

Reviewer alert

July 2018

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Nonattest Services

Background

It has come to our attention that peer reviewers may be inconsistently writing MFCs or FFCs when firms do not document certain elements of independence. This article seeks to clarify questions in the peer review audit engagement checklists on auditor independence related to nonattest services under Generally Accepted Auditing Standards (GAAS) and the Code of Professional Conduct (Code). Requirements of the GAAS and the Code should not be confused with requirements for engagements performed in accordance with Government Auditing Standards (Yellow Book) which has more explicit independence and documentation requirements.

General Requirements

General Requirements for Performing Nonattest services (ET sec. 1.295.040) states that if an auditor is performing a nonattest service, independence would not be impaired when all the following safeguards are met:

1. Management assumes all responsibility for the nonattest services.
2. Management oversees the nonattest services and the member of management who is responsible possesses suitable skills, knowledge and experience (SKE).
3. The auditor performing the nonattest service should assess (and be satisfied with) the SKE of the member of management who will oversee the services.
4. The auditor does not assume management responsibilities.
5. Prior to performing the nonattest services, the auditor establishes and documents in writing an understanding with the attest client (objectives of engagement, services to be performed, client's acceptance of responsibilities, auditor's responsibilities, limitations on the engagement).

Documentation Requirements

Documentation Requirements When Providing Nonattest Services (ET sec. 1.295.050) states that for nonattest services performed **during** the period covered by the financial statements, the

auditor should document in writing that the general requirements described in 1.295.040 above were met prior to the period of the professional engagement.

The Code states that the period of the professional engagement “begins when a member either signs an initial engagement letter or other agreement to perform attest services or begins to perform an attest engagement, whichever is earlier. The period lasts for the entire duration of the professional relationship, which could cover many periods, and ends with the formal or informal notification, either by the *member* or *client*, of the termination of the professional relationship or by the issuance of a report, whichever is later. Accordingly, the period does not end with the issuance of a report and recommence with the beginning of the following year’s “*attest engagement*.” It is important to note that for an ongoing client relationship, the auditor may have prepared the prior period’s financial statements during the period covered by the current financial statements. Therefore, it is advisable that the auditor remain independent (including meeting documentation requirements) throughout the relationship until the period of professional engagement has ended.

A practical summary of the documentation required of an auditor that performs nonattest services during the period covered by the financial statements is:

1. An engagement letter, audit planning memo or memorandum of understanding that documents the objectives of the engagement, services to be performed, client’s acceptance of responsibilities, auditor’s responsibilities, limitations on the engagement. (Note that if the nonattest service was performed prior to the period professional engagement, this document is not required to have been drafted prior to performance of the nonattest service.)
2. Documentation that the requirements of 1.295.040 were met prior to the period of the professional engagement (i.e. before the attest engagement began). Note that the Code does not specify the form nor the extent of this documentation, but auditors should consider whether it complies with AU-C 230. For example, although not explicitly required, auditors should consider whether documentation should provide details about the member of management who will oversee non-attest services, that person’s SKE and the auditor’s assessment of the SKE. Auditors (and their peer reviewers) should also consider whether the firm appropriately completed the firm’s adopted practice aids in compliance with the firm’s system of quality control. A departure from a firm’s system of quality control that is not a direct departure from professional standards, should generally not be elevated beyond a matter for peer review purposes.

Changes to Peer Review Engagement Checklists

Questions in the peer review audit engagement checklists about nonattest services were revised in the April 2018 updates. Questions A111 through A116 pertain to nonattest services; A113 and A114 specifically address whether the firm’s documentation complies with the requirements of the Code. The wording of these questions aligns more closely with the wording in the Code than similar questions in prior versions of the audit checklists. Peer Review Staff believes the revisions to the questions about documentation of nonattest services may result in fewer inconsistencies. Reviewers may refer to the [Frequently Asked Questions](#) issued by the AICPA Professional Ethics Division as of July 31, 2017 for more information on nonattest services.

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Restructured PRP Section 21,300 SEC-Registered Broker-Dealer Audit and Attest Engagement Checklist

The checklist for review of broker-dealer engagements has undergone significant revisions. The new PRP Section 21,300 Checklist for Review of SEC-Registered Broker-Dealer Audit and Attestation Engagements was released in May 2018. Reviewers will note that the checklist includes the following:

- PRP Section 21,300 (formerly PRP Section 22,160) is a comprehensive checklist addressing key areas, concepts and procedures for broker-dealers for reviewers to evaluate the engagement's compliance with applicable professional standards, financial reporting under FASB ASC 940 – Financial Services – Brokers and Dealers, and regulatory requirements; it will no longer be considered a supplement to the PRP Section 21,200 Public Company Accounting Oversight Board Audit Engagement Checklist
 - Reviewers will continue to complete applicable sections of PRP Section 22,300 Financial Reporting and Disclosure Checklist to review general presentation and disclosure requirements under generally accepted accounting principles
- Revised instructions to clarify use of bold and italicized questions, and evaluating bulleted items underlying questions when determining the appropriate response
- Expanded questions for key audit areas to address recurring deficiencies identified in the PCAOB Annual Reports on the Interim Inspections Program Related to Audits of Broker-Dealers
- New Conclusions section content recently approved by the Standards Task Force of the Peer Review Board to help reviewers identify nonconforming engagements and document basis for overall conclusion
- Standards references have also been updated to reflect the Reorganized PCAOB Auditing Standards, effective December 31, 2016

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Enhancing Audit Quality Mid-Year Report: See the profession's progress

The AICPA's [Enhancing Audit Quality \(EAQ\) initiative](#), launched in 2014, aligns all AICPA audit- and assurance-related activities with the goal of supporting firms' quality improvement. EAQ uses a holistic, data-driven approach to detect quality trends and develop related resources and education for auditors, auditees and other stakeholders.

Since we released the "2017 Enhancing Audit Quality Highlights and Progress Report" in October 2017, the AICPA has helped the profession make further progress toward improved audit quality. [View the "Enhancing Audit Quality: 2018 Mid-Year Progress Report"](#) for more information on:

- Peer Review
- Audit documentation
- Single audits
- Employee benefit plan audits
- Quality control
- Auditing in the Future
- What's next for EAQ

As peer reviewers, you are uniquely positioned to help firms identify their quality issues and take steps to improve. We'd like to thank you for all the work you've done and continue to do to

support these firms, enhance audit quality and maintain the CPA's reputation as one of the most trusted professions.

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Infographic: The four most common risk assessment violations

Proper risk assessment is crucial to a quality audit, but some firms are struggling with the related standards. In 2016, Peer Review Matters for Further Consideration showed a few common areas where firms are not complying with AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and AU-C Section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*. [View this infographic to learn more about these violations](#) and check out the free tools the AICPA has developed to support firms in their AU-C 315 and 330 compliance at aicpa.org/riskassessment.

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