

THE PPC ACCOUNTING AND AUDITING UPDATE

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Updated Peer Review Engagement Checklists



The AICPA's Peer Review Board recently issued updated AICPA engagement checklists and two new engagement checklists. Peer reviewers will begin using the updated engagement checklists for peer reviews *commencing* on or after November 1, 2020. The updated engagement checklists will be used as of that date, even for firms that were granted six-month extensions from the Peer Review Board for their peer reviews with original due dates between January 1 and September 30, 2020, as a result of the coronavirus pandemic.

The following items highlight the major changes overall on the latest round of revisions to the AICPA engagement checklists.

New Engagement Checklists for the *Government Auditing Standards—2018 Revision* (Yellow Book)

- **22,110A—(New) Supplemental Checklist for Review of Audit Engagements Performed in Accordance With Government Auditing Standards (Yellow Book)**

2018 Revision is to be used by peer reviewers of firms that perform audits, agreed-upon procedures, and other attestation engagements for entities subject to the requirements of the GAO's *Government Auditing Standards* 2018 revision.

- **22,120A—(New) Supplemental Checklist for Review of Attestation Engagements and Reviews of Financial Statements Performed in Accordance With Government Auditing Standards (Yellow Book)**

2018 Revision is to be used by peer reviewers of firms that perform reviews, agreed-upon procedures, and other attestation engagements for entities subject to the requirements of the GAO's *Government Auditing Standards* 2018 revision.

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Addition of "Common Misconceptions" Information

The AICPA has added new information within many of the engagement checklists, designated as "common misconceptions." The common misconception information highlights commonly occurring



issues related to specific questions within the engagement checklist. For example, common misconception information is provided related to internal control and risk assessment in the general audit engagement checklist.

Changes to AICPA Engagement Checklists and Related Information

Another change impacts the engagement checklists traditionally used by peer reviewers to perform engagement reviews (as opposed to system reviews). The prior engagement review checklists have been replaced by these updated checklists that apply to both system and engagement reviews:

Peer Review of:	Prior	Now
Compilations	23,200	20,200
Preparations	23,250	20,250
Reviews	23,300	20,300
AUPs	23,400	20,999 or 20,900A
Review Attestations	23,500	21,050
Financial Reporting & Disclosure	23,600	22,300

This change eliminates the use of separate checklists for engagement reviews, and the new combined engagement checklists indicate which steps and questions may be ignored by peer reviewers when the checklist is used for an engagement review.

Here is a complete list of the system review engagement checklists that were updated:

- **20,200—General Compilation Checklist for SSARS Engagements**—updated through SSARS 24 and ASU 2020-04.
- **20,250—General Preparation Checklist for SSARS Engagements**—updated through SSARS 24 and ASU 2020-04.
- **20,300—General Review Checklist for SSARS Engagements**—updated through SSARS 24 and ASU 2020-04.
- **20,400—General Audit Checklist**—updated through SAS 133 and ASU 2020-04.
- **20,500—Governmental Audit Checklist**—updated through GASBS No. 86 and SAS 133.
- **20,600—Not-for-Profit Audit Checklist**—updated through SAS 133 and ASU 2020-04.
- **20,700—Employee Benefit Plan Audit Engagements**—updated through SAS 133 and ASU 2020-04.

- **20,800—Supplemental Checklist for Review of Prospective Financial Statement Engagements**—updated through SSARS 24 and SSAE 19.
- **20,900—Agreed-Upon Procedures Checklist**—updated through SSAE 18 and SOP 17-1.
- **20,900A—Agreed-Upon Procedures Checklist (For Engagements Performed in Accordance with SSAE 19)**—applies to both system and engagement reviews to address early implementation of SSAE 19, which is effective for AUP reports dated on or after July 15, 2021.
- **21,000—Examination Attestation Checklist**—updated through SSAE 20.
- **21,050—Review Attestation Checklist**—updated through SSAE 20.
- **22,040A—Supplemental Checklist for Review of Construction Contractors under FASB ASC 606**—updated through SAS 133, ASU 2020-04, and AAG-CON as of July 1, 2020.
- **22,060—Supplemental Checklist for Review of CIRAs**—updated through SAS 133 and ASU 2020-04.

The changes to the updated engagement checklists don't include the AICPA's recently revised auditor's reporting suite of SASs due to the deferral of the effective dates of SASs 134–140 for one year as a result of the coronavirus pandemic, to periods ending on or after December 15, 2021. Those changes are expected to be incorporated in the engagement checklists in the Fall 2021 update.

The revised and new checklists are available to AICPA members on the AICPA Peer Review Program webpages at www.aicpa.org/interestareas/peerreview/resources/peerreviewprogrammanual.html and to subscribers in the Online Professional Library.

Although these checklists are designed for use by peer reviewers, they may also be helpful to firms when performing their inspection/reviews as part of their monitoring process. By using the same form as peer reviewers, firms can better understand what to expect during their next peer review. Firms that subscribe to the Peer Review Program Manual (PRPM) can access the most current engagement checklists on Checkpoint.



COVID-19 Service Opportunities

The public health crisis and economic challenges that followed have created unexpected new challenges for businesses in all industries. In addition to operational issues, like changes to customers and supply chains and how and where employees work, there have been several government actions to provide businesses with access to capital and to help them avoid layoffs during the economic shutdown. There have also been increased risks to liquidity, employee safety, and cybersecurity.

All these issues create opportunities for practitioners to help clients (and prospects). Demand for accountants to provide CFO and consulting services has increased.

The challenges of the pandemic haven't changed CPAs' obligations to comply with professional standards, including the relevant ethics and independence standards that apply. CPAs need to be especially mindful of these requirements as they get involved in new opportunities and be careful not to provide prohibited nonattest services for their attest clients.

Here are some areas beyond accounting and financial reporting where companies need real time help and practitioners can provide valuable advice and assistance.

Business Plans

To survive, management must be aware of and able to react quickly to changes in the market for their goods and services, their customers, and suppliers. There are many new risks, but there can also be new opportunities.

Business continuity planning is an area where CPAs can help develop strategies. Businesses may need help with how to identify and obtain new customers and vendors, or how to prepare a business impact analysis of the profitability of their existing products and services and make modifications. Changes in the number and location of employees have happened very quickly and may last longer than originally anticipated. As a result, many businesses may need help with human resource planning, including restructuring, downsizing, flexible work arrangements, and hiring to meet changing business plans. New health and safety concerns, including guidance from federal and state agencies like the CDC, DHHS, and DOL, have resulted in increased costs for employers that may be the new normal. Unfortunately, some companies may not survive and may turn to their CPA for guidance on declaring bankruptcy.

Budgeting and Forecasting

It is more critical than ever for management to have an efficient process for monitoring and measuring actual results as compared with business plans on a timely basis to be able to react and make needed changes. It is likely that many companies will need more than one budget and ongoing analysis of various scenarios in the near-term as markets continue to change. CPAs can advise on best practices in the area of budgeting and forecasting, along with potential technology solutions to integrate this process with accounting and financial reporting systems.

Facilities

Management may be facing potential shutdowns and consolidations for the first time as a result of mandated closures, reduced customer demand, supply chain issues, and remote work requirements. On the other hand, some businesses may find themselves looking to expand to take advantage of new business opportunities as a result of the pandemic. Practitioners can help clients with facilities planning, including the relating accounting and reporting implications. In addition, CPAs can counsel clients on related tax issues and opportunities.

Financing

The pandemic's impact over time and the timing of when the economy will recover are unknown. Many companies are facing short-term liquidity needs, maybe for the first time. The CARES Act and Paycheck Protection Program (PPP), along with other government programs, have provided new capital to many companies, but their complexity and administrative requirements have been overwhelming. This is an area where practitioners are providing much needed counsel and interpretation to help businesses take advantage of these resources and comply with the complex and changing requirements. The PPP loan application and forgiveness provisions are an area where practitioners have dedicated resources and issued guidance that has helped their clients and has also brought them new business. Practitioners can also help businesses identify and apply for more traditional financing options, both short- and long-term.

Cash Management

Forecasting cash flows and working capital is always fundamental to managing operations. In this environment, because many companies are scaling back or shutting down in response to the pandemic, cash

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management may be necessary for them to survive. Effective cash management can include optimizing sources of cash from customers, lenders, and government relief, along with looking at timing of outflows and the potential to renegotiate and defer payments to vendors, landlords, and lenders. For those companies that obtained new financing, they may need help with how to maximize their earnings on any temporary excess cash. Cash flow forecasting is essential for accounting areas that are top of mind right now, like impairment, financial instruments, and going concern analysis. Many companies need help with building cash flow processes and controls that are integrated with their accounting and financial reporting.

Tax Planning

Tax laws have been changing rapidly, and many include retroactive provisions. Practitioners can help clients keep on top of the IRS deadlines for filings and estimated tax payments that have changed, so they stay in compliance and avoid penalties. CPAs can also provide clarification and support in areas where there have also been changes in federal, state, and local payroll, sales, and property taxes. In addition, COVID-19 government assistance programs, including the CARES Act and Families First Coronavirus Response Act, created new areas for tax planning and strategy. There are also new tax credits available that CPAs can advise clients about and may result in tax savings.

Information Technology

Companies may need assistance with review of their IT systems and recommendations to avoid fraud and

cybersecurity attacks. Practitioners can provide help to clients as they analyze their IT security protocols to make sure they are up to date and address new challenges, like increased remote access from employees working from home on a regular basis and other security risks.

Beyond security issues, there may be a need for changes to automated internal controls as a result of changes to business operations and accounting, tax, and payroll rules. In addition, potential upgrades to software can provide better reporting functionality and enhanced internal controls over financial reporting, including exception reports and greater use of data automation. Cloud-based solutions is another area where practitioners can advise their clients on best practices. Flexible and remote work arrangements require companies to implement new tools like Zoom, Skype, and Teams, that may create new technology and compatibility challenges.

Conclusion

This new environment provides many risks and challenges for businesses of all sizes and in all industries. But it also presents opportunities for CPAs to help companies as they navigate through these challenges. By acting quickly and providing valuable resources, accountants can be the ones who get businesses through the sudden changes in their operations that they may not have been prepared for.

