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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC’s Guide to Quality Control

Thirty-second Annual Edition (February 2019)

Highlights of this Edition

The following are some of the important new features of the 2019 Edition of *PPC’s Guide to Quality Control*:

- **Driving Engagement Quality.** We’ve continued to enhance your *Guide* by focusing on areas that improve your firm’s performance and the quality of your engagements. The AICPA identified audit risk assessment as a focus area for 2018 and, as part of its Enhancing Audit Quality Initiative, developed new audit risk assessment resources. We’ve provided information on this initiative, including discussion of the most common issues noted during peer review and actions taken by the Peer Review Board that will affect your next peer review.
- **Authoritative Literature.** The Accounting and Review Services Committee (ARSC) has issued SSARS No. 24, *Omnibus Statement on Standards for Accounting and Review Services—2018*. We’ve also enhanced the discussion on the independence interpretation, *Hosting Services* (ET 1.295.143), effective for engagements as of July 1, 2019. These new professional standards are covered as appropriate in this edition of your *Guide*. We’ve also provided new information about standard-setting projects currently underway by the Auditing Standards Board (including several new SASs that are nearing completion), the Professional Ethics Executive Committee, ARSC, and the Peer Review Board.
- **AICPA Peer Review Program Manual Revisions.** The AICPA Peer Review Program Manual (PRPM) is a valuable source of information for designing and maintaining the firm’s quality control policies and procedures and understanding the peer review process. The PRPM has gone through several revisions since your *Guide* was last updated, most recently as of September 2018. Changes to the PRPM include update to the Peer Review Standards Interpretations (PRPM 2000), instructions to firms having a system review (PRPM 4100), revised engagement checklists, and more. We’ve provided information on changes to the PRPM that will affect your next peer review.

In addition to these featured items, your *Guide* includes the following update items detailed below:

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
GENERAL	1. Revised the phrase “accounting and auditing <i>manuals</i> ” to “accounting and auditing <i>materials</i> ,” to more closely align with terminology used by the AICPA Peer Review Standards and Interpretations.	Throughout
CHAPTER 1 Quality Control—An Overview	1. Updated the discussion on the AICPA’s Enhancing Audit Quality (EAQ) initiative for recent progress.	Paragraphs 102.15–.17

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 2 Leadership Responsibilities for Quality Within the Firm	1. Enhanced a bullet list to emphasize how firm leadership exhibits a focus on quality.	Paragraph 201.9
CHAPTER 3 Relevant Ethical Requirements	1. Clarified the need to appropriately document work performed in applying safeguards and concluding that identified threats have been mitigated.	Paragraph 301.13
	2. Noted the issuance of two new FAQs that discuss familiarity threat situations resulting from senior personnel being associated with attest engagements for a long period of time.	Paragraph 301.16
	3. Added information on new ethics interpretation, <i>Disclosing Client Information in Connection With a Quality Review</i> , which was effective when issued in December 2018.	Paragraph 301.53
	4. Added more information on a toolkit provided by the AICPA to assist in implementing the <i>Conceptual Framework for Independence</i> .	Paragraph 302.8
	5. Enhanced a discussion on the <i>period of professional engagement</i> .	Paragraph 302.12
	6. Referred to a Peer Reviewer Alert issued in 2018 that provides explanatory information about appropriate documentation related to providing nonattest services.	Paragraph 302.17
	7. Mentioned that the AICPA updated its nonattest services toolkit in 2018.	Paragraph 302.25
	8. Noted that the effective date of the <i>Hosting Services</i> interpretation was extended from September 1, 2018, to July 1, 2019.	Paragraph 302.27
	9. Updated a discussion on the status of the AICPA's project to revise the extant ethics interpretation, <i>Entities Included in State and Local Government Financial Statements</i> (ET 1.224.020).	Paragraph 302.28
	10. Updated for the status of the AICPA's project on its <i>Leases</i> interpretation (ET 1.260.040), which has been issued as a final interpretation and effective for fiscal years beginning after December 15, 2019.	Paragraph 302.30
	11. Added discussion about new revisions to the <i>Client Affiliates</i> interpretation (ET 1.224.010), effective as of December 2018.	Paragraph 302.31
	12. Added information on a new proposed ethics interpretation, <i>Staff Augmentation Arrangements</i> (ET 1.295.157), proposed in December 2018.	Paragraphs 302.33–35
	13. Enhanced discussion of the new <i>Hosting Services</i> interpretation.	Paragraphs 302.36–38
	14. Noted that the GAO has issued a revised 2018 Yellow Book, effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020.	Paragraph 302.43

	15. Referred to Peer Reviewer Alerts issued in 2018 that provide information about Yellow Book independence requirements and the effect on peer review.	Paragraph 302.45
	16. Added information on using the work of other accountants in a SSARS review engagement.	Paragraphs 302.54–.55
	17. Enhanced discussion of obtaining independence representations.	Paragraph 303.28
CHAPTER 5 Human Resources	1. Enhanced discussion on developing a formal internship program.	Paragraphs 501.7 and 501.11–.12
	2. Noted the issuance of a revised Yellow Book.	Paragraphs 503.10 and 504.11
	3. Added information about acquiring program materials approved by NASBA to use for firm group training.	Paragraph 504.40
	4. Added a discussion about using online resources as part of the firm’s professional library, and updated the discussion on maintaining the firm’s print-based library.	Paragraphs 504.43 and 504.45
CHAPTER 6 Engagement Performance	1. Updated the status of several SASs that the Auditing Standards Board has been working on: <i>Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA</i> and <i>Omnibus Statement on Auditing Standards—2019</i> have been issued as final balloted drafts; four exposure drafts that will affect the auditor’s report have been balloted for issuance as one combined SAS that will supersede existing AU-C sections and amend others; and <i>The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports</i> remains in exposure draft status. All the SASs are expected to be effective no earlier than for audits of financial statements for periods ending on or after December 15, 2020.	Paragraphs 601.13–.17
	2. Updated the discussion on audit documentation and peer review.	Paragraphs 601.30–.31
	3. Added a discussion about the recent peer review focus on audit risk assessment.	Paragraphs 601.33–.34
	4. Noted a new proposed SSAE, <i>Revisions to Statement on Standards for Attestation Engagements No. 18, Clarification and Codification</i> , and updated the status of proposed SSAE, <i>Selected Procedures</i> .	Paragraphs 601.41–.42
	5. Updated for the issuance of SSARS No. 24, <i>Omnibus Statement on Standards for Accounting and Review Services—2018</i> , which is generally effective for compilations and reviews of financial statements for periods ending on or after June 15, 2019.	Paragraph 601.47

	6. Clarified the discussion on considering firm size.	Paragraph 601.53
	7. Added information about the need for consultation when performing SSARS engagements.	Paragraph 602.16
	8. Enhanced the list of common issues and misconceptions related to performing an EQCR.	Paragraph 603.22
	9. Revised step 9 and removed the step to assist in drafting the financial statements from the audit engagements bridging document.	Exhibit 6-18
	10. Noted that QCM Reviews are expected be performed under the SSAEs in the future, instead of under the Peer Review Standards.	Paragraph 605.24
	11. Enhanced the discussion about users of third-party QCM being responsible for the reliability and suitability of purchased QCM, including the procedures suggested as appropriate to ensure those responsibilities are met.	Paragraphs 605.26–.27
CHAPTER 7 Monitoring	1. Clarified discussion of pre-issuance reviews to explain how and when such reviews could qualify as monitoring procedures.	Paragraphs 701.4–.5
	2. Enhanced the information about the AICPA's internal inspection practice aid.	Paragraph 702.27
	3. Enhanced the list of engagement selection criteria for monitoring purposes.	Paragraph 702.36
	4. Enhanced the information on taking appropriate remedial action when a QC system deficiency is noted.	Paragraph 703.6
CHAPTER 8 The Peer Review Process and Undergoing System Review	1. Updated the introductory discussion of the peer review process for current information.	Paragraphs 800.4–.7
	2. Added mention of a new AICPA Peer Review Board project to clarify the Peer Review Standards and Interpretations.	Paragraph 800.8
	3. Noted issuance of the 2018 Yellow Book.	Paragraphs 801.15 and 804.30 (footnotes)
	4. Updated the discussion on the AICPA's Enhancing Audit Quality initiative.	Paragraphs 801.21–.25
	5. Updated the discussion on state society involvement with the AICPA Peer Review Program.	Paragraph 803.13
	6. Revised various procedural discussions to reflect changed processes using PRIMA.	Paragraphs 804.9 (footnote) and 805.55
	7. Explained that additional time may be needed to find a qualified peer reviewer.	Paragraphs 804.14 and 804.21
	8. Mentioned the issuance of a special governmental peer reviewer alert.	Paragraph 805.22
	9. Added a discussion on the recent peer review focus on audit risk assessment.	Paragraphs 805.32–.34

	10. Updated the list of AICPA engagement peer review checklists.	Paragraphs 805.35–.36
	11. Explained that extra time spent by the review team addressing errors caused by the firm will generally increase the cost of the review.	Paragraph 805.81
PRACITICE AIDS		
Quality Control Maintenance Calendar	1. Enhanced the procedure on the firm library to encompass online resources and clarified the procedure on obtaining annual independence representations.	GQC-PA-1.3
Leadership Responsibilities for Quality Within the Firm Policy and Procedures Drafting Form	2. Streamlined the bullets in Procedure 1 to enhance clarity.	GQC-PA-2.1
Independence Questionnaire	3. Added Question 1f under Section B for revision to ET 1.224.010, which was effective when revised (December 2018).	GQC-PA-3.2
	4. Added Questions 6 and 7 under Section K for revision to ET 1.260.040, effective for fiscal years beginning after December 15, 2019.	GQC-PA-3.2
Independence Representation	5. Clarified the instructions to the form.	GQC-PA-3.3
Independence and Other Ethical Requirements Resolution Form	6. Changed the name of the form and clarified the instructions.	GQC-PA-3.5
Human Resources Policy and Procedures Drafting Form	7. Revised certain language in Procedure 8 in the “Professional Development” section.	GQC-PA-5.1
	8. Enhanced the descriptions of the personnel levels in the “Performance Evaluation, Compensation, and Advancement” section.	GQC-PA-5.1
Engagement Performance Bridging Document with QCM Described—Audit Engagements	9. Revised step 9 and removed the step to assist in drafting the financial statements from the audit engagements bridging document.	GQC-PA-11.2
Monitoring Policy and Procedures Drafting Form	10. Added an enhancement to Procedure 1 to further qualify individuals who may be selected as a member of the firm’s monitoring team.	GQC-PA-12.1
	11. Enhanced the list of engagement selection criteria in Procedure 2b.	GQC-PA-12.1
Monitoring Questionnaire to Identify Need for Revisions	12. Added Question 1e to Part B of the questionnaire.	GQC-PA-12.2

Inspection/Review Checklist—Firm with Two or More Professionals	13. Updated the accounting and auditing statistics breakdown under Section I.	GQC-PA-12.4
	14. Updated the instructions in Section III.	GQC-PA-12.4
	15. Added new Question 1 to Section V, specific for audit engagements, to capture new questions from the PRPM 20,400 audit engagement checklist used by peer reviewers.	GQC-PA-12.4
	16. Revised Questions 2b and 2e in Section V.	GQC-PA-12.4
Inspection/Review Checklist—Sole Practitioner with No Professional Staff	17. Updated the accounting and auditing statistics breakdown under Section I.	GQC-PA-12.5
	18. Updated the instructions in Section III.	GQC-PA-12.5
	19. Added new Question 1 in Section V, specific for audit engagements, to capture new questions from the PRPM 20,400 audit engagement checklist used by peer reviewers.	
	20. Revised Question 2b in Section V.	GQC-PA-12.5
General Audit Engagement Checklist (AICPA)	21. Replaced the PRPM engagement checklist (Section 20,400) with the most current version.	GQC-PA-12.9.1
Financial Reporting and Disclosure Checklist (AICPA)	22. Replaced the PRPM engagement checklist (Section 22,300) with the most current version.	GQC-PA-12.10.1
Annual Monitoring Communication Drafting Form	23. Updated the summary list of the firm’s accounting and auditing engagements and those reviewed.	GQC-PA-12.11
Example Model Quality Control Document—Local Firms	24. Modified the example model QC document based on changes made to the individual QC element drafting forms.	GQC-PA-13.1
Example Model Quality Control Document—Small Firms and Sole Practitioner Firms	25. Made changes like those at GQC-PA-13.1, consistent for the level of detail provided in each example model QC document.	GQC-PA-13.2– GQC-PA-13.4
Quality Control System Assessment—Firms with Two or More Professionals	26. Enhanced Question 5 and a PC in the Relevant Ethical Requirements section; updated a QCM-related PC at Question 7 and clarified Question 8a in the Engagement Performance section; clarified Question 4 in the Engagement Performance—Consultation and Differences of Opinion section; and added a PC to Question 2 in the Monitoring section.	GQC-PA-14.1
Quality Control System Assessment—Sole Practitioners with No Professional Staff	27. Updated a QCM-related PC at Question 4 and clarified Question 5a in the Engagement Performance section, and clarified Question 4 in the Engagement Performance—Consultation and Differences of Opinion section.	GQC-PA-14.2