

Reviewer alert

December 2022

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November Peer Review Board Meeting Update – Exposure Draft Issued

In open session on November 16, the Peer Review Board approved the [Peer Review Standards Update No. 1, Omnibus Enhancements and Technical Corrections](#) exposure draft for issuance. Proposed changes primarily include responses to feedback from users on how the clarified peer review standards could be improved.

The comment period ends on January 31, 2023, and responses can be addressed to Brad Coffey and sent to PR_expdraft@aicpa.org.

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](#).

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Don't forget to respond to the Assurance Services Executive Committee's QCM Exposure Draft

The AICPA's Assurance Services Executive Committee (ASEC) issued an exposure draft (ED) titled, [Proposed Criteria for a Description of the Content of Quality Control Materials \(QCM\) and the Content of QCM Related to the Relevant Standards and Interpretive Guidance](#) (proposed QCM content criteria), that presents proposed criteria to evaluate QCM content. For more details, see the special edition [November Reviewer alert](#).

Submit your comments to QCMcontentexam@aicpa-cima.com by December 15, 2022.

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Assessing Non-Compliance – Critical Elements – Engagement Reviews

When the phrase, “and for determining that the XYZ basis of accounting is an acceptable reporting framework” is omitted from the accountant’s report, it would generally result in a deficiency as it has been determined to be a critical element in accordance with PRC 220 Appendix A. This appendix states “failure to adopt current applicable professional standards, or the accountant’s report does not contain the critical elements of the current applicable professional standards,” would result in a deficiency.

The related requirement of AR-C section 80 states:

“.20 In the case of an accountant's compilation report on special purpose financial statements, if management has a choice of financial reporting frameworks in the preparation of the special purpose financial statements, the explanation of management's responsibility for the financial statements should also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances. [As amended, effective for compilations of financial statements for periods ending on or after December 15, 2021, by SSARS No. 25.]”

This is in response to feedback received noting that some administering entities classified the issue as an FFC while others classified the issue as a deficiency. If you have any further questions or concerns, please email us at prptechnical@aicpa.org.

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Unique Risks to Consider When Selecting Certain Must-Select Engagements

While no judgment is necessary to determine whether an EBP engagement or SOC examination engagement should be selected during the course of a peer review (as they are must-selects), peer reviewers can and should exercise judgment when determining how many and what types of EBP engagements and SOC examination engagements to select.

To help peer reviewers make an appropriate engagement selection, the following is a list of some of the unique risks associated with EBP engagements and SOC 2 examinations, that should be considered during the risk assessment process:

Employee Benefit Plans

- Defined contribution plans - participant account and allocation testing and timely remittance of participant contributions.
- Defined benefit plans - actuarial present value of accumulated plan benefits and changes in the actuarial present value of accumulated plan benefits.
- Health and welfare plans - benefit obligations and changes in benefit obligations (for example, claims payable, claims incurred but not reported, postemployment benefits, postretirement health care benefits, and so on).
- Employee stock ownership plans (ESOPs) - annual appraisal of securities and leveraged ESOPs.
- Other items - plans with a master trust arrangement, multiemployer plans, initial audits of plans, terminating plans, plan mergers, and so on.

SOC 2 Examination Engagements

In recent years, a number of software developers have developed tools (SOC 2 tools) designed to help service organizations improve the efficiency with which they can prepare for SOC 2

examinations. However, because of the ways these SOC 2 tools are being marketed and used, there are heightened risks that SOC 2 examinations and related reports are not in conformity with professional standards.¹

- Service auditors may over rely on the information provided by the SOC 2 tools without adequately testing whether the tool operates as intended and the information is complete and accurate for their purposes.
- Service auditors whose clients (service organizations) use SOC 2 tools appear to believe that the use of such tools somehow eliminates or reduces their performance and reporting responsibilities under professional standards. This is especially a concern when the fees quoted are well below market rates for a SOC 2 audit performed in conformity with standards.
- SOC 2 tools are often marketed to start up organizations led by managements that do not have expertise in IT security. Among other concerns, management may lack the requisite knowledge and skills to make decisions about the organization's risks and control activities necessary to mitigate those risks – those decisions are often made by consultants that work for the tool providers.
- Some SOC 2 tool providers have a “related” CPA firm that provides the audit based on the SOC 2 information generated by the SOC 2 tool. Depending on how the tool is used by the service organization (e.g., whether the tool becomes part of the service organization's internal controls), there may be a self-review threat that cannot be mitigated to an acceptable level.²
- Some SOC 2 tool providers enter into business relationships with CPA firms that will provide the SOC 2 audit. This raises concerns about whether such firms are meeting ethical requirements around marketing and advertising.
- Some audit organizations identified on SOC 2 tool providers' websites do not appear to be licensed CPA firms. Most state boards of accountancy require attestation engagements, including SOC 2 examinations, to be performed by licensed CPA firms.

For reference, paragraph .06 of PR-C Section 210 Appendix C states, “If a firm has more than one [type of plan], a selection from each type of plan is not required; however, the reviewer must consider the unique risks associated with those types of plans and document how these risks were addressed in the risk assessment” and paragraph .10 states, “The peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in different types of SOC engagements (SOC 1 and SOC 2 engagements). If a firm performs more than one of the preceding types of SOC engagements, the reviewer must consider the unique risks associated with each engagement and document how these risks were addressed in the risk assessment.”

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REMINDER - Peer Review wants to hear from you!

As our primary stakeholders, it is important to us to find out how well we meet your needs. As such, we wanted to remind you to take our [annual survey](#) that gauges your satisfaction with AICPA Peer Review responsiveness, services, products and materials. Please respond before the end of the year!

¹ [FAQs - Effect of the Use of Software Tools on SOC 2@ Examinations](#) provides additional information on heightened risks related to the use of SOC 2 tool.

² The AICPA Code of Professional Conduct *interpretation Information Systems Design, Implementation or Integration* (ET Section 1.295.145) provides additional information regarding information system services that cannot be provided without impairing independence.

Carefully Consider Crypto!

As you have probably seen in recent headlines, digital assets have come under additional scrutiny. Please be mindful of this high-risk area in your current and upcoming peer reviews. The AICPA PRP will provide further guidance – stay tuned in the new year. In the meantime, be sure to ask all of your clients if they perform audits or other services for companies with digital assets and include consideration in your risk assessment.

Additionally, the [Accounting for and auditing of Digital Assets practice aid](#) is a valuable resource. Access news, resources and courses on the Blockchain and Digital Assets [web page](#).

Please contact technical staff if you have questions or need assistance in this area.

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Quick Hits

Resources to get your firm ready for the new quality management standards

New quality management standards require firms performing A&A services to transition their systems of quality control by Dec. 15, 2025.

- Download this helpful [checklist](#) to streamline your implementation process, which
 - Highlights the major steps, milestones to reach, and insights on organizing the project, and
 - Details the risk assessment process that drives QM's new approach.
- Watch this [recording of a roundtable](#) to hear members from the Quality Management Task Force discuss implementation tips and answer questions from firms. Be sure to download the presentation too.

Clarity Standards Peer Reviewer Reference Guide

To assist you in performing peer reviews under the Clarified Standards, a reference guide of significant changes to remember from the peer reviewer perspective is now available on the [peer review website](#). Any feedback related to the guide is certainly welcome.

Resources from the 2022 Peer Review Conference

See the [peer review CPE web page](#) for resources from the 2022 Peer Review Conference:

- Archived sessions
- Conference cases
- Questions and answers submitted by attendees

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