources.

### Resources from the Enhancing Audit Quality initiative (EAQ)

Through the [Enhancing Audit Quality Initiative \(EAQ\)](#), the AICPA shares resources and education to help auditors avoid the most common quality issues. Learn more about EAQ in [the 2020 Highlights and Progress Report](#).

Thank you to everyone who submitted responses to our survey on challenges auditors are facing in the current business environment. We summarized your thoughts in [this blog post](#) so auditors could benefit from your valuable insights.

Check out the latest resources from EAQ:

#### *COVID-19 audit implications*

The resource center at [aicpa.org/covidaudit](https://aicpa.org/covidaudit) is updated periodically to help auditors with engagements impacted by the pandemic. Resources include:

- An [article](#) on potential fraud risks related to the pandemic.
- A [blog](#) describing impairment considerations for auditors to keep in mind when performing audits for commercial real estate professionals.
- A [blog](#) highlighting major considerations to keep in mind when auditing health-care entities affected by COVID-19.
- A [blog](#) answering common questions we've received on auditing during the pandemic.
- A [blog](#) on audit considerations to keep in mind when performing EBP engagements in 2021.

For COVID-19 resources to help with other areas of your practice, such as tax, personal financial planning and forensic accounting, check out [the AICPA Coronavirus Resource Center](#).

#### *Fraud risk*

Given the financial impact of the COVID-19 pandemic, many clients will have heightened fraud risks. [This upcoming webcast](#) will help auditors understand their responsibilities related to fraud risk and how to respond to these risks.

#### *Revenue recognition*

Our [revenue recognition toolkit](#) has resources to help you audit clients who have implemented FASB's Topic ASC 606, including [a practice aid](#) that walks you through the five steps of the standard.

#### *Risk assessment and response*

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This updated risk assessment on-demand [course](#) reviews the risk assessment standard requirements and discusses the importance of risk assessment during the pandemic recovery period.

### Quick hits

#### *Reminder – Respond to the proposed quality management standards*

As a reminder, [share your thoughts on proposed standards](#) that will change the way firms manage quality for their accounting and auditing practices. These changes will impact all firms that have an accounting and auditing practice. Please review the exposure draft and provide feedback by the extended deadline of August 31. Additionally, the [AICPA's website](#) contains several helpful resources including a comment letter template, executive summaries of each standard and much more to help you understand and respond to what is being proposed.

Finally, we strongly encourage you to share the special edition of PR Prompts, which was distributed earlier this month, to your peer review clients as it contains a lot of helpful information related to the proposal and encourages all firms to respond!

#### *SSAE No. 19 Effective Date*

Reviewers are reminded that SSAE No. 19, Agreed Upon Procedures Engagements, is effective for agreed-upon procedures reports dated on or after July 15, 2021. A checklist, PRP Section 20,900A, already exists for reviewers to use for these types of engagements.

#### *Peer Review Risk Assessment Guidance*

As a reminder, for peer reviews commencing through September 30, 2021, you should follow the guidance in the [Supplemental Guidance](#) section of the Peer Review Program Manual related to the evaluation of non-compliance with the risk assessment standards.

Remember that your objective is to determine whether the firm met the requirements outlined in the Risk Assessment Standards. It is not necessarily to determine that all the engagements' forms and practice aids were completed correctly. Even if certain practice aids are not completed correctly, firms may be able to evidence compliance with the requirements through other means. You should have thorough conversations with your peer review clients to determine if they met all the requirements, including documentation.

#### *Need a Training Course?*

See below for links to several of our reviewer training options:

- [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

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- [Breakout Session for Peer Review Committee Members](#)
    - fulfills training requirements for CPAs on Staff; optional training for RAB members.