

# Reviewer alert

## November 2023

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## November Peer Review Board Meeting Update

On November 16, the Peer Review Board (PRB) met and discussed various topics including:

- The exposure draft for PRSU No. 2, *Reviewing A Firm's System of Quality Management and Omnibus Technical Enhancements*
  - The [final version of the exposure draft](#) has been approved and is available to view on the peer review website.
  - Templates for comments and suggestions have been made available to assist with responses:
    - [Template for Comments and Suggestions \(PDF Version\)](#)
    - [Template for Comments and Suggestions \(Word Version\)](#)
  - The PRB requests responses to the exposure draft be sent to [PR\\_expdraft@aicpa.org](mailto:PR_expdraft@aicpa.org) by May 31, 2024.

### *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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**What's new in the Peer Review Program Manual (PRPM) – October 2023 update**

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The October 2023 PRPM update was available on the [PRPM web page](#) and in the Online Professional Library (OPL)<sup>1</sup> to subscribers at the end of October. The update was effective for reviews commencing on or after November 1, 2023. Updated practice aids have an “October 2023” date at the top.

The update consists of:

- [PRP Section 20,700 Employee Benefit Plan Audit Engagement Checklist revised](#) to reflect the AICPA Audit and Accounting Guide Employee Benefit Plans updated as of August 1, 2022 and to integrate requirements of SAS 142, *Audit Evidence* and other recent professional standards.
- [Conforming changes](#) to the 4950 and 6950 *Technical Reviewer’s Checklists* for System Reviews and Engagement Reviews, to clarify the technical reviewer's responsibilities to support the RAB when the current report rating will cause the reviewed firm to receive consecutive non-pass reports.

**Reminder:** Use the [Table of PRPM Sections](#) to determine the current version dates for any practice aid, and use the most current version of a practice aid that is available as of a peer review’s commencement date.

**Next PRPM update:** The next update is currently scheduled for Spring 2024.

**11/10/23 update:** The October 2023 version of the PRP Section 20,700 Employee Benefit Plan Audit Engagement Checklist was reposted to the PRPM web page on 11/10/23. In the original version, Yes and No responses reverted to N/A upon reopening the file. We apologize for the inconvenience.

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### **Update on the December 2022 Assessing Non-Compliance – Critical Elements: Reviewer Alert**

The PRB wanted to provide an update on the December 2022 Reviewer alert based on feedback received during the 2023 Peer Review Conference suggested it provided conflicting information related to the assessment of noncompliance with reporting requirements contained in the SSARs. After discussion, the PRB did not feel that the December 2022 Reviewer alert provided the nuance necessary in the circumstances and wanted to emphasize:

- While a reviewer could determine that an engagement is nonconforming if the phrase, “and for determining that the XYZ basis of accounting is an acceptable reporting framework” is omitted from the accountant’s report, the reviewer is not obligated to do so.
- While this situation on its own, could cause the engagement to be non-conforming, the PRB felt the engagement would be more likely to be non-conforming if other compounding factors existed, for example, if the engagement letter references a different basis of accounting, such as GAAP, than the accountant’s report.
- Ultimately the decision is based on the reviewer’s judgment, a crucial element in the peer review process, of the specific facts and circumstances of the peer review.

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<sup>1</sup> To access OPL, visit the purchases tab under your profile when you log in to [www.aicpa-cima.com](http://www.aicpa-cima.com).

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- Information contained in Reviewer alert articles is not authoritative, but rather is intended to provide information that reviewers may find helpful during the performance of peer reviews.
  - While consistency amongst peer reviews is important, it does not necessarily outweigh reviewer judgment.

Peer reviewers and those involved in the peer review report acceptance process are reminded that no two peer reviews are the same, and no two instances of noncompliance are the same. Peer reviewers may also have different, but still reasonable, opinions regarding the significance of similar issues. Ultimately, peer reviewers should use the questions included at the end of each engagement checklist to help form the conclusion of whether an engagement is nonconforming and provide those involved with the report acceptance process documentation that provides the rationale behind any key conclusions reached.

Finally, the PRB understands the information included in the December 2022 alert influenced decisions reached by peer reviewers and those involved in the report acceptance process. However, the information contained herein should be applied prospectively and not to peer reviews that have already been accepted or completed.

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### **Update Your Reviewer Resume!**

Beginning in early December, you will be able to indicate on your reviewer resume whether or not you are willing to take on new peer review clients. Once a sufficient amount of reviewers have answered the question, we will update the reviewer search to give firms and others the ability to filter the search results for those reviewers that have responded affirmatively to that question. We are hopeful this will make it easier for firms to find peer reviewers when needed and will help end the barrage of requests some peer reviewers get from firms in need of a peer reviewer.

For those that are willing to take on new peer review clients, we also ask that you provide additional information about your availability in the following resume question:

- “Is there any information relevant to your qualifications as a peer reviewer or outside consultant that you would like to include? Examples of other relevant information could include availability and types of peer reviews you are willing to perform, service on committees, certificates earned, travel restrictions, etc.”

For example, you could indicate you are only willing to accept engagement reviews or that you are only available in March and April. Any information that firms (or team captains) may find useful when trying to find a qualified peer reviewer is encouraged and will be included in the search results of any query submitted in the reviewer search.

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### **Can an auditor perform an ERISA section 103(a)(3)(C) audit if the Plan does not have an audit requirement?**

The Department of Labor’s (DOL) recent changes to Form 5500 redefined large plans by the number of participants with account balances on the first day of the plan year. Per Form 5500, a plan with at least 100 participants with active accounts is considered a large plan and an audit is required. This provision applies to defined contribution plans and is effective for plan years that

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begin on or after January 1, 2023. Previously large plans with at least 100 **eligible** participants required an audit. The DOL estimates that nearly 20,000 plans previously considered large plans will no longer be subject to the annual audit requirement due to this change.

This change has led to situations in which plan sponsors have a plan that no longer requires an audit but would like to have the plan audited as part of fulfilling its own fiduciary duties or for other reasons (e.g., the plan has an auto-enrollment feature and the plan sponsor believes the plan will soon require an audit). Auditors have inquired as to whether an ERISA section 103(a)(3)(C) audit can be performed if the plan does not have an audit requirement.

In most cases, there does not appear to be anything in the professional standards, laws, or regulations that would preclude an auditor from accepting such an engagement. An auditor may accept an ERISA section 103(a)(3)(C) audit engagement when no requirement for such audit exists, provided there is no management-imposed scope limitation on the engagement, except as permitted by the DOL's Field Assistance Bulletin No. 2009-02, Annual Reporting Requirements for 403(b) Plans.

Under the professional standards, an auditor is precluded from accepting an audit engagement if management imposes a limitation on the scope of the auditor's work, such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, and the entity is not required by law or regulation to have an audit.

AU-C Section 210, *Terms of an Engagement*, paragraph .07 states:

If management or those charged with governance of an entity that it is not required by law or regulation to have an audit impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement, such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements as a whole, the auditor should not accept such a limited engagement as an audit engagement.

As explained in paragraph .A141-.A142 of AU-C section 703, an ERISA section 103(a)(3)(C) audit is unique to employee benefit plans and **is not considered a scope limitation** under AU-C section 705. As such, an ERISA section 103(a)(3)(C) audit may be performed, unless there is another reason the auditor may know in advance that there will be a limitation on the scope of the auditor's work that will result in a disclaimer of opinion. For example, if the plan has not maintained sufficient accounting records and supporting documentation and the auditor is unable to apply certain auditing procedures, the auditor may need to disclaim an opinion on the ERISA plan financial statements and ERISA-required supplemental schedules.

While the Department of Labor (DOL) has not issued formal, authoritative guidance, Michael Auerbach, Office of the Chief Accountant, did address the subject early in the [May 10, 2023, Employee Benefit Plan Town Hall](#) session. Mr. Auerbach states that he does not see anything in the regulations that would preclude a plan from having a section 103(a)(3)(C) audit because such an audit is not required.

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## **SOC 2® Examination Engagements**

The December 2022 Reviewer alert discussed unique risks to consider when selecting SOC engagements for review. Similarly, those risks impact review of the engagements themselves.

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The following discusses how the new SOC 2 peer review checklist (the checklist) can be used to consider the risks identified in the December 2022 Reviewer alert at the engagement level.

**Risk: 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.**

Response: This risk is specifically addressed in the checklist by step AT227: Did the service auditor evaluate procedures performed by the service organization to determine whether information produced or generated by third-party applications and/or tools (including software automation tools) is accurate and complete? [SG 3.140–.143];

This may be relevant, for example, if management relies upon the SOC 2 tool for designing and maintaining monitoring controls. The peer reviewer may consider whether the service auditor evaluated management’s validation of the monitoring tool configurations.

**Risk: 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.**

Response: The checklist enables the peer reviewer to verify that the service auditor has performed the examination in accordance with professional standards. For example:

- AT128 includes consideration of the appropriateness of the service commitments and system requirements identified by management;
- AT202 presents procedures that are typically performed to obtain evidence about the system description (the service auditor is expected to perform a combination of the listed procedures) and AT312-328 present factors that should be considered when evaluating whether the description is in accordance with the description criteria;
- AT136 addresses the service auditor’s risk assessment (this is separate from management’s risk assessment which is considered in AT209) and AT210 presents procedures that are typically performed to obtain evidence about the design of controls;
- AT229 requires more than inquiry alone to provide sufficient appropriate evidence of the operating effectiveness of controls, AT223 discusses timing of tests of controls and AT228 discuss the method for selecting items to be sampled.

The peer reviewer should consider whether the CPA has been engaged solely for the purpose of signing the report without adequate involvement in the engagement. This may become apparent when documenting CPA and non-CPA hours in the engagement profile and relevant attestation experience of the team. Additionally, this should be considered when completing:

- AT115 addressing the engagement partner’s responsibility for ensuring the engagement team has the appropriate capabilities and competence; and
- AT267 addressing appropriate involvement by the engagement partner as the job progressed.

**Risk: 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**

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**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.**

Response: Multiple steps in the checklist prompt the peer reviewer to evaluate whether the service auditor has considered whether management has the requisite skills and knowledge to make decisions about the organization’s risk and control activities necessary to mitigate those risks. This includes:

- AT119-120 discuss management’s having a reasonable basis for its assertion;
- AT209 and 211 discuss management’s risk assessment and controls in place to address those risks.

This may be relevant, for example, if the automation vendor defined the control activities. The peer reviewer may expect the service auditor to document their consideration of whether management has a reasonable basis for its assertion related to control design.

In some situations, the peer reviewer may conclude that the vendor is operating as a management’s specialist and would expect the service auditor to have documented the procedures performed to evaluate the specialist (AT122). This may be relevant, for example, if the automation vendor drafted the system description.

**Risk: 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.<sup>2</sup>**

Response: In the discussion of nonattest services in AT 109, the checklist specifically notes the importance of determining whether the service auditor assisted the service organization with the design, implementation, or integration of any governance, risk, and compliance (GRC) or automation tool(s). If so, the service auditor should assess whether self-review and management participation threats to the service auditor’s independence exist.

If any of the following conditions are met regarding the SOC 2 tool provider and the “related” CPA firm, the tool provider’s work with respect to the SOC tool would be evaluated as if done by the CPA firm:<sup>3</sup> 1) the CPA firm or any of its members individually or acting together have a controlling interest in the SOC 2 tool provider<sup>4</sup>; 2) the CPA Firm and the SOC 2 tool provider are considered network firms;<sup>5</sup> or 3) the SOC 2 tool provider’s operating, financial, or accounting policies can be controlled by any covered member or more than one covered member acting together<sup>6</sup>. This means that the SOC 2 tool provider would need to comply with ethical requirements such as independence, commissions, and referral fees. These considerations would be documented as part of ATT109.

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<sup>2</sup> 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.

<sup>3</sup> [Information Systems Services \(1.295.145\)](#)

<sup>4</sup> [Ownership of a Separate Business \(1.810.010\)](#)

<sup>5</sup> [Network and Network Firms \(1.220.010\)](#)

<sup>6</sup> [Covered member \(0.400.14\)](#)

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In addition, independence may be required when the CPA Firm and the SOC 2 tool provider are in an alternative practice structure<sup>7</sup>.

Even when individuals in a firm, either individually or collectively, do *not* have a controlling interest in the SOC 2 tool provider, independence would be impaired if the member provided prohibited nonattest services to the attest client through the SOC 2 tool provider<sup>8</sup>.

If a relationship exists between the CPA firm and the SOC 2 tool provider that is not enumerated above, a member should apply the conceptual framework approach keeping in mind that independence should be in fact and in appearance<sup>9</sup>.

**Risk: 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.**

Response: The checklist contains a section on ethical requirements. The peer reviewer should be familiar with specific requirements within the code of conduct related to marketing and advertising. This can be documented as part of ATT108.

**Risk: 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.**

Response: Although non-CPA firms are not subject to peer review, there have been situations where SOC 2 tool providers enter into business relationships where an engagement is performed by a non-CPA firm and a CPA is engaged solely for the purpose of signing the report without other participation in the engagement. The peer reviewer should be aware of this possibility when reviewing individual SOC engagements, particularly when completing the engagement profile and documenting AT115 (engagement partner responsibilities) and AT267 (involvement of the engagement partner as the job progresses).

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### **Digital Assets: Reviewing engagements involving use of service organizations**

Over the past several years, the types of digital assets and use cases for them have increased significantly, and both firms and peer reviewers have encountered new issues to consider in performing A&A engagements (see the [May 2021 Reviewer alert](#) for more background). In many cases, entities that transact in or invest in digital assets engage third parties with the technological capabilities and competencies to support their involvement in digital assets. When reviewing engagements involving digital assets and the use of service organizations, consider if the firm:

- Obtained an understanding of the nature of the services provided by the service organization (for example, to store its digital assets or execute and report trades)

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<sup>7</sup> [Alternative Practice Structures \(1.220.020\)](#)

<sup>8</sup> [Ownership of a Separate Business \(1.810.010.03\)](#)

<sup>9</sup> [Conceptual Framework for Independence \(1.210.010\)](#)

- Evaluated the design and implementation of relevant controls at the user entity that relate to the services provided by the service organization (for example, controls relating to safeguarding of private keys)
- Gained an understanding of the procedures related to safeguarding and transferring digital assets (for example, private key management)
- Performed audit procedures that are appropriately responsive to the identified risks of material misstatement (for example, reconciliation of the entity’s financial statements to the blockchain on an appropriate basis, which may be necessary more frequently than monthly)

**PRIMA:**

When you plan a firm’s peer review and perform the risk assessment, consider the firm’s PRI responses to questions asking if the firm performed audit or attest (A&A) engagements for entities that had 1) significant roles in the digital assets ecosystem (Code 904<sup>10</sup>) and/or 2) holdings in digital assets that were considered material to the underlying engagements.

**Resources:**

The AICPA has many resources specific to both blockchain and digital assets, ranging from certificate courses, webcasts, self-study courses, and thought leadership papers. For additional resources see the [Digital Assets, Virtual Currency Tax Guidance, and Blockchain](#) page.

**Digital Asset Practice Aid:**

In order to address financial reporting and auditing challenges, the AICPA’s Digital Assets Working Group has developed nonauthoritative accounting and auditing guidance to help financial statement preparers and auditors who are operating in the digital asset space. The AICPA Practice Aid [Accounting for and Auditing of Digital Assets](#), includes the following topics:

Accounting	Auditing
<ul style="list-style-type: none"> <li>• Classification, measurement, recognition, and derecognition when an entity purchases or sells digital assets</li> <li>• Specialized accounting for investment companies and broker-dealers when engaging in digital asset activities</li> <li>• Considerations for crypto assets that require fair value measurement</li> <li>• Accounting for stablecoin holdings</li> <li>• Derivatives and embedded derivatives</li> <li>• Crypto asset lending and borrowing</li> <li>• Mining</li> </ul>	<ul style="list-style-type: none"> <li>• Client acceptance and continuance</li> <li>• Risk assessment and processes and controls</li> <li>• Laws and regulations and related parties</li> <li>• Consideration of an entity’s use of a service organization</li> </ul>

The Practice Aid is intended for those with a fundamental knowledge of blockchain technology and is based on existing professional literature and the experience of members of the Digital Assets Working Group. The Digital Assets Working Group continues to develop new content that will be added to the practice aid in the future.

<sup>10</sup> Update your reviewer resume with your experience with entities with significant roles in the digital assets ecosystem (Code 904) in order for firms to find peer reviewers with experience in this complex industry.



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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 to the [survey](#) before the end of the year!

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### Quick Hits

#### New Quality Management (QM) Standards Practice Aid Now Available!

[Our free, robust practice aid](#) will guide your peer review clients in moving their firm to a QM system as required by the AICPA's new standards. The interactive guide and accompanying Example Risk Assessment template enable them to tailor their QM system to meet their firm's needs and circumstances for its A&A practice. Download these tools and send them to your peer review clients so they can start their implementation today.

Visit [aicpa-cima.com/auditqm](http://aicpa-cima.com/auditqm) to find the latest resources and [webcasts](#) that will help firms move from a quality control system to a quality management system.

#### *Tell us what else would be helpful!*

We want to know where firms are in the QM implementation process and if there are any additional tools we could provide to help. By answering this short [survey](#), you will give us the information we need to see how we can continue to support your progress.

#### Peer Review Event: Identifying and Writing Systemic Causes

Registration information is now available for an upcoming Peer Review live webcast, *Peer Review Identifying and Writing Systemic Causes*, to be held on **Thursday, December 14, 2023**, from 1:00 PM – 3:00 PM (Eastern Time).

Join us as we walk through the root cause analysis process within a peer review setting and learn what you can do to prepare for your next peer review. You will learn about the most common challenges when writing findings and deficiencies with a systemic orientation and how you can avoid them. Also, find out about effective interviewing techniques for determining the systemic cause of matters identified. Featuring detail-rich examples and scenarios to assist you in applying proven techniques to identify the systemic cause during your peer reviews.

Refer to [Peer Review Identifying and Writing Systemic Causes](#) for further information.

#### Update on Peer Review Courses

The following Peer Review training courses have been updated and are now available on the AICPA Store:

- [AICPA Peer Review RAB Update Course](#)
- [AICPA Peer Review Technical Reviewer Update Course](#)
- [AICPA Peer Review Must-Select Industry Update: Government Auditing Standards](#)
- [AICPA Peer Review Must-Select Industry Update: Employee Benefit Plans](#)
- [AICPA Peer Review Update Course](#)

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