

Reviewer alert

Special Reviewer alert - April 2022

How should noncompliance with risk assessment standards be evaluated?

As you are aware, temporary guidance related to the impact of risk assessment nonconformity on the results of a peer review ended with peer reviews commencing on September 30, 2021. For peer reviews commencing after that date, AICPA staff have received numerous questions related to:

- whether all instances of noncompliance with the risk assessment standards should lead to a nonconforming engagement and
- how should risk assessment nonconformity impact a peer review report.

In summary, peer reviewers, technical reviewers and RABs should use judgment to determine whether one or more identified instances of noncompliance with the risk assessment standards would cause an engagement to be nonconforming.

Peer reviewers, technical reviewers and RABs should also use judgment when assessing the impact of risk assessment nonconformity on the peer review report, including potential repeat deficiencies, as this nonconformity is no longer limited to just an FFC.

For example, when making these determinations, peer reviewers, technical reviewers and RABs can consider:

- The pervasiveness and egregiousness of the noncompliance, not only across engagements, but within an engagement itself. For example, was a singular audit area impacted, or several?
- Were significant risks properly identified and addressed appropriately?
- Were any relevant documentation requirements met versus could documentation be improved upon?

Background

Staff understands the confusion created by the language currently included in PRPM Section 3100, Supplemental Guidance, that was referenced in the October 2021 Peer Reviewer alert. Specifically, it stated:

It is important to remember, however, that if an auditor fails to comply with the requirements of the risk assessment standards then the objectives of these standards would not be met. Accordingly, the audit would not be conducted in accordance with GAAS and the auditor would fail to obtain sufficient appropriate audit evidence to support the audit opinion. Therefore, reviewers in these situations would likely find it difficult to conclude that such an engagement conforms with professional standards in all

material respects from a peer review perspective and would likely need to consider the audit non-conforming.

This information led many in the peer review process to conclude that ANY noncompliance with the risk assessment standards (other than clearly immaterial clerical errors) led to a nonconforming engagement. Given the limited impact on the peer review report and the need to educate firms on the requirements of the risk assessment standards, this conclusion was rarely, if ever, challenged during the peer review acceptance process. However, it is not the intent of the Peer Review Board to suggest ANY noncompliance with the risk assessment standards should lead to a nonconforming engagement and the judgment of the peer reviewer, technical reviewer and RAB is still necessary when making such a determination.

Examples of instances of noncompliance with the risk assessment standards that would likely lead to a nonconforming engagement

Prior to the temporary guidance, it was not common for peer reviewers to identify an engagement as nonconforming due to risk assessment noncompliance when warranted. The Supplemental Guidance provides several examples of instances of noncompliance with the risk assessment standards that would lead to a nonconforming engagement, including:

- Failure to identify or document the identified risks of material misstatement (RMM), including any significant risks (virtually every audit, including audits of small- and medium-sized entities, has at least one significant risk)
- Failure to assess or document the assessment of risk at both the relevant assertion level and financial statement level
 - A reviewer may encounter audits where the risks of material misstatement are assessed at the account level only rather than at the relevant assertion level.
 - Some practitioners confuse account-level risk with financial statement-level risk. Financial statement-level risks are not risks limited to one account balance or audit area, but rather, risks that are pervasive to the financial statements.
- Failure to properly document the firm's identification and assessment of the risk of material misstatement and response thereto
 - Reviewers should consider the linkage between the risk assessment and the auditor's procedures, and they should determine whether the procedures are responsive to the client's financial statement- and assertion-level risks.
 - Significant risks require special audit consideration, which means consideration above and beyond what a standardized audit program would address.
- Failure to evaluate the design and implementation of controls relevant to the audit
 - Auditors are expected to:
 - Consider what could go wrong as the client prepares their financial statements.
 - Identify the controls meant to mitigate those financial reporting risks.
 - Evaluate the likelihood that the controls are capable of effectively preventing or detecting and correcting material misstatements.
 - Perform and document walkthroughs of key controls.

Going forward, these instances of noncompliance would likely continue to cause an engagement to be considered nonconforming.

Upcoming Training

Upcoming training for peer reviewers and other peer review stakeholders will emphasize the material above including at ENGAGE and the Peer Review Conference. Additionally, these sessions will reinforce that the information included above from the Supplemental Guidance is not included in the clarified peer review standards which instead emphasize that judgment is required when determining if an engagement is nonconforming. As a reminder, the clarified standards are effective for peer reviews commencing on or after May 1, 2022.

Additional Firm Training to be Required by RABs

The following courses have been or will be added to the list of firm training to be required by RABs:

Course	When to Assign
<u>Risk assessment during the recovery</u>	When significant deficiencies, deficiencies and findings are identified related to noncompliance with the requirements for 1) identifying and assessing the risks of material misstatement and 2) performing audit procedures in response to assessed risks and evaluating the audit evidence obtained (AU-C 315.26 through .32 and AU-C 330)
<u>Take Control of Your Audit - Avoid Common Internal Control Missteps</u>	When significant deficiencies, deficiencies and findings are identified related to noncompliance with the requirements for understanding the entity and its environment, including the entity's internal control (AU-C 315.12 through .25)
<u>Documenting Your EBP Audit: What You Need to Know</u>	When significant deficiencies, deficiencies and findings are identified related to noncompliance with documentation requirements specifically as it relates to EBP engagements
<u>Advanced Topics in a Single Audit</u>	When significant deficiencies, deficiencies and findings are identified related to noncompliance with Single Audit requirements

As a reminder, RABs are required to assign AICPA courses related to Enhancing Audit Quality (EAQ) focus areas as corrective actions or implementation plans when:

- significant deficiencies, deficiencies and findings are identified related to these areas and
- CPE is determined to be the necessary follow up action.

RABs may assign or allow an alternative course if it meets the learning objectives of the AICPA course (as described in the product page of the AICPA's online store).