

PR Prompts: Updates from Peer Review

New Requirement to Complete Your Firm's Peer Review Information Annually

The AICPA Peer Review Program (Program) is committed to support and enhance audit quality of firms on an ongoing basis, not just during the formal process of peer review. As such, starting in mid-2020 the AICPA Peer Review Board (PRB) will require annual submission of peer review information from all firms enrolled in the Program.

The PRB expects that annual submission of peer review information will benefit firms in the following ways:

- Timely resources to assist in identifying unique risks associated with certain engagements when entering new industries or practice areas.
- Reminders to update system of quality control documentation and consider compliance every year, and not just during peer review years.
- Improved communication about professional standards and Program changes.
- Increased efficiency for peer reviews through familiarization with the Peer Review Information Management Application (PRIMA) and automated summaries for peer reviewers.

You will receive an email from PRIMA when you need to complete your firm's information, which will be in the same month as you received it for your last peer review. For example, if your last peer review had a 12/31 year-end, you will receive the email in November 2020. All the information from your previous peer review will be carried forward to reduce data entry and to assist you in completing the annual request.

Details about the annual submission of peer review data, including an FAQ, will be provided to firms and peer reviewers. In the meantime, please contact the AICPA Peer Review Hotline at prsupport@aicpa.org or (919) 402-4502, option 3, with questions. ■

Firm Compliance with State Peer Review Licensure Requirements

Firms may be asked for the status of their peer review by a state board of accountancy. To assist firms with this request, firms can give their administering entity (AE) permission to provide certain objective information about their peer review. Examples of information types that firms can permit their AE to provide include, but are not limited to:

- The date of the firm's enrollment and due date of the firm's first peer review (either after enrollment or reenrollment). This information is included in the firm's enrollment letter at the time of initial enrollment or reenrollment.
- A revised peer review due date. This information is included in an approved extension letter.
- The estimated dates of when the firm's peer review will commence and will be presented to a Report Acceptance Body (RAB).

Starting in 2020, firms can grant their AE this permission by accessing PRIMA at any time throughout the peer review process, such as during the enrollment or scheduling phase. Firms can also access PRIMA and change their selections at any time. For more information, please refer to Agenda Item 1.2 within the [October 2019 PRB Open Session meeting materials](#) and be on the lookout for an FAQ! ■



Ready, Set, Implement: Updates on Standards

FASB Defers Effective Dates for Three Major Accounting Standards

Effective dates will be delayed for private companies and certain other entities for the Financial Accounting Standards Board's (FASB's) standards on accounting for leases, credit losses (CECL) and hedging after a unanimous vote by FASB in October 2019. FASB directed its staff to draft an Accounting Standards Update (ASU) that will change the effective dates and will be issued following a formal written ballot by FASB, which is expected to take place in November. In a separate project, FASB voted to delay the effective date of its standard for accounting for insurance companies issuing long-term insurance contracts.

FASB began considering the delays in response to concerns from overwhelmed preparers. Many of those concerns were voiced in a letter that the AICPA's Technical Issues Committee sent to FASB in May to request a delay in the effective date for private companies for the lease accounting standard. Refer to the [FASB Votes to Delay Effective Dates for 3 Major Standards](#) *Journal of Accountancy* article for more information. ■

Single Audits - 2019 Compliance Supplement

The 2019 Compliance Supplement (Supplement) used for conducting single audits includes extensive changes from prior years. The most significant change relates to the Office of Management and Budget (OMB) requirement for federal agencies to limit the number of requirements identified as being subject to the compliance audit; it was decreased from a maximum

of 12 to 6. The Supplement was issued to reflect these changes (June 2019 edition). The OMB issued a correction edition of the Supplement in September 2019 (August 2019 edition) to address errors in the originally issued Supplement. In October 2019, the U.S. Census Bureau, on behalf of OMB, sent an e-mail to every auditor and auditee of record in the Federal Audit Clearinghouse (FAC) to clarify the effect of the correction Supplement on audits that have already been submitted to the FAC, and audits near completion. The e-mail instructs auditors as follows for single audits subject to the Supplement (i.e., audits of fiscal years beginning after June 30, 2018):

- Auditors are permitted to perform the audit using either the June or August 2019 edition of the Supplement for reports dated on or before October 31, 2019.
- Auditors are required to perform the audit using the August 2019 edition for reports dated after October 31, 2019.

Auditors should document the version of the Supplement used for the audit. You can find the [August 2019 edition of the Supplement](#) in one large PDF file on the OMB website. However, the Governmental Audit Quality Center (GAQC) has posted the August 2019 edition, broken down by section, on the [2019 OMB Compliance Supplement](#) web page, along with an indication of which sections were changed. Firms performing governmental engagements are encouraged to join and utilize the GAQC to keep abreast of changes that impact the quality

of such engagements. If you have questions about the FAC e-mail or the corrected edition of the 2019 Supplement, contact the National Single Audit Coordinator (NSAC) using the contact information found in [the Supplement's Appendix III](#). ■

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 up for success, we've gathered [resources on auditing standards](#) that include 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. ■

Changes on the Horizon for Quality Management

The International Auditing and Assurance Standards Board (IAASB) is developing new Quality Management standards that would take a risk-based approach to managing quality at the firm and engagement level. The approach is designed to address firms' individual circumstances once they have identified and assessed their particular factors that could be a risk to delivering high quality services. The IAASB expects to issue final standards in the second half of 2020. The ASB intends to converge with the IAASB standards. ■

Auditor Reporting

The form and content of the auditor's reports will change substantively which will be effective for audits of financial statements for periods ending on or after December 15, 2020. Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, was issued in May 2019. SAS No. 134 includes a new AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, and replaces the following AU-C sections in AICPA *Professional Standards*:

- Section 700, *Forming an Opinion and Reporting on Financial Statements*
- Section 705, *Modifications to the Opinion in the Independent Auditor's Report*
- Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

Changes to the auditor's report include placing the "Opinion" section first, followed by the "Basis for Opinion" section, which is required to include a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities in accordance with the relevant ethical requirements relating to the audit. The description of the auditor's responsibilities has been expanded, and auditor reporting relating to going concern has been enhanced. New Section 701 is only applicable when the auditor is engaged to report key audit matters. Generally accepted auditing standards (GAAS) does not require the communication of key audit matters.

The ASB has also issued the following:

- [SAS No. 135](#), *Omnibus Statement on Auditing Standards – 2019*.
- [SAS No. 136](#), *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.
- [SAS No. 137](#), *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.

Early implementation of SAS No. 134 is not permitted. However, because SAS No. 134 amends various other sections, including AU-C section 210, *Terms of Engagement*, auditors are encouraged to familiarize themselves with the requirements before the start of any engagement. ■

Ethics Update

In November, the Professional Ethics Division will release a special video edition of its podcast, *Ethically Speaking*, considering independence issues related clients' implementation of FASB ASC 606.

Specifics will include how to help clients implement the new guidance without crossing the independence line and applying safeguards from the General Requirements for Performing Nonattest Services interpretation (1.295.040). The episode will also cover training that you might provide to clients and understanding a client's documentation of compliance with FASB ASC 606.

The [Hosting Services interpretation](#) (ET sec. 295.143) of the Independence Rule (ET sec. 1.200.001) became effective, July 1, 2019. The division has produced several aids:

- [Seven FAQs](#): Find questions and answers starting on page 20.
- [A blog post](#): More questions and answers from the 2019 ENGAGE Conference.
- [Ep. 3 of *Ethically Speaking*](#): Hosting Services — What You Need to Know Now.
- [Ep. 4 of *Ethically Speaking*](#): Hosting Services — More of Your Questions Answered.

The [State and Local Government Client Affiliates interpretation](#) will be effective for years beginning after December 15, 2020. Stay tuned for the practice aids:

- Interactive tools to help you determine which entities are and aren't affiliates.
- A conceptual framework toolkit for independence.

The [Information System Services interpretation](#) will be effective January 1, 2121. ■

Resources from the AICPA's Enhancing Audit Quality (EAQ) Initiative

Through the [EAQ](#), the AICPA provides resources and education to help you avoid the most common audit quality issues. Check out their latest resources:

Risk Assessment and Response

In a survey of peer reviewers, over 50% of firms reviewed failed to comply with the risk assessment standards. Access free [risk assessment tools](#), including industry-specific resources, to help you avoid common issues.

Also, watch the EAQ's [ENGAGE conference presentation](#) with methodology providers to learn how to properly apply their methodologies and avoid the areas creating the most challenges for practitioners.

Internal Control

A 2018 Peer Review Program survey found over 40% of audits didn't comply with AU-C 315 or AU-C 330 because auditors did not properly obtain an understanding of their client's controls. Visit the EAQ's free [internal control toolkit](#) for help complying with the requirements.

System and Organization Controls (SOC) Engagements

If you're expanding your service offerings by performing SOC engagements, make sure you understand the common missteps to avoid first. Access [Common deficiencies peer reviewers noted in SOC 1® and SOC 2®](#), a free, non-authoritative resource, to learn about common issues identified when performing SOC 1® and SOC 2® engagements. View additional [SOC resources and education](#) covering SOC for Service Organizations as well as SOC for Cybersecurity.



Auditing Estimates

Your attest clients may look to you for guidance on how to implement the new revenue recognition standard (ASC 606). Explore the Private Companies Practice Section (PCPS) [revenue recognition toolkit](#) periodically for new resources to help your firm and clients understand the standard. Also, check out the report, [Helping Attest Clients Implement the New Revenue Standard](#), to help you avoid jeopardizing your independence. The AICPA also provides a number of additional [FASB ASU 2014-09 references and resources](#), including links to Industry Task Forces, webcasts and CPE courses available to dive in deeper to the areas you'd like to learn more about.

Documentation

One of the most common audit quality issues isn't related to a recently issued standard or a complex area of guidance; it's a lack of adequate audit documentation. These free [audit documentation resources](#) will help you document appropriately and comply with the standards. Also, the blog post, [Advice from a Peer Reviewer: Documentation Missteps to Avoid](#) discusses documentation missteps to avoid in your engagements. ■