PEER REVIEW PROMPTS

Get your firm ready for the new quality management (QM) standards!

[Our free, robust practice aid] will guide you in moving your firm to a QM system as required by the AICPA's new standards. The interactive guide and accompanying Example Risk Assessment template enable you to tailor your QM system to meet your firm's needs and circumstances for its A&A practice. Download these tools and start your implementation today.

Visit aicpa-cima.com/auditqm to find the latest resources and webcasts to help your firm move from a quality control system to a quality management system.

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 [Spring 2022 and Spring 2021 PR prompts] 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 performing engagements involving digital assets and the use of service organizations:

- Obtain 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)
- Evaluate 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)
- Gain an understanding of the procedures related to safeguarding and transferring digital assets (for example, private key management)
- Perform 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:
Please let us know if your firm performs engagements involving digital assets by responding to the new digital asset questions in the Peer Review Information (PRI) form in PRIMA when prompted to do so. The questions are designed to help your peer reviewer evaluate the extent of your firm's involvement with digital assets in the peer review planning and risk assessment process.

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:
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**
• Classification, measurement, recognition, and derecognition when an entity purchases or sells digital assets • Specialized accounting for investment companies and broker-dealers when engaging in digital asset activities • Considerations for crypto assets that require fair value measurement • Accounting for stablecoin holdings • Derivatives and embedded derivatives • Crypto asset lending and borrowing • Mining	• Client acceptance and continuance • Risk assessment and processes and controls • Laws and regulations and related parties • Consideration of an entity's use of a service organization

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.

Nonattest services tips

A point of emphasis in peer reviews is the evaluation and documentation of nonattest services performed by firms on behalf of clients (for example, financial statement preparation, bookkeeping services, and tax services). What do peer reviewers look for regarding nonattest services documentation under the AICPA *Code of Professional Conduct*? While not an exhaustive list, here are some common pieces of documentation peer reviewers evaluate when reviewing engagements.

Practitioners need to establish and document their understanding with the attest client with respect to nonattest services, including: the objectives of the engagement, services to be performed, client's acceptance of its responsibilities, practitioner's responsibilities, and any limitations of the engagement. Documentation may be in the form of an engagement letter or another file to the working papers and must be satisfied before the practitioner performs nonattest services. However, if the practitioner performed the nonattest service prior to the period of the professional engagement for an attest client, this document is not required to have been drafted prior to performance of the nonattest service.

Other items to document include the evaluation of whether performing multiple nonattest services, in the aggregate, poses significant threats to independence. If threats are not at an acceptable level, the practitioner should apply safeguards to eliminate the threats or reduce them to an acceptable level otherwise independence would be impaired.

Peer reviewers are also alert to documentation in which practitioners must document the threats and safeguards applied when threats to independence are not at an acceptable level.

While not explicitly required, practitioners should consider whether documentation should provide details about the member of management who will oversee nonattest services, that person's skill, knowledge, or experience (SKE), and the practitioner's assessment of the SKE. Additionally, whether documentation complies with AU-C section 230, *Audit Documentation*, including documentation of significant findings or issues arising during the audit, the conclusions reached, and significant professional judgements. Practitioners (and their peer reviewers) should also consider whether the practitioner appropriately completed the firm's adopted practice aids in compliance with the firm's system of quality control.

As a reminder, some regulatory bodies, such as the U.S. Government Accountability Office, may have more restrictive rules regarding independence when performing nonattest services for an attest client.

Be sure to check out these resources on nonattest services:

- For specific guidance on the provision of nonattest services to attest clients: Nonattest Services subtopic (ET sec. 1.295) under the Independence Rule (ET sec. 1.200.001)
- For answers to frequently asked questions related to independence: Frequently Asked Questions: Nonattest services
- For assistance in understanding the independence requirements related to providing nonattest services and with evaluating threats to independence when providing these services: Nonattest services toolkit
- For more information related to independence requirements under the AICPA *Code of Professional Conduct*: Plain English guide to independence

Check out this newly released Not-For-Profit (NFP) resource!

The 2023 Not-for-Profit Entities - Best Practices in Presentation and Disclosure publication provides financial statement presentation and disclosure examples illustrating U.S. GAAP compliance for the topics most frequently encountered by preparers of financial statements for NFPs by drawing from the audited financial statements of an assortment of not-for-profit entities.

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 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 DOLs 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 DOL has not issued formal, authoritative guidance, Michael Auerbach, Office of the Chief Accountant, addressed 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.

Audit & Attest Standards staff issued guidance on the applicability of AR-C section 70

When Statement on Standards for Accounting and Review Services (SSARS) No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* was issued in October 2014, the Accounting and Review Services Committee (ARSC) and AICPA Audit & Attest Standards staff thought that the issue as to when an accountant performing bookkeeping or accounting services for a client would be required to comply with SSARSs had been solved. However, those questions persist.

Prior to the issuance of SSARS No. 21, the accountant was required to perform, at a minimum, a compilation engagement whenever he or she "prepared and presented" financial statements to his or her client or to a third party. This was considered a "submission driven" trigger. As technology continued to advance, it became more difficult to determine who or what prepared the financial statements – especially if multiple individuals or technology was involved. The resulting diversity in practice was not in the public interest.

SSARS No. 21 represented a significant revision of the professional literature for non-assurance financial statement engagements. Prior to SSARS No. 21, the compilation standards permitted a non-reporting exception to the otherwise report-based engagement for situations in which the financial statements were intended for management use only. SSARS No. 21 repositioned those non-reporting compilation engagements by removing the restriction on use and rebranding as a "preparation engagement." Another significant revision was a change to the trigger for both preparation and compilation engagements from submission driven to engagement driven. The result is that the accountant no longer had to consider whether he or she prepared the financial statements – only whether he or she was engaged to prepare the financial statements. Even if the accountant concluded that because of his or her accounting or bookkeeping engagement that he or she prepared financial statements, the accountant was not required to comply with SSARSs. It became vital that the accountant and the client be on the same page with respect to what the client was engaging (that is, hiring) the accountant to do.

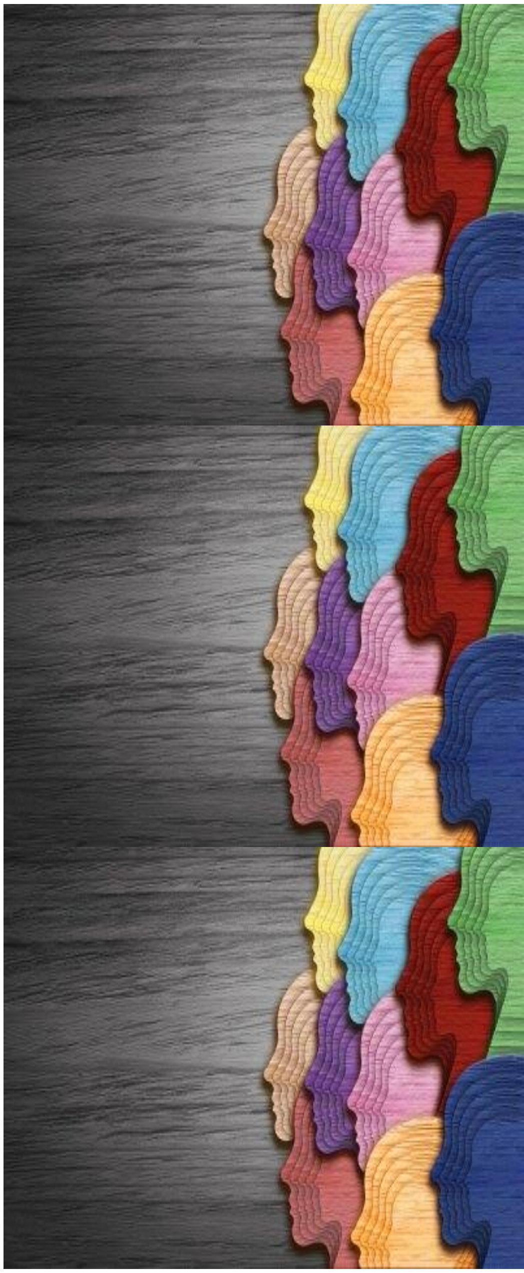
To assist practitioners who perform accounting or bookkeeping services regarding whether AR-C section 70, *Preparation of Financial Statements* is required to be applied if the service results in financial statements, the AICPA Audit & Attest Standards staff with input from the ARSC, developed an interactive decision tree and flowchart (PDF) that provides clarity on whether AR-C section 70 applies. The decision tree leads the user down a path to either "AR-C section 70 is required to be applied" or "AR-C section 70 is not required to be applied" based on responses to specific questions.

The guidance reminds practitioners that they are required to adhere to the AICPA Code of Professional Conduct for all professional services performed and includes a handy flowchart that outlines the step-by-step considerations on one page.

The flowchart is also included in the 2023 edition of the AICPA Guide, *Preparation, Compilation, and Review Engagements.*

Ethics roundup

Wondering where to find content from the AICPA ethics division?



We've heard reports that the transition from aicpa.org to aicpa-cima.com is resulting in some issues for those who are trying to find content the Professional Ethics Division publishes.

Great news! All you need to do is remember a few "vanity" URLs. Make a note of these and you'll be able to find our content where it currently lives and later, the transition will be seamless for you:

- www.aicpa.org/ethics This is our ethics landing page.
- www.aicpa.org/ethicslibrary This is where you'll find the Code of Professional Conduct and many tools and resources, such as the *Plain English guide to independence*, *Ethics Questions and Answers*, and more.
- www.aicpa.org/peecprojects Go here to find exposure drafts and comment letters, final releases of new authoritative guidance, and related content.
- www.aicpa.org/peecmeeting Would you like to stay current with AICPA ethics activities and get CPE credits while you're at it? This link lets you register to attend quarterly PEEC meetings. At the top of that page, you'll find a link to PEEC meeting agendas and minutes.
- www.aicpa.org/jeepmanual Have you ever wondered about the details of our investigative process and how we collaborate with state societies to perform joint investigations? Use this link to find the answers to all your questions about Joint Ethics Enforcement Program.
- www.aicpa.org/fileacomplaint As the URL suggests, this is where people can go to find out how to file a complaint against an AICPA member.

If you have any issues or questions about our content, simply email PEECCoordinator@aicpa.org and tell us what you're looking for. We'll help you out in a jiff.

Newly released authoritative guidance

At its August meeting, PEEC approved changes to the code related to fees and the ethics of professional qualifications and competencies. You can read all about it in the *Journal of Accountancy*.

If you'd rather jump right into the releases themselves, you can find them here:

- New and revised interpretations related to fees
- Revised interpretation for all members "Professional Qualifications and Competencies"

We expect these new and revised interpretations to be live in the Online Ethics Library on the 3rd week of October.

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

Through the EAQ, the AICPA shares resources and education to help you avoid the most common audit quality issues. Check out some of their latest resources:

New risk assessment resources 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 December. 15, 2023.

Embracing technology for financial statement audits unlocks a realm of benefits. Learn about the automated tools and techniques for SAS No. 145 risk assessment procedures in our dynamic two-hour webcast on November 15 or December 13. The webcast, a mashup of two highly popular ENGAGE23 sessions, is based on a free, downloadable practice aid.

A refresher on fraud and the responsibility for its detection
The opportunities, incentives, and rationalizations to commit fraud abound. This article will guide you to recall what the practitioner's responsibilities are in an assurance engagement and be sure you are playing your part to ensure the work you do continues to help protect businesses and stakeholders.

Additionally, consider attending the webcast, Auditing Fraud Risk in the Current Environment, which addresses where fraud is more commonly identified and how to respond to these risks.

Governmental Audit Quality Center (GAQC) Yellow Book Independence Practice Aid – Available now!
The GAQC recently released a nonauthoritative practice aid, *Evaluating and Documenting Independence Threats of Nonaudit Services in Government Auditing Standards Engagements*, that can help firms understand the Yellow Book's independence-related documentation requirements. It illustrates one methodology a firm could use to evaluate and document threats to independence and the application of safeguards. It may also assist you when reviewing a firm's documentation of Yellow Book independence considerations related to the performance of nonaudit services.

Key topics include:

- Identifying nonaudit services and determining whether the nonaudit services are otherwise prohibited
- Determining whether certain preconditions are met before agreeing to perform nonaudit services
- Evaluating threats to independence and the application of safeguards for nonaudit services involving preparing accounting records and financial statements, as well as other nonaudit services and threats in the aggregate and
- Documenting the firm's conclusions regarding independence and nonaudit services provided, both individually and in the aggregate.

We encourage you to regularly check the GAQC Resources page for any new resources and share with your clients, where appropriate, to enhance audit quality within the profession.

The 2024 EAQ Areas of Focus were selected by a group of technical committee chairs and internal subject matter experts. Those areas will be:

- Risk assessment
- Quality management
- Technology-enabled auditing
- Single audit
- SOC 2® engagements