

Reviewer alert

April 2019

This Reviewer Alert contains the following articles:

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What's New in the Peer Review Program Manual (PRPM) – April 2019 Update

All updates described in this article will be available by late April 2019 on the [peer review webpages](#) and in the Online Professional Library ([OPL](#)) to subscribers. PDF or excel documents will have an “April 2019” date on the top. These updates will be effective for reviews commencing on or after May 1, 2019.

Updated Engagement Checklists & Practice Aids

The following PRP sections (including related profiles) have been updated for new professional standards and other enhancements, including risk assessment questions:

- 4800 Summary Review Memorandum (SRM)
- 4900 Team Captain Checklist
- 6300 Review Captain Checklist
- Various engagement and supplemental checklists (see webpages and OPL for specifics)

Early implementation of updated checklists and practice aids is permitted at the peer reviewer's discretion.

Other Notable changes

- A New QC Supplemental Checklist for Reviews of Firms that Perform Yellow Book
A new supplemental quality control checklist (PRP 4400 Supplemental Guidelines for Review of Quality Control Policies and Procedures for Engagements Performed in Accordance with GAS (Yellow Book) December 2011 Revision) should be used by reviewers of firms that perform audits, agreed-upon procedures, and other attestation engagements subject to Yellow Book. It should be used in conjunction with the existing quality control policies and procedures checklists, when applicable. Conforming changes to reflect the addition of this checklist were made to various PRP sections.

- A Shorter Engagement Questionnaire for Engagement Reviews
The questionnaire (PRP 6100, Appendix B, Engagement Questionnaire) for each engagement selected in an Engagement Review now only requires the reviewed firm to provide specified background information on the engagements selected for review. Certain engagement specific questions were removed since they are already addressed by the review captain in the applicable SSARS engagement checklists (PRP 23200, 23250 and 23300).
- The Elimination of 4800 SRM's "Scope of Work Performed"
Since the "scope" data is already captured in the PRIMA "Review Summary," it has been eliminated from the SRM (except for "totals"). However, it will be maintained in the Practice Management Toolkit for those that choose to use it for fee projections and planning. It has been enhanced with excel formulas to take a firm's engagement list and compute "Review Summary" statistics for PRIMA.
- Several PRP Sections Eliminated due to PRIMA
PRP 4950b & 6500b (MFC), 4960b & 6600b (FFC), 4850 & 6350 (DMFC) have been eliminated from the PRPM as the data captured in these forms is already captured in PRIMA.

Updates resulting from the [January 2019 Peer Review Board \(PRB\) meeting](#), guidance in PRP:

- 2000, Standards' Interpretations:
 - 6-8 was clarified for reviewers when a firm has performed or reported on an engagement under international standards (Agenda Item 1.8).
 - 42-2 and 42-3 were updated to provide guidance to peer reviewers on how to consider the results of an examination of Quality Control Materials under the SSAEs (QCM Examination) (Agenda Item 1.6).
 - 156-1 was added to provide guidance on performing an examination of QCM. A related clarification was made to PRP 1000, Peer Review Standards, Appendix A (Agenda Item 1.6).
- 3300, Report Acceptance Body (RAB) Handbook:
 - Chapter 1 was clarified for technical reviewer and committee member qualifications and requirements when those individuals engage, or plan to engage, in enforcement related work. It also updates requirements for obtaining confidentiality letters from these individuals (Agenda Item 1.3).
 - Chapter 4, Exhibit 4-2 as updated to allow RABs to require firms to take either specific CPE courses or an alternate course with substantially the same content, approved by the RAB, when significant deficiencies, deficiencies and findings are identified related to areas where prevalent nonconformity has been identified through the AICPA Enhancing Audit Quality Initiative (Agenda Item 1.7).

Corrections and Conforming Changes to PRP:

- 1000, Peer Review Standards: A number of Appendixes for firm representations, reports and letters of response have been updated with minor conforming changes.
- Various instructional documents (PRP Sections 4100, 4200, 6100, 6200 and 20100), and the practice management toolkits, were also updated with conforming changes.

Next PRPM Update:

The next update is currently scheduled for September 2019.

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Enhancements to the Reviewer Search and Reviewer Resume

To make it easier for firms to find team or review captains and for team captains to find team members, we have:

- Revised the [reviewer search webpage](#) located in the Peer Review Public File and
- Added questions to the reviewer resume in PRIMA.

For the reviewer search, instead of one lengthy form, users will be guided through series of simple questions that will help them find the peer reviewer they are looking for. For example, the first question asks users to indicate whether they are:

- A firm searching for a team captain or review captain to perform their review
- A firm searching for a consultant to perform various services (for example, engagement quality control reviews, other pre- or post-issuance reviews) including for corrective actions or implementation plans
- A team captain searching for a team member
- Searching for a specific peer reviewer.

Additional questions allow users to narrow down their search results by:

- The reviewer's location
- The size of the reviewer's firm
- The reviewer's experience in various industries and levels of service

For the reviewer resume, reviewers:

1. Can now specify which types of outside consultant roles they are willing to perform.
 - Formerly, pre-issuance reviews, engagement quality control reviews and other monitoring procedures were grouped into one question. Now, reviewers can select the individual services they are willing to perform.
 - The results of when a user searches for a consultant to perform various services will be based on these questions.
2. Have an opportunity to add other relevant information to their resume that may not be captured through any other question.
 - For example, a reviewer can include any previous or current committee service, other ways they are involved in the peer review program, their hourly rate, their willingness to travel and their overall availability.
 - The information that a reviewer adds will be visible to those using the reviewer search.

We encourage all reviewers to update their resumes as soon as possible to include any information about yourself that may be relevant to those using the reviewer search and to ensure you are included in the search results for any of our new search criteria (for example, firm size).

As a reminder, when you update your reviewer resume, which is required at least annually, you can also indicate that you do not want your resume to show up in the reviewer search. Doing so will not affect your ability to schedule or perform reviews.

If you have any questions about the reviewer search or the updated reviewer resume, be sure to contact one of our [Peer Review Hotlines](#).

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Avoid Overdue Notices with some Helpful Tips!

As a reminder, team and review captains are required to:

- Provide all required working papers by the firm's peer review due date or 30 days after the exit conference, whichever is earlier and
- Respond to technical reviewer revision requests within a timely manner

If you as the team or review captain do not provide all required working papers within 14 days after the firm's due date, you will likely receive an automated overdue notice from PRIMA. This is also the case if you do not respond to all technical reviewer revision requests within 14 days of the date of the request.

To help you avoid overdue notices and potential reviewer suspensions, here are some helpful tips:

- Update the exit conference date in the RVW case in PRIMA for delays, including extensions granted by the AE,
 - That said, an extension of the due date will not automatically delay the overdue notices if 30 days after the exit conference is the earlier date.
- Inform the AE if your peer review client is not cooperating and causing the delay,
- Evaluate your response to technical reviewer revision requests for accuracy and completeness before submitting in PRIMA, and
- Respond promptly to tasks in your PRIMA Action Items and any other administrator and technical reviewer inquiries

Please also keep in mind that there are several steps between the submission of the initial overdue letter and the reviewer suspension letter, including direct outreach from the administering entity. The process is designed to give you sufficient time to comply with any outstanding requests while taking into account that reviews should be presented to a Report Acceptance Body within 120 days of the working papers being submitted.

Some upcoming PRIMA enhancements, designed to have PRIMA be more in line with peer review guidance, may make it seem that you are receiving overdue letters sooner, or more frequently than before. We understand that no one likes overdue notices, and this article is intended to help you with ways to avoid them!

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Guidance for Findings Related to Monitoring

There is concern that peer reviewers and report acceptance bodies (RABs) are not properly evaluating the significance of a firm's non-compliance with the requirements related to monitoring its system of quality control.

As a reminder, peer reviewers should evaluate any "no" answers on the Guidelines for Review of and Testing Compliance with Quality Control Policies and Procedures checklists, in a similar manner to "no" answers on an engagement checklist. When evaluating if "no" answers should be elevated beyond a matter, the reviewer should consider:

- The definitions of a “finding,” “deficiency” and “significant deficiency”
 - **Finding:** “...a condition in the reviewed firm’s system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with applicable professional standards.”
 - **Deficiency:** “...a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects.”
 - **Significant deficiency:** “...the reviewed firm’s system of quality control taken as a whole does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects.”
- Any mitigating policies or procedures
- If the firm’s system of quality control is
 - sufficient to provide it with reasonable assurance that the firm and its personnel will comply with the applicable professional standards and regulations,
 - operating effectively, and
- The appropriateness of any reports issued by the firm.

Previous guidance included in PRP section 3100, *Supplemental Guidance* (Monitoring and Documentation of a Firm’s System of Quality Control) was removed effective January 1, 2017 to provide reviewers more judgement in determining the impact of these type of findings on the peer review report. This prescriptive guidance had been in place to help peer reviewers assess the significance of non-compliance with requirements related to monitoring but allowed for little professional judgement. For example, the only time when a deficiency was considered appropriate was when the firm performed no monitoring procedures (including documentation) and other deficiencies or significant deficiencies were included in the report. However, peer review guidance was revised to allow reviewers to issue a deficiency for non-compliance with monitoring compliance, even if other deficiencies or non-conforming engagements did not exist.

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New Yellow Book/GAS Quality Control Checklist!

As also described in the [What’s New in the PRPM – April 2019 Update](#) article, a new supplemental quality control checklist is coming soon for reviews of firms that perform audits, agreed-upon procedures, and other attestation engagements subject to Yellow Book: PRP section 4400, *Supplemental Guidelines for Review of Quality Control Policies and Procedures for Engagements Performed in Accordance with Government Auditing Standards (Yellow Book) December 2011 Revision*. This checklist will be available by late April 2019 on the [peer review webpages](#), and in the Online Professional Library ([OPL](#)) to subscribers and will be required for relevant peer reviews that commence on or after May 1. Conforming changes will also be made throughout the PRPM to incorporate the addition of this new checklist.

Benefits to Creating the Yellow Book Checklist

The Yellow Book checklist is designed to help reviewers assess an audit organization’s firm-wide compliance with Yellow Book general standards and established policies and procedures related to independence, competence of the staff, quality controls and external peer review. The main benefit of the new checklist is to reduce reviewer effort as previously these questions would need to be addressed for each governmental engagement selected for review.

Peer Reviewer Considerations

Expectations for peer reviewers in the evaluation of the design of the firm's quality control policies and procedures include, but are not limited to:

- Assess whether certain policies and procedures have been adopted by the firm
- Consider the risk that the firm's policies and procedures are not suitably designed to comply with Yellow Book general standards
- Consider whether any risk(s) identified are mitigated by the firm's policies and procedures and document that consideration in "Appendix A-Explanation of "No" Answers and Other Comments" of PRP section 4400
- Determine whether the firm's system of quality control was designed to comply with general standards of the 2011 Yellow Book, chapter 3

Considerations During the Peer Review Acceptance Process

Considerations of technical reviewers and report acceptance body members during the peer review acceptance process are comparable to expectations with the quality control design checklists and include, but are not limited to:

- Determine if the team captain appropriately completed and considered the impact of any "no" answers or issues identified on the design of the firm's established quality control policies and procedures
- Evaluate if "no" answers were appropriately considered in the team captain's risk assessment, engagement selections, exit conference agenda, and potential MFCs
- Consider if the team captain appropriately addressed risks that a firm's system of quality control would not provide the firm with reasonable assurance of conformity with professional standards

PRIMA Impact

Like the other quality control documents, if a reviewer has any "no" answers on the Yellow Book/GAS QC Summary of No Answers Form, the reviewer should upload the document in PRIMA. A new question "Do you have any "no" answers on the Yellow Book/GAS QC Summary of No Answers Form?" will appear on the document upload tab beginning April 1, 2019 if any engagements subject to GAS are reviewed. If your review commenced before May 1, 2019, please answer this question "no."

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Quick Hits

Risk Assessment for Peer Reviewers FAQ

Peer review staff continue to receive questions regarding recent guidance changes related to the assessment of non-compliance with the risk assessment standards (AU-C 315 and AU-C 330). For answers to some of these common questions, check out the FAQ at the end of this alert.

Peer reviewers are also reminded that professional judgement will be necessary in order to determine:

- Whether the reviewed firm failed to comply with the risk assessment standards
- Whether non-compliance with the risk assessment standards is isolated
- What type of implementation plan or corrective action to recommend

Because of this, peer reviewers are strongly encouraged to consult with the following groups when appropriate:

- [The administering entity](#)
- [Peer review staff](#)
- [The AICPA Technical Hotline](#)
- [The Issue Advisory Hotline](#)
- Fellow peer reviewers or other experts

[Risk Assessment Webinar](#)

Quality Control Resources to Recommend to Peer Review Clients

Is one of your peer review clients struggling to develop or maintain their system of quality control? Don't forget to recommend the AICPA's [Quality Control Practice Aids](#) and the PCPS [Invigorate the Focus on Quality Toolkit](#). These FREE resources are designed to help firms become more effective and efficient in their practice and can help bolster your relationship with your peer review clients!

Have Your Peer Review Clients Complete the Engagement Statistics in PRIMA

Did you know that your peer review clients can enter the number of engagements they perform into PRIMA themselves? All you have to do is send them the Review Case, by selecting "Send Review Summary and/or MFC/FFC to Firm." Once sent, you can refer your peer review clients to the following [PRIMA Help article](#) that walks them through the process.

Reviewer Alert Process Change

Based on recent feedback, Reviewer Alerts (alerts) will now be published quarterly as opposed to monthly. Ad hoc alerts may be published in off months if necessary. Finally, alerts will not contain authoritative guidance that is not found anywhere else in peer review program guidance. Rather, alerts will contain useful, supplementary information for the benefit of peer review stakeholders and will refer to the relevant guidance in the PRPM when applicable.

Upcoming Learning Opportunities

Upcoming IAASB Quality Management Webcasts

Did you miss the March Reviewer Alert? The International Auditing and Assurance Standards Board (IAASB) is offering three free non-CPE webcasts covering the important aspects of its recent exposure drafts on Quality Management, which are open for comment until July 1, 2019. Attending these webcasts is a great way to learn about the proposed standards and to address your questions. Register for upcoming webcasts, view archived webcasts or access other resources related to these exposure drafts at www.iaasb.org/quality-management.

Peer Review Conference Registration Available Soon

Registration for the 2019 Peer Review Conference in Washington, DC will be available soon! Online access will also be available for optional and general sessions. Check the peer review webpage in May for more information. Register early and don't miss out. The Peer Review Conference is a great way to meet your peer reviewer training requirements and to network and share ideas with other peer reviewers from around the country!

Upcoming GAQC Webcasts – Understand the 2018 Yellow Book

Do you or your peer review clients need help with the 2018 Yellow Book? Check out the following GAQC webcasts:

- The 2018 Yellow Book: What You Need to Know (June 24th 1-3pm ET)
- Understanding the 2018 Yellow Book Independence Rules (June 25th 1-3pm ET)

Check out the [GAQC's schedule of web events](#) for more information.

Employee Benefit Plans Conference

Change is inevitable – to the way you write audit reports, to the way you file Form 5500s. Then there's plan types, procedures and governance; the business environment, employee demographics and plan participants; the list goes on and on. It's no wonder you feel overwhelmed. And that's where we come in. We're here to help you get it right and get it right the first time. [Register here](#) to attend online or in-person. **May 6-8, 2019 | New Orleans, LA**

Training for Reviewers for Broker-Dealer Engagements

A webcast for reviewers of broker-dealer engagements will held on May 15, 2019 from 2:00 – 3:00 pm ET. Click [here](#) to register. The webcast will go over common issues identified in peer reviews, available resources and much more!

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Risk Assessment for Peer Reviewers FAQ

Is an engagement nonconforming if it fails to comply with the risk assessment standards?

Yes, engagements that fail to comply with the requirements of AU-C 315 or AU-C 330 should be classified as non-conforming from a peer review perspective. Examples of noncompliance with the risk assessment standards that should cause an engagement to be classified as nonconforming are included in [PRP Section 3100, Supplemental Guidance](#).

When should I issue a matter for non-compliance with the risk assessment standards? A finding? A deficiency or significant deficiency?

If an engagement is determined to be nonconforming because of non-compliance with the risk assessment standards, the peer reviewer should, at a minimum should complete a matter for further consideration form (MFC). If the non-compliance with the risk assessment standards is isolated, **then an MFC is sufficient**. In other words, a finding for further consideration form (FFC), deficiency or significant deficiency is not necessary. For further explanation as to what constitutes an isolated matter, peer reviewers should refer to [Interpretation No. 84-1](#).

An FFC should be issued when the nonconformity due to noncompliance with the risk assessment standards is not isolated (or in other words, pervasive) and other deficiencies or significant deficiencies are not present as described below.

A deficiency related to the noncompliance with the risk assessment should be included in the peer review report when other deficiencies related to omitted audit procedures exist and nonconformity associated with the risk assessment standards is not isolated.

As an example, consider that if a peer reviewer identifies a deficiency related to the firm's monitoring policies and procedures in addition to the risk assessment non-compliance, the risk assessment non-compliance can remain a finding. However, if the peer reviewer identifies a deficiency related to pervasive non-compliance with the documentation requirements in addition to the risk assessment non-compliance, the risk assessment non-compliance should be elevated to a deficiency.

Is an implementation plan required for FFCs related to risk assessment non-compliance? If so, what types of implementation plans should I recommend to the Report Acceptance Body (RAB)?

Yes, if the peer reviewer issues an FFC related to non-compliance with the risk assessment standards, then the RAB will require the firm to complete an assigned implementation plan.

As the peer reviewer, the type of implementation plan you recommend to the RAB should depend on the severity of non-compliance you identify. More significant instances of non-compliance (for example, the firm did not perform risk assessment procedures) may require more substantive implementation plans such as required pre-issuance reviews. For less significant instances of non-compliance, peer reviewers may decide to solely recommend additional CPE. When CPE is recommended, peer reviewers should recommend the following course (or an alternative course that is as comprehensive):

[Risk Assessment Deep Dive: How to Avoid Common Missteps](#)

As a reminder, implementation plans should be designed to help the firm improve and prevent similar mistakes from occurring on future engagements. Therefore, the peer reviewer should ensure they have a complete understanding of why the firm did not comply with the risk assessment standards (in other words, the systemic cause) to help ensure that any recommended implementation plans are not merely addressing symptoms of any systemic issue.

For a list of recommended implementation plans, please review [PRP Section 3100, Supplemental Guidance](#)

If the firm documented risk at the account level and not the assertion level should a peer reviewer conclude the engagement is nonconforming?

Yes. Risk assessment standards require the assessment of risk of material misstatement at the relevant assertion level. If the peer reviewer determines that the requirements of AU-C 315 or 330 were not met, the peer reviewer should conclude that the engagement was nonconforming. Peer reviewers should review the firm's documentation carefully to determine at what level the firm assessed the risk of material misstatement.

What if the substantive procedures performed by the firm indicate an assessed level of risk of material misstatement that is higher than what the firm documented?

In this situation, the peer reviewer should consider if the reviewed firm complied with AU-C sec. 330.05.

The auditor should design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.

If the peer reviewer concludes that there is sufficient appropriate audit evidence responsive to the risks identified, then the peer reviewer should also consider if the auditors are knowledgeable about the risk assessment standards and the firm's audit methodology.

That said, over-auditing, while potentially inefficient, should not necessarily be considered as noncompliance. Consider the following example:

A firm assesses the risk of material misstatement related to the existence of inventory at high and select procedures from their standardized practice aids that are responsive to this elevated level of risk. Based on the assessed level of risk and the size of the population, the firm's methodology would require a sample size of 60 items to test. While the firm understood it could initially select 60 items, it selected 90 items to be on the safe side. As the firm, elected to perform additional procedures, based on its judgement, the scenario would not lead to a nonconforming engagement.

How should the peer reviewer and the firm identify and evaluate typos in risk assessment documentation?

The peer reviewer should exercise professional judgment when deciding if an error or omission in the firm's working papers is more representative of a clerical error than of non-compliance with the risk assessment standards. If the issue is more representative of a clerical error, the peer reviewer shouldn't necessarily consider the engagement to be nonconforming. The following examples describe situations where clerical errors may be present.

Example 1

A firm uses an audit methodology that requires audit teams to assess the risks of material misstatement (RMM) at one of three levels: "high," "moderate" or "low." The firm's methodology requires that inherent risk and control risk be assessed separately. When reviewing one of the firm's audit engagements, the peer reviewer noted that the audit team had complied with the requirements related to the understanding of the entity, including its internal control. In the peer reviewer's professional judgment, the inherent risks identified and assessed by the audit team appeared appropriate and consistent with the peer reviewer's experience and industry norms.

However, for one of the relevant assertions, the audit team indicated control risk was "low" where, based on the peer reviewer's professional judgment, an assessment of "high" would have been appropriate since there was no evidence that the firm tested the operating effectiveness of controls. However, the peer reviewer noted that the substantive procedures the audit team performed for the relevant assertion were responsive to a "high" level of RMM (high inherent risk and high control risk). In addition, the audit team members noted that "low" control risk was selected in error and the team had always intended to assign a rating of "high" to control risk. A "high" control risk was selected for other relevant assertions where no controls were tested.

In this example, the peer reviewer could conclude that the "low" control risk assessment was a clerical error and does not represent non-compliance with the risk assessment standards.

Example 2

When reviewing an audit engagement, the peer reviewer noted that the audit team had reduced control risk to "moderate" for several relevant assertions. This impacted the assessment of RMM for each of those assertions. However, there was no evidence in the working papers that the audit team had tested the operating effectiveness of controls related to these assertions.

Upon inquiry of the audit team, the peer reviewer concluded the members of the team were unfamiliar with the requirement that control risk be set at high unless the auditor plans to test and rely on the operating effectiveness of controls. Considering this information, the audit team members indicated that control risk was set at “moderate” in error and should have been assessed at “high.” In addition, through their discussion, the peer reviewer learned that, while the audit team had verified the existence of controls relevant to the audit, they had not evaluated the design of those controls or determined whether the controls had been implemented.

In this example, the peer reviewer should conclude the engagement is nonconforming as the issue identified is not a clerical error as the audit team omitted auditing procedures which were necessary in the circumstances.

What other resources would you recommend related to complying with the risk assessment standards?

Our risk assessment webpage, <https://www.aicpa.org/riskassessment>, contains many great resources that will help you and your peer review clients perform more effective risk assessments, appropriately link your risk assessments to your audit procedures and comply with the standards! These resources include, but are not limited to, a(an):

- [Audit Risk Assessment Tool](#)
This comprehensive template will help you identify, assess and document your planned response to risks of material misstatement and make your audit more effective and efficient.
- [Staff Training Workshop Presentation](#) (PPT)
Recommend this presentation with notes and a [staff training case study](#) to provide education related to proper risk assessments and responses as well as common misconceptions to avoid.
- [FAQ](#)
Get answers to the most common AU-C 315 and 330 questions received by [the Center for Plain English Accounting](#) (CPEA). The CPEA’s team of experts helps member firms understand and implement standards by sharing technical advice in a straightforward manner.
- [Internal inspection aid](#)
This tool will help you identify non-conformity with AU-C 315 and AU-C 330 during your peer reviews. It also provides guidance on how your clients should address those findings.
- [Quiz: Is your audit addressing your client’s risks?](#)
Have your peer review clients take this quick quiz from the *Journal of Accountancy* to see if you’re up to speed on how to assess and respond to risk.

And much more!

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