

# PEER REVIEW PROMPTS



## *Tips for Utilizing Peer Review Extensions*

If your firm knows some extra time will be needed to complete your peer review, requesting an extension is a potential option. Extensions may be requested using the self-service functionality in PRIMA and are ultimately approved by the administering entity (AE).

Prior to requesting an extension, you should talk to your peer reviewer. When discussing this possibility, please remember:

- Each extension request will be considered on a case-by-case basis by the AE.
- Your firm must ensure that any approved change to the review due date complies with governmental, regulatory body, or any other organization's peer review requirements. For example, if your firm performs engagements under the Generally Accepted Government Auditing Standards (GAGAS), you should discuss the fact that the GAO does not automatically accept extensions granted by the AE beyond three months.
- A request for an extension is better if submitted during the planning stages of the review but not later than 60 days prior to the due date. Extensions are not typically granted after the due date unless extenuating circumstances are present.



## *Crosswalk between SQMS No. 1 and SQCS No. 8, as amended*

The Crosswalk document summarizes the changes between Statement on Quality Management Standards (SQMS) No. 1, A Firm's System of Quality Management, and Statement on Quality Control Standards (SQCS) No. 8, A Firm's System of Quality Control, as amended (QM section 10A in AICPA Professional Standards).

This [document](#) is a free download for AICPA members.

## Timeline of Peer Review Process and Significant Events

The peer review process requires a significant investment of time by both the firm and the reviewer. To help provide some perspective of this fact, please see the following summary of key events (including approximate timing) within the peer review process.

### **Enrollment in the Peer Review Program**

A firm should complete and submit the peer review enrollment materials to the administering entity (AE) by the report date of the firm's first reviewable engagement. Once enrolled, a due date for the firm's initial review is assigned, generally 18 months from the report date of that engagement.

### **Scheduling the Review**

Approximately six to nine months before a firm's review due date, the firm will receive notification to complete a scheduling form within the Peer Review Integrated Management Application (PRIMA), which includes identifying the peer reviewer performing the review. It is recommended that the firm complete this form as soon as reasonably possible as peer reviewers' schedules fill up fast!

The AE is responsible for approving the scheduling information and approval must be obtained prior to commencement of the review. To provide sufficient time to the firm, the peer review ordinarily is scheduled to begin within three to five months after the end of the year to be reviewed.

### **Performing the Review**

When all requested documents are received by the reviewer from the reviewed firm, they will be evaluated to determine the nature of the peer review report. At the end of this evaluation, the peer reviewer will conduct a closing meeting to go over preliminary results of the peer review such as any matters, findings, deficiencies, and significant deficiencies. This meeting occurs at least 30 days prior to the firm's due date to allow the firm to determine appropriate responses to these items and for the peer reviewer to assess the impact of these responses on the peer review.

After this assessment, the peer reviewer will conduct an exit conference, held no later than the peer review due date, to discuss the final peer review results and the report acceptance process. The peer reviewer then submits the peer review working papers to the AE within 30 days of the exit conference or by the firm's peer review due date, whichever is earlier.

### **Administrative and Technical Reviews**

Once the peer review has been submitted to the AE, the working papers will go through an administrative and technical review to determine whether all required documents from the reviewer are received and complete and that the review, including any firm responses, has been conducted in accordance with the relevant peer review requirements.

### **Review Evaluation, Acceptance, and Completion**

Ultimately, the vast majority of peer reviews are presented to a report acceptance body (RAB) of an AE for final approval. Peer reviews are ordinarily presented within 120 days after working papers are received by the AE. The RAB reviews the report and applicable supporting documentation and determines if the results of the peer review can be accepted or if additional steps must be taken. If no corrective actions are necessary (i.e., the peer review report is a "Pass"), the completion date of the review is the acceptance date. Otherwise, the review is considered complete when the firm has performed the assigned corrective actions to the RAB's satisfaction. There are situations, however, where a firm that has received a "Pass" peer review report can be assigned follow-up actions, called implementation plans, that should be completed.

## **FASB ASU No. 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit (NFP) Entities for Contributed Nonfinancial Assets.**

FASB ASU No. 2020-07 addresses certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets (gifts-in-kind or GIKs) recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. It applies to contributed nonfinancial assets recognized by NFPs. Nonfinancial assets include fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, and services.

The ASU is a presentation and disclosure standard. It does not change recognition or measurement of contributed nonfinancial assets. The standard requires that NFPs present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.

FASB ASU No. 2020-07 should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted.

For additional guidance, please see the AICPA's [Checklist for gifts-in-kind presentation and disclosures](#).



## Did your client's pandemic funding trigger Yellow Book requirements?

We can agree the COVID-19 pandemic has taught us to navigate a new way forward amid change, including the need to provide new services to our clients. Legislation such as the CARES Act and ARPA have provided historic levels of federal funding to states and localities, not-for-profits, and other entities requiring many of them to complete a single audit, perhaps for the first time. Federal pandemic programs have various requirements that are different from traditional federal funding programs. Certain recipients of several larger pandemic programs that meet specific eligibility criteria are provided with an option to have an alternative engagement that would be less burdensome than a single audit. Examples include Financial Audits under *Government Auditing Standards* (referred to as GAGAS or the Yellow Book) or Compliance Attestation Examinations. The Coronavirus State and Local Fiscal Recovery Fund (CSLFRF), Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution, and Shuttered Venue Operators Grants (SVOG) programs all have alternative engagement options. These types of engagements are under intense regulatory scrutiny due to their strong public interest component and quality concerns. Because these engagements are required to be performed under the Yellow Book, they are part of the must-select population of engagements included in the sample of engagements selected for peer review.

Need a deeper dive into how pandemic funding may impact your practice? The [AICPA's Governmental Audit Quality Center](#) (GAQC) has free resources available to help you!



## Unique Items to Consider Related to SOC 2 Examinations

If your firm performs SOC 1 and SOC 2 examination engagements, at least one such engagement will be selected during your peer review, as SOC examinations are “must-select” engagements. It is possible, and even likely, that your peer reviewer will select both a SOC 1 and SOC 2 engagement to review as part of the engagement selection.

In recent years, a number of software developers have developed 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.<sup>1</sup> To help firms go through the peer review process, the following is a list of some of the items that your firm should consider as you perform your SOC 2 examination engagements:

- Client (service organization) use of SOC 2 tools does not eliminate or reduce your firm's performance and reporting responsibilities under professional standards.
- Your firm could 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 your purposes.
- 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.
- If your firm, or a related entity, develops or provides services related to SOC 2 tools used by the clients for which you provide SOC 2 examinations, this may cause a self-review threat that cannot be mitigated to an acceptable level.<sup>2</sup>
- Ethical requirements around marketing and advertising should be considered if your firm provides the SOC 2 examination for and enters into business relationships with a SOC 2 tool provider.

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

<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.

## Ethics roundup

### ***A new effective date for ethics guidance is just around the corner. Are you ready?***

[Authoritative guidance](#) for responding to noncompliance with laws and regulations is becoming effective at the end of June, and the guidance applies to both members in business and members in public practice.

This is the first update to the code for members in business since 2017. Find out what you need to know in these *Journal of Accountancy* articles:

- [Members in business](#)
- [Members in public practice](#)

Be sure to experience [the helpful interactive walkthrough](#) of the steps you should take when you encounter noncompliance.

If you have any questions, you can call the ethics hotline at 888.777.7077 (option 2, then option 3) or email [ethics@aicpa.org](mailto:ethics@aicpa.org).

### ***Calling all commenters!***

The Professional Ethics Executive Committee is looking for comments on an [exposure draft of changes](#) to the Code of Professional Conduct. Changes include one new and two revised interpretations related to fees.

PEEC carefully considers all comments they receive, so don't miss this opportunity to have your voice heard.

The comment deadline is June 15.

### ***Online Ethics Library***

Have you taken a look at the [ethics library](#)? It's free-of-charge and chock-full of tools and aids, including the *Code of Professional Conduct*, the *Plain English guide to independence*, case studies, and a full spectrum of technical Q&As.

We're building the library up over time and adding new content regularly, so remember [aicpa.org/ethicslibrary](http://aicpa.org/ethicslibrary) and visit often to see what's new.

## ***Resources from the AICPA's EAQ initiative***

Through the [Enhancing Audit Quality Initiative \(EAQ\)](#), the AICPA shares resources and education to help you avoid the most common audit quality issues. Check out some of their latest resources:

The 2023 EAQ Areas of Focus were selected by a group of technical committee chairs and internal subject matter experts. The following links take you to your source of news, resources and learning relative to each of the following 2023 EAQ areas of focus.

- [Risk assessment](#)
- [Quality management](#)
- [Single audit](#)
- [ESG attestation](#)
- [Technology-enabled auditing](#)

The EAQ team shares resources and education to help you avoid the most common audit quality issues. Check out their latest webcasts:

- [Risk Assessment Today](#) will help firms to recognize and avoid or overcome common, reoccurring challenges many of which identified by the peer review process.
- [Risk Assessment Under SAS No. 145](#) covering the new and updated concepts to drive better risk assessments.
- [Auditing Fraud Risk in the Current Environment](#) addressing where fraud is more commonly identified and how to respond to these risks.
- [Take Control of Your Audit: Avoid Common Internal Control Missteps](#) covering the impact internal control has on your audit engagements and how to avoid common audit missteps identified through our peer review.

### ***New risk assessment guide available***

The new authoritative AICPA Guide [Risk Assessment in a Financial Statement Audit](#) provides easy-to-understand "scalability scenarios" to help you apply Statement on Auditing Standards No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, which takes effect for audits of financial statements for periods ending on or after Dec. 15, 2023.

### ***See what EAQ accomplished in 2022***

[The Enhancing Audit Quality Highlights and Progress Report](#) details how the AICPA supports the profession's commitment to quality through EAQ.

