

Reviewer alert

October 2019

This edition of the Reviewer Alert contains the articles below:

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

The following updates will be available by late October 2019 on the [peer review webpages](#) and in the Online Professional Library ([OPL](#)) to subscribers. PDF or excel documents will have an "October 2019" date on the top. These updates will be effective for reviews commencing on or after November 1, 2019.

Updated Engagement Checklists & Practice Aids

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

- 20700 [Employee Benefit Plan](#) Audit Engagement Checklist
- 22040A Supplemental Checklist for Review of [Construction Contractor Engagements](#)¹
- 22070 Supplemental Checklist for Review of Engagements of [Health Care Entities](#)
- 3400 [Technical Reviewer's](#) Checklists (to be considered by team/review captains to anticipate the technical reviewer's procedures and possible questions)

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

¹ 22040A is a new checklist for construction contractor engagements performed in accordance with FASB Accounting Standards Codification® (ASC) Topic 606, Revenue from Contracts with Customers). 22040 will remain available for use on entities which have not yet implemented ASC Topic 606. It was developed due to the extent of ASC Topic 606 changes impacting these engagements.

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

- **3300, Report Acceptance Body (RAB) Handbook:**
 - Chapter 1, Item VII guidance on administering entities' policies and procedures to mitigate familiarity threats was revised (Agenda Item 1.5).
 - Chapter 2, Item VI was updated to discuss the delegation of corrective action and implementation plan due date changes to technical reviewers in some instances (Agenda Item 1.2).
- **6200, Instructions to Reviewers Performing Engagement Reviews**
 - Appendix E "Areas of Common Noncompliance With Applicable Professional Standards" was updated to include "the development of and basis for the accountant's expectations" for analytical procedures in a review engagement in the list of matters and findings that generally would result in a deficiency or significant deficiency in an Engagement Review (Agenda Item 1.4).

Other Changes:

- **2000, Peer Review Standards' Interpretations** and **4200 Instructions to Reviewers Performing System Reviews, Appendix D "Peer Review Reports and Firm Representation Letters for System Reviews That Include Engagements Subject to Government Auditing Standards and the Single Audit Act"** - references to SOC 1 and SOC 2 engagements were corrected.
- **3300** – placement of Exhibit 2-2 (Confidentiality Letter) was corrected.
- **6100's Appendix A Engagement Summary Form** (also known as 24230) – PRIMA references were clarified.
- **24110 and 24210 System and Engagement Review Engagement Letters, and 24220 "Information Request for Engagement Reviews"**, all within the practice management toolkits, were enhanced.
- **22100B-UG** was corrected for pre-filled answer boxes.

Next PRPM Update:

The next update is currently scheduled for April 2020.

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Printing Errors with Excel Version of April 2019 SRM

If you are using the Excel version of the April 2019 "Summary Review Memorandum", please note that questions I – M of the "Overall Findings & Conclusions" tab (the last tab) may not print to PDF, and thus will not be available for technical reviewer or RAB consideration.

A newer version has been loaded to the website at:

<https://www.aicpa.org/content/dam/aicpa/interestareas/peerreview/resources/peerreviewprogrammanual/downloadabledocuments/4800-srm.xlsm> and all corresponding zip files have been updated.

In the meantime:

- Check the April 2019 Excel versions you have in use and submitted via PRIMA
- If the PDF does not include questions I-M at the end, reset the print area for the last tab, and re-print the entire workbook to PDF using the 'print' option (and not the "print" box on the 1st tab of the file)

- Consult with your administering entities as to how to replace SRMs already submitted in PRIMA, depending on the status of the related peer review.

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Single Audits - OMB Issues Corrected 2019 Compliance Supplement

On July 1, 2019, the Office of Management and Budget (OMB) announced the availability of the 2019 OMB Compliance Supplement (Supplement), which superseded previous supplements, effective for single audits of fiscal years beginning after June 30, 2018, (ending June 30, 2019, and later). For more information relevant to peer reviewers, click [here](#) to access our in-depth analysis (or scroll down to after the Quick Hits section)!

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Quality Control Materials (QCM) Reviews and QCM Examinations Used in Peer Reviews

What's New?

Some QCM providers are obtaining a new type of assurance on their quality control materials, specifically an examination under the Statements on Standards for Attestation Engagements (SSAEs) (QCM Examination). Peer reviewers should note:

- We expect that over time, QCM Examinations will replace the more familiar QCM Reviews performed under AICPA Peer Review Program Standards. This also represents a shift away from the QCM engagement being subject to AICPA oversight and acceptance by the National Peer Review Committee.
- The QCM Examinations issued thus far are on QCM new to the market, as well as QCM that have not previously had a QCM Review in the past.

Guidance for Peer Reviewers

Both QCM Examinations and QCM Reviews provide some level of assurance over the 'reliability' of the QCM described in the report. This assurance is important since many firms rely on third party QCM as an integral part of their system of quality control, and peer reviewers consider the report results when evaluating the design of a firm's system of quality control.

Interpretation Nos. 42-2 and 42-3 were updated in April 2019 to provide guidance to peer reviewers on how to consider the results of a QCM Examination. As QCM Examinations are new, the AICPA is exploring what other guidance will be needed to assist practitioners in performing and reporting on QCM Examinations, and how those practitioners should address technological advances in the delivery of QCM (e.g. via interactive cloud-based software). In addition, the Peer Review Board and QCM Task Force are exploring what other guidance will be needed by peer reviewers to evaluate this new type of engagement.

In the meantime, peer reviewers should continue to:

- Understand a firm's policies and procedures for determining the reliability of the QCM utilized by the firm and determine if they are appropriately designed and implemented. Peer reviewers are also required to determine that the firm's QCM are reliable. QCM Examination and QCM Review reports can assist with this step.

- Carefully compare the QCM used by the firm with the QCM identified in the report. The QCM provider determines which QCM are included in the scope of the engagement and may not include all content, functionality or components used by the firm. This becomes especially relevant considering the technological advances in the delivery of QCM leading to more complex QCM products and services.
- Consult the [QCM Review Results](#) webpage for QCM Review reports. However, QCM Examination reports should be obtained by CPA firms directly from their QCM providers and supplied to peer reviewers.

In addition, for QCM Examination reports, the peer reviewer should carefully consider the criteria attached to a QCM Examination report. The criteria are critical since they form the standards or benchmarks against which the practitioner performing the QCM Examination evaluates the QCM. Peer reviewers should evaluate whether the criteria are suitable in accordance with SSAE guidance (meaning the criteria must be objective, measurable, complete and relevant). The criteria should also be suitable to serve the purposes of the peer review being performed.

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Pre-Issuance Reviews and Their Impact to a Reviewer's Independence

A firm may be required to hire an outside party to perform a pre-issuance review of an engagement as a corrective action or implementation plan in response to engagement performance findings or deficiencies. Many firms would prefer to use their peer reviewer to perform the pre-issuance review, but reviewers should consider their independence before agreeing to perform these services.

A reviewer would be considered independent if they perform the pre-issuance review on an engagement with a year ending (report date for financial forecasts, projections, and agreed upon procedures) immediately after the peer review year. According to Interpretation No. 21-4, a reviewer would not be considered independent (and thus would not be eligible to perform the relevant peer review) if they perform the pre-issuance review on an engagement with a year ending immediately before the firm's next peer review year. An important factor to consider is the year-end of the engagement, not necessarily when the pre-issuance review is performed. As an example, see the following scenario:

Peer review year: **Jan 1, 2018 – Dec 31, 2018**

Year after peer review: **Jan 1, 2019 – Dec 31, 2019** – The reviewer would be independent if they only performed pre-issuance reviews on engagements with years-ending during this year.

Year immediately preceding the next peer review: **Jan 1, 2020 – Dec 31, 2020** – The reviewer would not be independent (for the next peer review) if they performed pre-issuance reviews on engagements with years-ending during this year.

Next peer review year: **Jan 1, 2021 – Dec 31, 2021** – The reviewer would not be independent (for this peer review) if they performed pre-issuance reviews on engagements with years-ending during this year.

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PRIMA Enhancements in Late 2019

PRIMA enhancements are being released later this year to improve usability for reviewers in several areas, including:

- Allowing the team or review captain to update the firm's Peer Review Information (PRI) Form on behalf of the firm. The firm will still have to approve the changes.
- Changing the routing of scheduling errors from the firm to the peer reviewer to resolve
- Clarifying PRIMA emails to identify when action is needed
 - If action is needed, the subject header will start with "Actions Needed"
 - If there is a letter or information, the subject header will start with "Information Only"
- Clarifying the independence attestation in the scheduling form and adding impact of associations
- Improving the MFC and FFC processes by
 - Popping out the individual MFC or FFC that is being edited. This will help with saving information
 - Making drop downs in MFCs contingent upon prior information entered. For instance, if "compilation" is selected for levels of service, then only checklists related to compilations will appear.
 - Adding a question in FFCs to ask if there are any non-conforming engagements. If yes, the form will generate specific questions for the firm to assist them in providing an appropriate response.
 - Enhancing the readability of the pdf created
- Updating the Action Items section to clarify the user's role on each review (firm, team/review captain, team member or oversighter)
- Creating efficiencies in the document upload process on reviews with a default document type as "other" and then the reviewer can select the correct document type if it is not an "other" document

If you have any other suggestions for how to improve the usability of PRIMA, please email them to prsupport@aicpa.org.

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Quick Hits

Auditing Standards Issued in 2019: Information and Resources

This is an exciting time in the auditing space. Standards are changing to keep up with today's business environment. To set you and your clients up for success, we've gathered [information and resources on changes](#) to the auditing reporting standard, the employee benefit plan auditing standard and the other information standard. These include backgrounders, FAQs, and news articles.

Coming Soon...

Be on the lookout for a communication from the AICPA Peer Review Staff in the coming months that will provide a resource you can share with your peer review clients. This resource will highlight information firms need to know about changes in the Program, professional standards that are on the horizon, and any new resources that have been published. You'll be able to customize the content, including applying your company letterhead, to tailor the communication to your clients.

2019 Conference Cases Available

If you missed the peer review conference in Washington, D.C. or if you misplaced your own copy, the 2019 conference cases and solutions are available on the [peer review website!](#)

New Resource Derived from Peer Review Findings on SOC 1 and SOC 2 Examinations

In August 2019, as part of the 2019 Enhancing Audit Quality Initiative relevant to SOC services, the Assurance & Advisory Innovation Team published a report [Common deficiencies peer reviewers noted in SOC 1 and SOC 2 examinations](#). This report is a summary of SOC 1 and SOC 2 matters written by peer reviewers from May 1, 2017 to December 3, 2018.

If you review SOC 1 and SOC 2 engagements, you should be aware of the common deficiencies noted in this report when performing peer reviews. You may also want to share the report with your SOC 1 and SOC 2 clients or even your relevant peer review clients.

Upcoming Learning Opportunities

ASC 606 Webcast – November 4th or December 5th, 2019 at 1-2:30pm Eastern Time

If you, your firm or your peer review clients have questions about how to audit revenue with the effective date of ASC 606 right around the corner, consider attending the [Auditing Revenue under ASC 606](#) webcast. Being offered on November 4th and December 5th between 1-2:30pm, this webcast will address significant matters relevant to auditing the implementation of the new revenue recognition accounting standard.

RAB Update Webcast – December 11, 2019 at 2-4pm Eastern Time

A webcast will be provided for current RAB members and other interested individuals on December 11, 2019 between 2-4pm Eastern Time. This webcast will cover recent guidance affecting the report acceptance process. [Register](#) for this webcast.

Becoming an AICPA Peer Review Team or Review Captain: Case Study Application – December 2nd—6th, 2019

Have you been thinking about taking that next step towards becoming a Team Captain or Review Captain or do you know someone that has? This December, the AICPA will be offering a virtual group study series covering the case study portion of the Peer Review Training for Initial Qualification. Prior to participating in the case study session, participants must complete the online portion of the initial training, [Becoming an AICPA Peer Review Team or Review Captain](#). This interactive virtual session has been divided into the following three parts:

- Part 1, Pre-acceptance & Planning considerations: Monday, December 2nd, 1-3pm EST
- Part 2, Peer review risk assessment & Testing: Wednesday, December 4th, 12-4pm EST
- Part 3, Evaluating matters & Reporting: Friday, December 6th, 1-3pm EST

Participants must attend all three parts to meet the initial training requirement. [Register](#) for the series.

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Single Audits- OMB Issues Corrected 2019 Compliance Supplement

On July 1, 2019, the Office of Management and Budget (OMB) announced the availability of the 2019 OMB *Compliance Supplement* (Supplement), which superseded previous supplements, effective for single audits of fiscal years beginning after June 30, 2018, (ending June 30, 2019, and later). Subsequent to errors noted by AICPA and others, the Supplement was re-issued by OMB with corrections on September 20, 2019. All pages of the correction edition now reflect an August 2019 date. However, to assist auditors in identifying changes made, OMB has included the term "revised" in the footer on those pages with changes. See the AICPA's *Government Audit Quality Center (GAQC) [Alert No. 387](#)* for more information about the correction edition of the Supplement.

The corrected Supplement in one large PDF file is accessible at https://www.whitehouse.gov/wp-content/uploads/2019/09/2-CFR_Part-200_Appendix-XI_Compliance-Supplement_August-2019_FINAL_v2_09.19.19.pdf. In addition, the GAQC has posted a PDF version, broken down by Supplement section, on the [GAQC Web site](#), which is open to the public. A comments section has been added to the Web page that identifies where corrections to the Supplement have been made to assist auditors in identifying changes at a high level.

As there are more extensive changes to the corrected Supplement than in recent years it is critical for auditors and peer reviewers to carefully read it and consider potential implications. Key changes include, but are not limited to:

- OMB required agencies limit the number of requirements identified as being subject to the compliance audit from a maximum of 12 to 6
- Updates in Part 3 – Compliance Requirements to discuss the effect of the 2017 and 2018 National Defense Authorization Acts (NDAA) and [OMB Memorandum M-18-18](#), on the simplified acquisition and micro-purchase thresholds
- Programmatic changes in Part 4 – Agency Program Requirements and Part 5 – Clusters for Programs, including significant changes to Student Financial Assistance (SFA) cluster
- Revamped Part 6 – Internal Controls to more closely align with how auditors consider internal controls and provide more illustrative examples
- Appendix VII – Other Audit Advisories changes to address procurement and audit sampling reminders

Refer to [Appendix V](#) of the Supplement for a listing of changes from previous supplements.

What is the 6-requirement mandate?

One of the most significant changes in the Supplement is the limitation of compliance requirements subject to the compliance audit to no more than six for each program or cluster included in the Supplement, except for the Research and Development cluster which is permitted to identify seven requirements. A caveat, some agencies chose less than six, and requirements related to Activities Allowed or Unallowed and Allowable Costs/Cost Principles are counted as one requirement.

For the Part 2 – Matrix of Compliance Requirements, “Y” now means the requirement has been identified as “subject to audit” for the program and “N” means the requirement has been identified as “not subject to audit” for the program. In previous versions of the Supplement a “Y” meant requirement “applies” to the program and “N” meant requirement normally “does not apply” to the program. For “Y” matrix entries, auditors will still determine whether those requirements could have a direct and material effect for their particular client situation. **Review of the Part 2 matrix to identify changes in requirements will be critical!**

The 6-requirement mandate does not apply to programs not specifically included in Part 4 or Part 5. Therefore, if auditing a major program that is not in the Supplement, auditors should continue to use Part 7, Guidance for Auditing Programs Not Included in This Supplement, to identify the compliance requirements to be tested.

Organizations administering grant funds and the grant recipient are still required to comply with all 12 applicable compliance requirements.

Refer to GAQC [Alert No. 384](#) and GAQC archived Web event, [2019 Compliance Supplement and Single Audit Update](#), for additional information on the 6-requirement mandate.

Note that many audits were complete or substantially complete when OMB issued the correction edition of the Supplement and those audits may include major programs which now have been corrected or changed. Further, other auditors may not become aware of the issuance of the correction edition and perform their audits using the original version. The GAQC has asked OMB to issue definitive guidance as to the expectation for these audits and requested that federal agencies be judicious in their consideration of these audits for quality purposes in the future.

For completed or substantially completed audits, the GAQC is advocating that the federal government accept the completed audits as is. However, at this point the GAQC is unsure as to whether OMB will take a formal position. There are many questions that have been raised and continued ongoing discussion between the GAQC and OMB at the time this alert was developed. Stay tuned for updates relating to expectations relating to the correction edition of the Supplement from the GAQC.

6-Requirement Mandate Effect on Auditor Reporting

New AICPA (nonauthoritative) Technical Questions and Answers (TQAs) are now available on the effect of the 6-requirement mandate on the auditor’s single audit reporting and concludes that a reporting change is not needed. The TQAs provide background information on the revisions made in the 2019 Supplement and discuss whether an auditor may provide an opinion on compliance if the Supplement excludes certain direct and material types of compliance requirements from the scope of the audit, whether the Supplement’s change of approach requires the auditor to revise the report on compliance, and whether an auditor may include an other-matter paragraph in the report to communicate information about the change to the Supplement. See [Recently Issued Technical Questions and Answers](#) numbered 9100.24-.27.

Audit Sampling

Due to concerns by some federal agencies about sampling quality, the Supplement has a new audit sampling section in Appendix VII. The Supplement states that failure to follow the standards, including the requirement to determine sample sizes are sufficient to reduce

sampling risk to an acceptably low level, may result in the audit being **considered nonconforming by the federal cognizant agency** as part of a quality control review.

The Supplement refers auditors to the AICPA Audit Guides, [Government Auditing Standards and Single Audits](#), and [Audit Sampling](#), for guidance. Please also refer to [AU-C section 530, Audit Sampling](#) for requirements and guidance related to an auditor's use of sampling.

Peer reviewer considerations

Enhanced oversight reviewers have commonly observed that peer reviewers fail to identify noncompliance with professional standards related to identification and testing of applicable, direct and material compliance requirements and sampling. Attention to these areas is even more critical due to the significant changes in the 2019 Supplement.

Peer reviewer considerations relating to the 6-requirement mandate when reviewing single audit engagements with fiscal years ending June 30, 2019, and later, include, but are not limited to:

- 1) Determine if audit documentation includes auditor analysis and judgement of which "Y" requirements (subject to audit) were determined to be direct and material.
 - If it is determined to not test a "Y" requirement, auditors still need to document the rationale for not testing. "N/A" is insufficient to document why a requirement subject to audit is not being tested.
- 2) Note that if a compliance requirement has been noted as "N" it is not subject to audit. As described in the AICPA's recently issued TQAs described above, the auditor should form an opinion at the level specified by the governmental audit requirement. The governmental audit requirement in this case is the Supplement, which specifies the compliance requirements to be considered by the auditor. There should be no presumed responsibility for other requirements noted with an "N."
 - **Peer reviewers are reminded that, while a requirement may not be subject to the audit for compliance audit purposes, auditors have a responsibility under GAAS and GAGAS related to noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the financial statements.**
- 3) For situations where a federal agency has identified less than six compliance requirements for a federal program, be aware that the auditor does not need to select additional requirements to get to six requirements.
- 4) Understand that auditors will still need to perform follow-up procedures for prior year findings that relate to requirements no longer subject to audit in 2019.

Peer reviewers are reminded to consider continuing areas of note:

- 1) Determine if the auditor used the correct version of the Supplement if auditing a prior period.
- 2) Remember that the grace period has ended and the procurement standards in the Uniform Guidance, 2 CFR 200.317 through.326, apply to auditees.
- 3) Documentation of auditor thought processes and decisions reached is key given the constantly changing governmental environment.

Stay tuned for updates to PRP sections 22100-Part A-UG and Part B-UG to reflect the changes in the Supplement, anticipated spring 2020.

Additional Resources for Reviewers and Auditors

Below are some resources to assist reviewers in learning about the Supplement and other important changes and to share with auditors (reviewed firms), as applicable:

- GAQC Archived Web Events (some may only be applicable to GAQC members)
 - [Single Audit Lightning Round](#)
 - [2019 Compliance Supplement and Single Audit Update](#)
 - [2019 Data Collection Form and Federal Audit Clearinghouse Update](#)
 - [Smart Sampling in a Single Audit](#)
 - [Tackling Internal Control Over Compliance in a Single Audit](#)
- [AICPA Competency Framework Governmental Auditing](#)
- AICPA Exam-Based Single Audit Certificates
 - Offered at [Intermediate](#) and [Advanced](#) levels

Reviewers are also encouraged to pay attention to GAQC communications on this topic and periodically check the [GAQC Uniform Guidance Resources page](#) to access any new resources added. Reviewers should also encourage peer reviewed firms to join and utilize the GAQC to keep abreast of changes that may impact the quality of governmental engagements.

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