

ER CASE #1

Clarified Peer Review Standards

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 20 minutes

SCENARIO A

You are the peer reviewer for firm A, a sole practitioner that performs the following:

- Five review engagements in accordance with AR-C Section 90
- Five compilation engagements with disclosures in accordance with AR-C Section 80
- Five preparation engagements without disclosures in accordance with AR-C Section 70

During the peer review, you note that the accountant's report for the review engagement did not contain section titles. In response, you document the instance of noncompliance on a matter for further consideration (MFC) form within PRIMA.

Question 1

Which of the following would never be an appropriate disposition for the matter noted?

- a) Discussed the matter with the firm
- b) Finding for Further Consideration (FFC)
- c) Deficiency included in the peer review report

Solution 1

Option a) "Discussed the matter with the firm" would not be an appropriate disposition for the matter noted. Paragraph .24 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, indicates that MFCs identified in an Engagement Review should either, depending on the severity, be included on an FFC form or included as a deficiency in the peer review report.

A review captain should still, according to paragraph .20 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, determine the relative importance of matters noted during the review. However, based on the definitions of a finding and a deficiency in the context of an Engagement Review, it was determined that the Disposition of MFC form (DMFC) should not indicate that a matter was only discussed with the firm. Or in other words, a matter that stayed only as a matter.

Paragraph .22 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, states "the review captain should document a finding on a finding for further consideration (FFC) form when the review captain concludes the submitted engagement was not performed or reported on in conformity with the requirements of the applicable standards."

Paragraph .23 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, states "the review captain should document a deficiency in the report when the review captain concludes at least one engagement submitted for review was not

performed or reported on in conformity with the requirements of the applicable standards in all material respects."

Question 2

Which of the following would likely be the appropriate disposition for the matter noted?

- a) Discussed the matter with the firm
- b) FFC
- c) Deficiency included in the peer review report

Solution 2

Option B. The review captain would likely indicate that the matter was included in an FFC form.

The October 2021 reviewer alert suggests that not including section headings in the accountant's report as required by the SSARSS does not necessarily indicate an engagement that is nonconforming for peer review purposes, as section headings have been required for a number of years, and a reasonably expected user may not be misled if the headings were missing.

As such, since the engagement would not likely be nonconforming on this instance of noncompliance, the review captain would then include the matter on an FFC form.

SCENARIO B

Assuming the same facts included in Scenario A, you, the peer reviewer, determine that the sole practitioner did not have a current individual license when each of the engagements selected for review were performed. In response, you document the instance of noncompliance on a matter for further consideration (MFC) form within PRIMA.

Question 1

Which of the following would likely be the appropriate disposition for the matter noted?

- a) FFC
- b) Deficiency included in the peer review report
- c) Significant deficiency included in the peer review report

Solution 1

Option B. The review captain should consider each engagement reviewed as nonconforming and include the issue as a deficiency in the peer review report.

Paragraph .11 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, states "if an individual with reporting responsibility does not have a current individual license to practice public accounting as required by state boards of accountancy, the review captain should consider the engagements reported on by that individual as not performed or reported on in conformity with applicable professional standards in all material respects (nonconforming)."

Paragraph .22 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, states "the review captain should document a deficiency in the report when the review captain concludes at least one engagement submitted for review was not performed or reported on in conformity with the requirements of the applicable standards in all material respects."

Question 2

What type of peer review report should the review captain issue in this scenario?

Solution 2

The review captain should issue a *fail* report in this scenario as each engagement selected for review would be considered nonconforming.

Item p in paragraph .33 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, states that a review captain should “in a report with a report rating of *fail* state that because of the deficiencies previously described [in the report], the review captain believes that all the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.”

It is important to note that even though all engagements selected for review were nonconforming, the peer review report still refers to the instance of noncompliance as a deficiency and not as a significant deficiency. Given that *fail* reports are issued when all engagements reviewed are nonconforming (or in other words “have deficiencies”), the concept of a “significant deficiency” was not considered necessary in an engagement review and was removed as a part of the clarified standards.

Question 3

Through what date should the review captain determine that the firm and its personnel are in compliance with licensure requirements?

Solution 3

Through the issuance dates of the reviewed engagements.

Paragraph .08 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, states “The review captain should determine if the firm and its personnel are in compliance with licensure requirements of the state boards of accountancy in which the firm and its personnel practice for the peer review year through the issuance dates of the reviewed engagements...”

It continues that the review captain should verify:

- The practice unit license (firm license) in the state in which the practice unit is domiciled (main office is located)
- Individual (personnel) licenses in the state in which the individual primarily practices public accounting for appropriate personnel on engagements selected

Finally, paragraph A2 of PR-C section 220, *General Principles and Responsibilities for Reviewers*, states “Acceptable documentation includes an original or copy of the license, print-out from an online license verification system, correspondence from the licensing authority, or other reasonable alternative documentation. The review captain’s judgment may be needed to determine what alternative documentation is reasonable.”

Question 4

Given the review captain will issue a non-pass peer review report, the firm will be required to furnish a letter of response. How should the letter of response be signed?

- a) With the firm’s name
- b) With the name of a partner of the firm

- c) No signature is required.

Solution 4

Option B, the firm's letter of response should be signed by member of the firm, and not in the firm's name.

Paragraph .A20 of PR-C section 320, *General Principles and Responsibilities for Reviewed Firms - Engagement Reviews*, contains an illustrative letter of response for firms receiving a non-pass report in an engagement review. The illustrative letter is signed by a “reviewed firm representative[s]” that are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control.

ER CASE #2

Revenue Recognition

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 10 minutes

SCENARIO A

You are the peer reviewer for firm XYZ, a sole practitioner that only performs one compilation with disclosures engagement. The compilation report was dated March 31, 2020 for the financial period ending December 31, 2019. During the course of your normal peer review procedures, it was determined that the client did not implement ASC 606, *Revenue Recognition*, and there was no evidence the standard was considered.

Question 1

Would this constitute a nonconforming engagement?

Solution 1

Yes. If the firm's client did not implement ASC 606 for financial statements when required and the reviewed firm did not perform any assessment related to its impact before the issuance of the financial statements, the engagement should be considered nonconforming. Even if it is determined after issuance (e.g., as a result of a peer review) the impact would have been immaterial, the engagement would still be considered nonconforming.

For non-public entities, ASC 606 was initially required for reporting periods beginning after December 15, 2018. In May 2020, the FASB delayed the effective date for annual reporting periods beginning after December 15, 2019 for entities that had not yet issued financial statements. Delaying implementation was optional.

The FASB's action resulted in a period of time when ASC 606 was required for entities with a reporting period beginning after December 15, 2018 that *issued financial statements* prior to the FASB decision on June 3, 2020.

SCENARIO B

You are the peer reviewer for firm XYZ, a sole practitioner that only performs one compilation with disclosures engagement. The compilation report was dated March 31, 2021 for the financial period ending December 31, 2020. The client did not implement ASC 606, however, it was evident from the firm's working papers that prior to the issuance of the related financial statements, it was determined the impact of the new standard would be immaterial.

Question 1

Would this constitute a nonconforming engagement?

Solution 1

Probably not. If the client did not implement (or partially implemented) the standard because it had determined the impact was immaterial, it is likely the engagement is conforming.

The reviewed firm should be able to provide evidence (in this case, the scenario states it is evident through review of the firm's working papers) of its consideration of the client's evaluation to the extent required by the relevant professional standards.

Since ASC 606 is a relatively new pronouncement, there are acceptable variations of application in practice. You should avoid basing a "no" answer on a personal preference; rather, you should identify unreasonable judgments that lack support under professional standards.

Note that AR-C Section 80.12 states "the accountant should obtain an understanding of the applicable financial reporting framework and the significant accounting policies intended to be used in the preparation of the financial statements."

Paragraph .13 states "The accountant should read the financial statements in light of the accountant's understanding of the applicable financial reporting framework and the significant accounting policies adopted by management and consider whether such financial statements appear to be appropriate in form and free from obvious material misstatements."

Finally, paragraph .40 states "The accountant should prepare documentation in connection with each compilation engagement in sufficient detail to provide a clear understanding of the work performed which, at a minimum, includes the following:

- a. The engagement letter or other suitable form of written documentation with management, as described in paragraphs .10–.11 (Ref: par. .A14 and .A16)
- b. A copy of the financial statements
- c. A copy of the accountant's report."

SCENARIO C

You are the peer reviewer for firm XYZ, a sole practitioner that only performs one compilation with disclosures engagement. The engagement had a report date of March 31, 2021 for the financial period ending December 31, 2020.

Question 1

On the engagement, the client properly considered ASC 606 and determined it would be material to the financial statements. As such, they implemented the standard, but lacked some of the required disclosures. Would this constitute a nonconforming engagement?

Solution 1

It depends. If the accounting treatment for ASC 606 is appropriate, and, in the reviewer's judgment, the missing disclosures are not material to the overall presentation of the financial statements, the reviewer could more than likely conclude the engagement is conforming. If, in the reviewer's judgment, the missing disclosures are material to the overall presentation of the financial statements, the reviewer should conclude the engagement is nonconforming.

As a reminder, you should consider an engagement's identified instances of noncompliance in the aggregate when concluding on whether an engagement should be considered nonconforming.

ER CASE #3

Considerations from PR-C Section 220, Appendix A

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 15 minutes

BACKGROUND INFORMATION

Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions; it is important to consider the specific facts and circumstances when determining the relative importance of items noted during the peer review.

Appendix A of PR-C section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*, titled “Examples of Noncompliance With Applicable Professional Standards” may be useful to the peer reviewer in deciding if the noncompliance is a matter, finding, or deficiency. While this is not an all-inclusive list, it may be helpful for consideration. For your reference, Appendix A has been included at the bottom of this case.

SCENARIO A

Question 1

During your review of the workpapers on a review engagement, you notice the expectations for the analytical procedures are not documented. The procedures are, at a minimum, a comparison year over year with no explanation of what is driving the changes nor why.

Solution 1

Participants should consider the following item listed under “**List of Matters and Findings That Generally Would Result in a Deficiency** – SSARSs Procedures (Including Documentation)”: For review engagements, failure to perform or document analytical and inquiry procedures, including the matters covered, and the development of and basis for the accountant’s expectations.

Based on this information, the impact on the peer review would likely be a deficiency. As a reminder, under the Clarified AICPA Standards for Performing and Reporting on Peer Reviews *fail* reports on engagement reviews will only identify “deficiencies” instead of the extant term “significant deficiencies.”

The type of report rating would then depend upon how many engagements contain deficiencies within the review.

Question 2

During your review of the financial statements on a review engagement, you notice that the statement of financial position title does not agree to the accountant’s report listing whereby it is referred to as balance sheet.

Solution 2

Participants should consider the following item listed under “**List of Matters and Findings That Generally Would Not Result in a Deficiency** – Presentation and Disclosure”: Financial statement titles that were inconsistent with the accountant’s report.

Based on this information provided and no other items identified, the impact on the peer review would likely not be a deficiency although professional judgment is key,

Question 3

During your review of the financial statements on a review engagement, you notice the current portion of long-term debt is not disclosed. After further investigation, you determine that a reader of the financial statements could be misled by this omission.

Solution 3

Participants should consider the following item listed under “**List of Matters and Findings That Generally Would Result in a Deficiency** – Presentation and Disclosure”: Misclassification of transactions or balances and omission of significant required disclosures related to financial statement balances on transactions.

Participants should consider the following item listed under “**List of Matters and Findings That Generally Would Result in a Deficiency** – Reports”: A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions.

The peer review impact of the current portion of long-term debt not being disclosed would more than likely depend on whether the balance is material to the financial statements.

If deemed material and as stated above the reader could be misled, the impact on the peer review would likely be a deficiency.

The type of report rating would then depend upon how many engagements contain deficiencies within the review.

Question 4

During your review of the financial statements on a review engagement, you notice that on the statement of cash flows, payment of cash dividends was inadvertently classified as investing activity vs. financing. Also, you note the depreciation footnote discloses the Company’s policy as 15-20 years when the workpapers say 5-10 years.

Solution 4

Participants should consider the following item listed under “**List of Matters and Findings That Generally Would Not Result in a Deficiency** – Presentation and Disclosure”: Misclassification of items on the statement of cash flows. (Refer to discussion points from question 2).

The peer review impact of the cash flow misclassification will more than likely depend on whether the balance is material to the financial statements. The financial statement impact of the depreciation footnote discrepancy would also depend on whether the item is, by itself, a deficiency.

All these items need to be evaluated in the aggregate to determine the peer review impact and professional judgment is key. The type of report rating would then depend upon how many engagements contain deficiencies within the review.

Appendix A — Examples of Noncompliance With Applicable Professional Standards

.A29 The following is a list of examples of noncompliance with applicable professional standards. This is not an all-inclusive list, and the reviewer should decide if the noncompliance is a matter, finding, or deficiency as described in paragraphs .20–.24 and by using the following guidance. (Ref: par. .20–.24 and .A7)

List of Matters and Findings That Generally Would Not Result in a Deficiency

Reports

- Omission of phrases or use of phrases not in conformity with the applicable professional standards for the report issued
- Compilation reports that failed to include the paragraph regarding the omission of supplemental information, as applicable in the circumstances
- Reports that reflected financial statement titles and terminology not in accordance with applicable professional standards
- Failure to explain the degree of responsibility the accountant is taking with respect to supplementary information

Financial Statement Measurement

- Types of revenues and expenses not presented and disclosed in accordance with applicable professional standards (for example, freight revenue and related shipping and handling expenses)
- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) that are properly reported on but contain inconsistencies between the report and the financial statements, where the actual basis is readily determinable

Presentation and Disclosure

- Supplementary information not clearly segregated or marked as supplementary and departures from standard report presentation with respect to supplementary information
- Reviewed financial statement presentation that is inappropriate for the type of not-for-profit organization being reported on
- Compiled financial statements prepared using a special purpose framework reflecting titles normally associated with financial statements prepared under GAAP when the applicable financial reporting framework is not clearly identified
- Failure to disclose the accounting policy related to advertising costs in the notes to the financial statements

- Omission of the disclosure of the method of income recognition as required by applicable professional standards
- Misclassification of items on the statement of cash flows
- Omitted or inadequate disclosures related to account balances or transactions (for example, disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long-term debt, related-party transactions, or concentrations of credit risk)
- Bank overdrafts not properly presented on the balance sheet, failure to accrue income taxes where the accrual and provision are not expected to be significant to the financial statements taken as a whole, and missing insignificant disclosures in the financial statements
- Financial statement titles that were inconsistent with the accountant's report

Statements on Standards for Accounting and Review Services Procedures (Including Documentation)

- The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of the applicable professional standards

List of Matters and Findings That Generally Would Result in a Deficiency

Reports

- Issuance of a review report when the accountant is not independent
- Inappropriate references to GAAP in the accountant's report when the financial statements were prepared using a special purpose framework
- Failure to disclose the lack of independence in a compilation report
- Failure to appropriately modify a report for a scope limitation or significant departure from the basis of accounting used for the financial statements
- Failure to adopt current applicable professional standards, or the accountant's report does not contain the critical elements of the current applicable professional standards
- Failure to disclose, in the accountant's report, significant departures from professional standards (examples include omission of significant income tax provisions on interim financial statements, omission of significant disclosures related to defined employee benefit plans, or omission of required supplemental information for a common-interest realty association)

- Failure to indicate on the accountant's report the periods covered by the report, and they cannot be determined from reading the financial statements
- Failure to include a separate paragraph for departures from the financial reporting framework, including dollar amounts or a statement that the impact was not determined
- A compilation report that fails to include all the reasons why the accountant is not independent when such reasons are presented (for example, the report provides only one of three reasons)
- A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions
- For a compilation engagement, failure to disclose the omission of substantially all disclosures or the statement of cash flows (if applicable) required by the applicable financial reporting framework
- For a compilation or review engagement performed in accordance with Statements on Standards for Accounting and Review Services (SSARs), failure to appropriately modify the report in accordance with professional standards, when the financial statements are prepared in accordance with a special purpose framework
- For preparation engagements, failure to issue a disclaimer report, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that "no assurance is provided"

Financial Statement Measurement

- Investments in marketable securities presented at cost and not fair market value, resulting in a material misstatement to the balance sheet
- Inclusion of material balances that are not appropriate for the basis of accounting used
- Failure to include material amounts or balances necessary for the basis of accounting used (examples include omission of accruals, failure to amortize a significant intangible asset, failure to provide for losses or doubtful accounts, or failure to provide for deferred income taxes)
- Improper accounting of a transaction (for example, recording a capital lease as an operating lease)
- Use of an inappropriate method of revenue recognition

Presentation and Disclosure

- Disclosure of omission of substantially all disclosures (in a compilation without disclosures) when, in fact, substantially all disclosures have been included
- Misclassification of transactions or balances and omission of significant required disclosures related to financial statement balances on transactions
- Failure to disclose that compiled financial statements that omit substantially all disclosures were prepared using a special purpose framework and the basis of accounting is not readily determinable from reading the accountant's compilation report
- For a preparation engagement, failure to include, either on the face of the financial statements or in a note to the financial statements, a description of the financial reporting framework when the financial statements have been prepared in accordance with a special purpose framework
- For a preparation engagement, failure to disclose the omission of substantially all disclosures or the statement of cash flows (if applicable) required by the applicable financial reporting framework
- For a preparation engagement, failure to disclose a material misstatement in the financial statements when the accountant prepares financial statements that contain a known departure or departures from the applicable financial reporting framework
- Significant departures from the financial statement formats prescribed by industry accounting and audit guides
- Omission of disclosures related to significant accounting policies applied (GAAP or special purpose framework)
- Failure to include a summary of significant assumptions in a financial forecast or projection
- Failure to segregate the statement of cash flows into the components of operating, investing, and financing
- Failure to disclose the cumulative effect of a change in accounting principles
- Failure to disclose significant related-party transactions
- Omission of actual financial statements that are referred to in the report
- Failure to include one or more statements of cash flows when comparative results of operations are presented in financial statements prepared in accordance with GAAP

SSARSs Procedures (Including Documentation)

- Failure to establish an understanding with management regarding the services to be performed through a written communication (for example, an engagement letter)
- Failure to document significant findings or issues
- Failure to document communications to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention
- For review engagements, failure to perform or document analytical and inquiry procedures, including the matters covered, and the development of and basis for the accountant's expectations
- For review engagements, failure to document significant unusual matters and their disposition
- For review engagements, failure to obtain a client management representation letter
- Failure to obtain all required signatures on the engagement letter (or other suitable written agreement)

ER CASE #4

Selecting Preparation Engagements

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 15 minutes

SCENARIO A

Tom Jones is the peer reviewer for the firm, Swan and Co. (the firm). Swan and Co. is a small firm with two partners, and one additional professional. Only the partners perform compilation and preparation engagements, and no other individuals are responsible for performing these engagements or issuing reports.

The Firm performs the following engagements:

	Partner 1	Partner 2
Compilations with disclosures	3	
Compilations without disclosures		17
Preparation engagements with disclosures	31	

Question 1

Based on the fact pattern above, would a preparation engagement be selected to meet the requirements for an engagement review?

Solution 1

No, a preparation would not be selected.

Engagement review selection guidance is located within paragraphs .12 - .14 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews*:

.12 The review captain should select the following: (Ref: par. .A4–.A5)

- a. One engagement from each of the following levels of service performed by the firm:
 - i. Reviews of financial statements (performed under SSARSs)
 - ii. Compilations of financial statements with disclosures (performed under SSARSs)
 - iii. Compilations of financial statements that omit substantially all disclosures (performed under SSARSs)
 - iv. Engagements performed under the SSAEs other than examinations
- b. One engagement from each engagement partner responsible for the issuance of reports listed in item (a).
- c. At least two engagements, unless only one is performed

.13 The review captain should select a preparation engagement only in the following instances:

- a. It is the only level of service performed by the engagement partner.

- b. It is the only engagement performed with disclosures.
- c. It is the only engagement performed without disclosures.
- d. Doing so is necessary to meet the minimum requirement of two engagements selected for review.

.14 The review captain should select only the number of engagements needed to meet the requirements in paragraphs .12 and .13.

Question 2

During the closing meeting, it is determined that the preparation engagements are *without disclosures* as Swan entered the information into their PRI incorrectly. Based on the updated facts, would a preparation engagement need to be selected to meet the requirements for an engagement review?

Solution 2

No, a preparation engagement would not be selected.

Again, based on the guidance located within paragraphs .12 - .14 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews*, requirements would be met by selecting a compilation with disclosures from Partner 1 and a compilation without disclosures from Partner 2.

SCENARIO B

Tom Jones is the peer reviewer for the firm, Swan and Co. (the firm). The firm has three partners and two staff. Only the partners perform compilation and preparation engagements; no other individuals are responsible for performing these engagements or issuing reports.

The firm performs the following engagements:

	Partner 1	Partner 2	Partner 3
Reviews (SSARS)	2	-	6
Compilations with disclosures	-	13	-
Compilations without disclosures	-	-	-
Preparations with disclosures	1	-	4
Preparations without disclosures	-	7	-

Question 1

Based on the fact pattern above, would Tom select any preparation engagements to obtain appropriate coverage on the engagement review?

Solution 1

Yes, in this case a preparation would be selected from Partner 2 as the firm has no other engagements that omit disclosures.

Engagement review selection guidance is located within paragraphs .12 - .14 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews* (included above at Scenario A).

Based on this guidance, the review captain should select the following:

- Partner 1 – Review engagement
- Partner 2 – Compilation with disclosures
- Partner 2 – Preparation without disclosures
- Partner 3 – Review engagement

Question 2

During an initial planning call, it is determined that the Partner 2's compilation engagements are *without* disclosures, as the firm entered the information into their PRI incorrectly. Based on the updated facts, would a preparation engagement need to be selected to meet the requirements for an engagement review?

Solution 2

No, a preparation would not be selected as all selection criteria would be met by selecting other engagements.

Engagement review selection guidance is located within paragraphs .12 - .14 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews* (included above at Scenario A).

SCENARIO C

Partner 1 left Swan and Co. and started his own firm. Tom Jones is performing the initial peer review for Partner 1's new firm.

Partner 1 performed the following engagements during the peer review year:

	Partner 1
Compilations with disclosures	3
Compilations without disclosures	41
Preparation engagements with disclosures	12

Question 1

What would be an appropriate engagement selection based on the chart above?

Solution 1

Based on the chart of engagements, Tom should select one compilation with disclosures and one compilation without disclosures.

Engagement review selection guidance is located within paragraphs .12 - .14 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews* (included above at Scenario A).

SCENARIO D

Consider each of the following questions independently.

Question 1

A sole practitioner performed three compilations with disclosures and two preparations without disclosures. What is an appropriate engagement selection?

Solution 1

One compilation with disclosures and one preparation without disclosures would be selected as paragraphs .12 - .14 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews*, requires an engagement without disclosures to be selected.

Question 2

A sole practitioner performed three compilations with disclosures and two preparations with disclosures. What is an appropriate engagement selection?

Solution 2

Two compilations would be selected based on the guidance in paragraphs .12 - .14 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews*.

Question 3

A sole practitioner performed one review, three compilations with disclosures, and two preparations without disclosures. What is an appropriate engagement selection?

Solution 3

The review engagement, one compilation engagement and one preparation engagement should be selected.

Question 4

A sole practitioner performed two preparations without disclosures and four AUP (agreed upon procedures) engagements. What is an appropriate engagement selection?

Solution 4

One preparation engagement and one AUP would be selected.

Paragraph .13 of PR-C 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews*, states: “The review captain should select a preparation only... [when] it is the only engagement performed without disclosures.”

By definition, an AUP engagement cannot omit disclosures as this is not a concept discussed by the SSAEs.

ER CASE #5

Evaluating Letters of Response

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 15 minutes

SCENARIO A

Alan Smithes and Associates, PLLC, underwent its first peer review due March 31, 2022, for the year ended September 30, 2021. Kevin McDixon is the review captain on the engagement review. Kevin received the engagement summary form and requested the selected engagements on January 24, 2022. Kevin completed the review, discussed the results with firm and dated the peer review report February 28, 2022, the same date as the exit conference. The working papers from the peer review were ultimately sent to the administering entity for acceptance on March 30, 2022.

Question 1

What date should be used on the firm's letter of response?

Solution 1

For engagement reviews, the letter of response should be dated as of the exit conference date. The letter of response should be dated February 28, 2022.

Paragraph .14d of PR-C section 320, *General Principles and Responsibilities for Reviewed Firms - Engagement Reviews*, states: The firm's responses on the FFCs and letter of response should (Ref: par. .A11-.A14) be dated as of the exit conference in a letter of response, if applicable.

Question 2

Who should sign the firm's letter of response?

Solution 2

The letter of response should be signed by an authorized partner of the firm, that is, an individual, not the firm.

Exhibit B, "Illustrative Examples of a Firm's Letter of Response," of PR-C section 320, *General Principles and Responsibilities for Reviewed Firms - Engagement Reviews*, shows that the letter of response should be signed by a "reviewed firm representative." Footnote 4 states that a "reviewed firm representative" is a member(s) of management described in paragraph .25 of PR-C section 200, *General Principles and Responsibilities for Reviewers*.

Paragraph .25 of PR-C section 200, *General Principles and Responsibilities for Reviewers* states: The captain should request written representations from members of management of the firm whom the captain believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. (Ref: par. .A33-.A34)

Question 3

Who should the letter of response be addressed to?

Solution 3

The letter of response should be addressed to the peer review committee of the administering entity.

When a firm's review is administered by the National Peer Review Committee the letter of response should be addressed "To the National Peer Review Committee."

Paragraph .14c of PR-C section 320, *General Principles and Responsibilities for Reviewed Firms - Engagement Reviews*, states: The firm's responses on the FFCs and the letter of response should (Ref: par. .A11-.A14) be addressed to the AE's peer review committee (committee) in a letter of response, if applicable.

When the review is administered by the National Peer Review Committee, footnote 1 to Exhibit B, "Illustrative Examples of a Firm's Letter of Response," of PR-C section 320, *General Principles and Responsibilities for Reviewed Firms - Engagement Reviews*, indicates "the response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: To the National Peer Review Committee."

Question 4

What is the review captain's responsibility related to the firm's letter of response?

Solution 4

It is the review captain's responsibility to review and evaluate the reviewed firm's letter of response prior to its submission to the administering entity. If the letter of response is not in accordance with standards or does not include appropriate remedial action, the review captain would likely request the firm make revisions prior to its submission to the administering entity to prevent any delays in acceptance.

Paragraph .27 of PR-C section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*, states: The review captain should review and evaluate the responses on the FFCs and letter of response prior to the exit conference. The review captain should consider the following: (Ref: par. .A14-.A15)

- a. The firm's response should include the firm's actions taken or planned to remediate the findings or deficiencies, including timing of the remediation, and additional procedures to ensure the findings or deficiencies are not repeated in the future.
- b. The firm's actions should be feasible, genuine, and comprehensive.
- c. If the firm has acted, the review captain should review documentation of actions taken and consider whether the actions are appropriate. (Ref: par. .A16)

Paragraph .A6 of PR-C section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*, states: Although it is ultimately the firm's responsibility, the review captain and firm may collaborate to determine what remediation is necessary in the circumstances.

SCENARIO B

You are the review captain on an engagement review and you have determined that a *pass with deficiencies* report rating is appropriate. You noted the following deficiencies in the peer review report:

"Deficiencies Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed

We noted the following deficiencies during our review:

1. On one review engagement of a manufacturing client, we noted that the accompanying accountant's report was not appropriately modified when the financial statements did not appropriately present or disclose matters in accordance with industry standards.
2. On another review engagement, we noted that the firm failed to obtain a management representation letter, and its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures."

The following is an excerpt from the firm's initial draft of their letter of response:

1. Going forward, we will
 - a. Have a pre-issuance review performed on the engagement by a partner not associated with the engagement to make sure that the accountant's report is appropriately modified when the financial statements depart from applicable professional standards.
 - b. Require that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation, including the matters covered in the accountant's inquiry and analytical procedures, is included in the working papers.

Question 1

What, if any, modifications would you suggest the firm make before submitting the review working papers to the administering entity?

Solution 1

While the firm's responses describe procedures to ensure the deficiencies are not repeated in the future, the firm's response does not specifically address the firm's actions taken or planned to remediate the deficiencies

- As a reminder, paragraph .14 of PR-C Section 320, *General Principles and Responsibilities for Reviewed Firms - Engagement Reviews*, states "The firm's responses on the FFCs and letter of response should (Ref: par. .A11-.A14)
- a. Include the firm's actions taken or planned to remediate the findings or deficiencies, including
 - i. timing of the remediation and
 - ii. additional procedures to ensure the finding or deficiency is not repeated in the future.
 - b. Be feasible, genuine, and comprehensive.
 - c. Be addressed to the AE's peer review committee (committee) in a letter of response.
 - d. Be dated as of the exit conference in a letter of response, if applicable.

- e. Be on firm letterhead in a letter of response, if applicable.

The review captain should review documentation of any action taken by the firm and consider whether the action is appropriate.

Reviewers are reminded that if the RAB is unable to accept the firm's letter of response it could delay the review's acceptance or affect the firm's cooperation with the Peer Review Program.

Question 2

Should the review captain instruct the reviewed firm to perform any omitted procedures in this situation?

Solution 2

No. While review captains should request a revised response if the firm's response does not meet the necessary requirements, reviewers should not require or instruct reviewed firms to perform omitted procedures, reissue accounting or auditing reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make.

Firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. However, the administering entity can require the reviewed firm to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review. The firm's response may affect other monitoring actions the administering entity's peer review committee may impose, including actions to verify that the reviewed firm adheres to the intentions indicated in its response.

Paragraph .19 of PR-C section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*, states: Review captains or AEs should not require firms to perform omitted procedures, reissue accounting reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make.

ER CASE #6

Nonconformity Based on Performance

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 10 minutes

SCENARIO A

The engagement review for Cardinal CPA commenced on May 18, 2022. Cardinal CPA is a one partner firm that performs two not-for-profit compilations with disclosures. The review captain reviewed both engagements.

The review captain created a matter as the following disclosures were missing on both engagements:

- Current assets and current liabilities
- The date through which management has evaluated transactions for subsequent events
- Restricted and unrestricted net assets
- Restricted cash
- Revenue recognition for customer contracts

The firm's response to the matter was as follows:

- These issues were caused by the professionals responsible for the compilation engagements not having the proper training in the NFP industry and not following the firm's policies and procedures to utilize the third-party disclosure checklist.
- Additionally, the partner did not obtain CPE in NFP engagements and did not perform an adequate pre-issuance review of the engagements.
- To ensure these discrepancies do not occur in the future, the partner and professional staff will obtain 8 hours of CPE in the NFP industry, and the partner will thoroughly review the third-party disclosure checklist prior to releasing the compilations.

The review captain concluded the missing disclosures were immaterial and by themselves did not render the engagements nonconforming. However, after consideration of the firm's response, he concluded the firm was not materially compliant with AR-C sec 80.12 regarding the accountant obtaining an understanding of the applicable financial reporting framework and the significant accounting policies to be used in the preparation of the financial statements. The review captain believes that obtaining base knowledge of the NFP industry is a key step in performance of a compilation engagement. Therefore, he concluded the compilations were not performed in compliance with standards in all material respects and included as a deficiency in the report.

The review captain's documentation for his conclusion referenced the following guidance:

- Paragraph .04 of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*, indicates the objective of the review captain is to evaluate whether the engagements submitted for review are **performed** and reported on in conformity with applicable professional standards in all material respects.

- This indicates that performance of an engagement is relevant and obtaining an understanding is part of performance.
- Paragraph .16 of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*, indicates the evaluation of each engagement should include consideration of the information related to the engagement obtained through the peer review including, but not limited to, engagement profile information and other **inquiries**.
 - This allows the reviewer to use inquiry to obtain the information needed to conclude about an engagement, such as understanding of the industry.
- Paragraph .28 of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*, indicates that the review captain should hold the exit conference after he has assessed whether the firm's responses to MFC, FFC, and deficiencies are appropriate and has considered any additional impact to the peer review results.
 - This allows the reviewer to consider the firm's response to the MFC in determining whether the engagements were performed and reported on in conformity with applicable professional standards in all material respects.
- Item n in Paragraph .33 of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*, indicates that a pass report is appropriate when **nothing** came to the review captain's attention that caused the review captain to believe that the engagements submitted for review were not **performed** and reported on in conformity with applicable professional standards in all material respects.
 - This indicates that reviewer should report about anything that caused them to believe the engagement is nonconforming.

Question 1

Did the review captain appropriately elevate the matters to a deficiency in the report? Why or why not?

Solution 1

No, evaluation of competency to perform an engagement is not included in the scope of an engagement review. Therefore, it cannot be the basis for determining that an engagement is not performed or reported on in conformity with applicable professional standards in all material respects.

As the reviewer concluded the missing disclosures were immaterial, the MFCs should only be elevated to an FFC.

Paragraph .17 of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*: For each engagement reviewed, the review captain should use peer review checklists and questionnaires to determine if

- a. The financial statements are fairly presented in accordance with generally accepted accounting principles in all material respects (or when applicable, with a special purpose framework) and
- b. The firm has performed and reported on the engagement in accordance with the SSARs or SSAEs in all material respects.

Paragraph .A25 of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*: Review of a firm's documentation or procedures related to its system of quality control is outside the scope of an engagement review. An engagement review does not include tests of the firm's administrative or personnel files,

interviews of selected firm personnel, or other procedures performed in a system review. Therefore, an engagement review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice.

Question 2

If the financial statements are not misleading or materially incorrect, what are examples of when a compilation is not **performed** in accordance with applicable professional standards in all material respects?

Solution 2

If the financial statements are not misleading or materially incorrect, it is difficult to conclude that the engagement is nonconforming. There are only four items listed as examples in paragraph .A29 of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*.

Appendix A – Examples of Noncompliance with Applicable Professional Standards (excerpt):

***List of Matters and Findings That Generally Would Result in a Deficiency
SSARSs Procedures (Including Documentation)***

- Failure to establish an understanding with management regarding the services to be performed through a written communication (for example, an engagement letter)
- Failure to document significant findings or issues
- Failure to document communications to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention
- Failure to obtain all required signatures on the engagement letter (or other suitable written agreement)

ER CASE #7

Engagement Reviews – Reviewer Independence

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 10 minutes

SCENARIO A

You are the peer reviewer for Finley, Leary, and Wallace, LLP, a small firm with various SSARS and SSAE engagements.

During Finley, Leary, and Wallace, LLP's most recent peer review (for the peer review year ended December 31, 2021), you identified a nonconforming review engagement due to lack of documentation.

Question 1

What would be a possible corrective action for the identified deficiency?

Solution 1

Any of the first four suggested corrective actions from paragraph .A15 of PR-C section 420, *Corrective Actions and Implementation Plans*, could be appropriate in this scenario. Those suggested corrective actions are to:

- Require members of the firm to take specified types and amounts of CPE.
- Require the firm to hire an outside party approved by the report acceptance body (RAB) to perform a pre-issuance or post-issuance review of certain types or portions of engagements.
- Require the firm to hire an outside party approved by the RAB to review the firm's remediation of nonconforming engagements.
- Require the firm to engage an outside party approved by the RAB to review the firm's completion of its intended remedial actions as outlined in its letter of response or to evaluate the appropriateness of alternative actions. Though not required, this is commonly performed by the review captain.

The nature of the identified deficiency would be considered by the RAB when determining which suggested corrective actions are appropriate in the circumstances. Exhibit B of PR-C section 420, *Corrective Actions and Implementation Plans*, outlines allowable corrective actions for engagement reviews.

Question 2

In response to the identified deficiency, the report acceptance body (RAB) assigned the following corrective action:

- Require the firm to hire an outside party approved by the report acceptance body (RAB) to perform a post-issuance review of the firm's next review engagement.

Finley, Leary, and Wallace, LLP would prefer for you to perform their post-issuance review. In this scenario, could you perform the firm's post-issuance review and also be independent to perform the firm's next peer review if the engagement has a period end of December 31, 2022?

Solution 2

Yes. A reviewer would be considered independent on a firm's next peer review if they perform a post-issuance review on an engagement with a year ending immediately after the current peer review year-end.

An important factor to consider is the year-end of the engagement, not necessarily when the post-issuance review is performed.

Question 3

Could you perform the firm's post-issuance review and also be independent to perform the firm's next peer review if the engagement has a period end of December 31, 2023?

Solution 3

No. A reviewer would not be considered independent if they perform a post-issuance review on an engagement with a year ending immediately preceding the firm's peer review year.

Again, an important factor to consider is the year-end of the engagement, not necessarily when the post-issuance review is performed.

Item f in paragraph .16 of PR-C section 200, *General Principles and Responsibilities for Reviewers*, states: "The reviewer's independence would be considered impaired [when] the reviewing firm performed the monitoring of the reviewed firm's accounting and auditing practice or pre- or post-issuance reviews of engagements with periods ending during (or, for financial forecasts, projections, or agreed-upon procedures engagements, report dates in) the year immediately preceding or during the peer review year."

ER CASE #8

Identifying Repeat Findings

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 15 minutes

SCENARIO A

Sara Phillips is performing the engagement review for Falls LLC (the Firm) for the peer review year ending 12/31/2021. Falls is a small firm in Iowa with only five professionals and one partner.

The prior peer review report contained two deficiencies as follows:

1. The firm did not include headings for the various sections in the report of its review engagement.
2. In aggregate, significant various disclosures were incomplete or missing (disclosure on the use of estimates was missing, disclosure of shares authorized and issued was not disclosed, the maturities of debt due in the next 5 years was not disclosed) on a compilation engagement.

On the current review, Sara selected one compilation with disclosures engagement and one review engagement.

During the review, Sara identified

- A deficiency on the compilation engagement related to disclosures on *Revenue Recognition and Revenue from Contracts with Customers* that were not made in accordance with professional standards.
- A finding that the firm did not include headings for the various sections in the report of the review engagement.

Question 1

Does the deficiency relating to the disclosures around *Revenue Recognition and Revenue from Contracts with Customers* represent a repeat deficiency?

Solution 1

The deficiency is not a repeat due to the disclosure noted being different than the incomplete or missing disclosures on the prior peer review.

The definition for a repeat finding or deficiency on an engagement review can be found in PR-C Section 100, *Concepts Common to All Peer Reviews*: “An engagement finding or deficiency that is the same as noted in the prior review.”

Application guidance within paragraph .A27 of AU-C Section 100, *Concepts Common to All Peer Reviews*, states the following:

“As an example, omitting the exact same disclosure in an engagement selected in the previous peer review and in an engagement selected in the current peer review would constitute a repeat finding or deficiency. Omitting one disclosure in an engagement selected in the previous peer review and omitting an entirely different disclosure in an

engagement selected in the current peer review would not constitute a repeat finding or deficiency.”

Question 2

Does the finding related to the missing section headings in the review engagement represent a repeat finding?

Solution 2

The finding is a repeat due as the issue is substantially the same. The fact that it was noted a deficiency on the previous review and as a finding in the current review is irrelevant in this determination.

While not the purpose of the conference case, reviewers are reminded of the October 2021 reviewer alert that discussed noncompliance with SAS Nos. 134 through 140 and SSARS No. 25. This reviewer alert also discussed noncompliance with SSARS No. 21 and represented a shift in philosophy regarding certain noncompliance from the Peer Review Board.

ER CASE #9

RAB Observation Comments

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated. Exhibit A – Illustrative Representation Letter of PR-C section 320, General Principles and Responsibilities for Reviewed Firms - Engagement Reviews, has been included at the end of this case as Attachment A.

Estimated Time to Complete: 10 minutes

SCENARIO A – Representation Letter

The following situations and questions all relate to items identified within various RAB meetings across administering entities (AEs). Selected excerpts of the representation letter have been presented below with the same errors as were presented to the RAB. Identify the item(s) for correction and explain why the material (as presented) is incorrect.

Situation 1

Review the following excerpt of a submitted representation letter:

We have provided to the review captain a list of all engagements with periods ending June 30, 2021, during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1® and SOC 2® engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SAs) or Government Auditing Standards, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under Public Company Accounting Oversight Board (PCAOB) standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm that, to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming

with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

*Sincerely,
Washington CPA, LLC*

Question 1

Identify what is incorrect with the above excerpt of the submitted representation letter.

Solution 1

Representation letters should be signed by individual members of management whom the review captain or the AE believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control. The representation letter should not be signed with the firm signature.

Additionally, the first paragraph of excerpt above typically does not have a date inserted for period year end (first sentence). This paragraph is ordinarily not modified when preparing the representation letter.

Exhibit A – Illustrative Representation Letter of PR-C section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*, provides guidance on the signature on the representation letter. Footnote 1 states the representation letter should be signed by members of management described in paragraph .10 of section 300, *General Principles and Responsibilities for Reviewed Firms*.

PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms*, states:

.10 Written representations should be provided to the captain on firm letterhead from members of management of the firm whom the captain or AE believes are responsible for and knowledgeable about, directly or through others in the firm, the matters covered in the representations, the firm, and its system of quality control.

SCENARIO B – Peer Review Report

Within each of the following questions, identify what **is incorrect** with the excerpt from the peer review report for an engagement review with deficiencies identified.

Question 1

Deficiencies Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed

We noted the following deficiencies during our review:

1. On a review engagement, we noted that the firm in its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures.

Solution 1

The peer review report and related deficiencies should be tailored for the correct number of deficiencies identified. Both wordings indicate multiple deficiencies were detected, yet only one is documented.

Within PR-C Section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*, the example peer review report as well as related footnotes will assist with correctly documenting deficiencies.

RABs are delaying acceptance and requiring revisions of peer review reports with inconsistencies in deficiencies (plural, singular etc.).

Question 2

Deficiencies Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed

We noted the following deficiencies during our review

1. During our review, we noted the firm did not modify its compilation report on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework. This deficiency was noted in the firm's previous peer reviews.
2. During our review of the firm's engagements to prepare financial statements, we noted the firm did not issue a disclaimer that made clear no assurance was provided on the financial statements and also did not indicate that no assurance was provided on each page of the financial statements.

Conclusion

Because of the deficiencies previously described, we concluded that the engagements submitted for review by Jefferson & Co. issued with periods ending during the year ended June 30, 2022, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *fail*.

Solution 2

The peer review report with a *fail* rating should be issued when all engagements submitted have been concluded to have deficiencies. Regarding the above, in the first sentence of the conclusion – the word “all” (i.e. – all of the engagements) is omitted.

RABs are delaying acceptance and requiring revisions of reports with inconsistencies in deficiencies (plural, singular etc.). When preparing peer review reports, ensure that all deficiencies are listed, all engagement are identified, and wording is utilized as noted within PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews*.

Attachment A: Illustrative Representation Letter

.A19 The following illustrative letter includes written representations that are required by paragraphs .16 and .17 of this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.

[Entity Letterhead]

[Date of the Report]

To [Name of Review Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

Management has fulfilled its responsibility for the design of and compliance with a system of quality control for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [no knowledge of][disclosed to you all known] situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements through the issuance dates of the reviewed engagements in each state in which it practices for the year under review.

We have provided to the review captain a list of all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1® and SOC 2® engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under Public Company Accounting Oversight Board (PCAOB) standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[*We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the Letter of Response (if applicable).*]

We have discussed significant issues from reports and communications from

regulatory, monitoring, and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm that, to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

Sincerely,

[*Name of Reviewed Firm Representative(s)*] ^{fn 1}

^{fn1} Firm representatives are members of management as described in paragraph .10 of section 300, *General Principles and Responsibilities for Reviewed Firms*.

ER CASE #10

Initial Peer Reviews

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 15 minutes

SCENARIO A

You have been engaged to perform an engagement review. The firm, Grant, Moore, and Nivens, LLP enrolled in the AICPA Peer Review Program on March 15, 2021, due to the issuance of the report of its first compilation of financial statements with disclosures, a homeowners' association. The compilation engagement has a period end of December 31, 2020, and the accountant's report was dated March 15, 2021. Since then, the firm has started performing reviews of financial statements and agreed-upon procedures engagements.

The following matrix is from the firm's enrollment form completed in PRIMA:

Industries and Practice Areas			
Industry	Response	Initial Engagement Period End Date	Initial Engagement Report Date
Compilations (w/ disclosures)	Performed	12/31/2020	3/15/2021
Reviews	Expect to Perform	12/31/2020	4/30/2021
Agreed-upon Procedures	Expect to Perform	12/31/2020	5/15/2021

Question 1

Based on the information provided, what should the firm's initial peer review year-end and due date be?

Solution 1

In this case, the firm's peer review year-end will likely be March 31, 2022, with a due date of September 30, 2022. The firm appropriately enrolled in the AICPA Peer Review Program on March 15, 2021, the report date of its initial engagement. The due date would then be September 30, 2022, which is approximately 18 months after March 15, 2021. The year-end would then be six months prior to that or March 31, 2022.

Paragraph .23 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "A firm should enroll in the program no later than the date the firm issues the report on its first engagement within the scope of the standards (enrollment date)."

Paragraph .24 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "The firm should consult with the peer reviewer to determine its initial peer review year. The administering entity should be consulted when the peer review year is not the 12-month period after the report date of the initial engagement. The following should be considered to determine the peer review year: (Ref: par. .A41)

- a. The firm's practice
- b. The year-ends of the firm's engagements
- c. The report dates of the firm's engagement
- d. The number and type of engagements to be encompassed in the review
- e. The requirements by any other organization for the firm to have a peer review (Ref: par. .A42)"

Paragraph .25 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "The firm's initial peer review due date should be within 18 months after the firm issues the report on its first engagement within the scope of the standards."

Paragraph .A41 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "Ordinarily, the initial peer review year is the 12-month period after the report date of the initial engagement performed by the firm within the scope of the standards."

Question 2

Would your answer to Question 1 change if the firm enrolled in the AICPA Peer Review Program on September 30, 2022?

Solution 2

In this case, the firm's peer review year-end will likely still be March 31, 2022; however, because the firm was late in enrolling, the initial peer review due date should be 90 days from the time it enrolled or December 31, 2022.

While the firm should have enrolled in March of 2021 and been provided a due date of September 30, 2022, the timing of the firm's enrollment precludes such a due date. However, the firm is only afforded 90 days to have the peer review submitted to the administering entity.

Paragraph .25 of PR-C Section 100, *Concepts Common to All Peer Reviews*, states that "The firm's initial peer review due date should be within 18 months after the firm issues the report on its first engagement within the scope of the standards."

Paragraph .26 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "If the firm fails to enroll by the due date described in paragraph .25, the initial peer review due date should be 90 days from the date the firm enrolled in the program."

SCENARIO B

It is April 1 and you are a review captain performing an engagement review. The firm, Lindstrom and Morgenstern, PA submitted enrollment information to its administering entity, on February 17, 2021, as it issued its first accountant's report, for a review of a not-for-profit entity. Since then, the firm has performed additional engagements that require a peer review.

The following matrix is from the firm's Enrollment Form:

Industries and Practice Areas			
Industry	Response	Initial Engagement Period End Date	Initial Engagement Report Date
Reviews	Performed	6/30/2020	2/17/2021
Compilations (w/ disclosures)	Performed	12/31/2020	5/31/2021
Compilations (w/o disclosures)	Performed	9/30/2020	3/18/2021
Preparations (w/o disclosures)	Performed	12/31/2020	3/1/2021

Question 1

Based on the information provided, what should the firm's initial peer review year-end and due date be?

Solution 1

In this case, the firm's peer review year-end will likely be February 28, 2022, with a due date of August 31, 2022. The firm appropriately enrolled in the AICPA Peer Review Program on February 17, 2021, the report date of its initial engagement. The due date would then be August 31, 2022, which is approximately 18 months after February 17, 2021. The year-end would then be six months prior to that or February 28, 2022.

Paragraph .23 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "A firm should enroll in the program no later than the date the firm issues the report on its first engagement within the scope of the standards (enrollment date)."

Paragraph .24 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "The firm should consult with the peer reviewer to determine its initial peer review year. The administering entity should be consulted when the peer review year is not the 12-month period after the report date of the initial engagement. The following should be considered to determine the peer review year: (Ref: par. .A41)

- a. The firm's practice
- b. The year-ends of the firm's engagements
- c. The report dates of the firm's engagement
- d. The number and type of engagements to be encompassed in the review
- e. The requirements by any other organization for the firm to have a peer review (Ref: par. .A42)"

Paragraph .25 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "The firm's initial peer review due date should be within 18 months after the firm issues the report on its first engagement within the scope of the standards."

Paragraph .A41 of PR-C section 100, *Concepts Common to All Peer Reviews*, states that "Ordinarily, the initial peer review year is the 12-month period after the report date of the initial engagement performed by the firm within the scope of the standards."

Question 2

Is the firm's initial engagement required to be among the selections for the peer review?

Solution 2

No, there is no peer review guidance that mandates that the firm's initial engagement be included in the engagement selections. The administering entity, team captain, and firm will consider the firm's practice, the year-ends of their engagements, the report dates of their engagements, and the number and type of engagements to be encompassed in the firm, in determining the appropriate peer review year.

The firm may also consult their state board of accountancy or other regulatory bodies to consider the impact on licensing or other requirements.

Paragraph .24 PR-C Section 100, *Concepts Common to All Peer Reviews*, states that "The firm should consult with the peer reviewer to determine its initial peer review year. The administering entity should be consulted when the peer review year is not the 12-month period after the report date of the initial engagement. The following should be considered to determine the peer review year: (Ref: par. .A41)

- a. The firm's practice
- b. The year-ends of the firm's engagements
- c. The report dates of the firm's engagement
- d. The number and type of engagements to be encompassed in the review,
- e. The requirements by any other organization for the firm to have a peer review (Ref: par. .A42)"

SCENARIO C

Murray, Knight, and Baxter, LLC (the firm) recently completed an engagement review with a peer review year end of December 31, 2018 (which was due on June 30, 2019). After the peer review, the firm performed an audit under *Government Auditing Standards* with a period end of June 30, 2020, and an audit report date of February 28, 2021. In addition, the firm performed an audit of a defined contribution (excluding 403(b)) plan with a period end of December 31, 2020, and an audit report date of October 14, 2021.

Question 1

Based on the initial audit information, what should the firm's peer review year-end and due date be for the firm's "step up" system review?

Solution 1

Ordinarily, the due date for the firm's system review would be December 31, 2021, (18 months from the year end date of the first audit report) with a peer review year-end of June 30, 2021. However, this year-end would exclude the June 30, 2020 audit under *Government Auditing Standards* from the scope of the peer review. To encompass both audits, the firm and peer reviewer could consult with the administering entity to discuss an alternative year-end, such as May 31, 2021, with

a due date of November 30, 2021, thereby including the Governmental and the ERISA audits

Paragraph .18 of PR-C section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*, states that “If, after the year-end of its engagement review, a firm performs an engagement requiring a system review, the reviewed firm should

- a. immediately notify the AE and
- b. undergo a system review.

The system review is due the earlier of 18 months from the year-end of the engagement (or, for financial forecasts and projections, 18 months from the date of the report) requiring a system review or by the firm’s next scheduled due date.”

Question 2

How would your answer to Question 1 change if the initial audit year-end is June 30, 2021?

Solution 2

The due date for the firm’s system review would ordinarily be June 30, 2022, with a peer review year end of December 31, 2021. In this case, the firm’s “next scheduled due date” is earlier than 18 months from the year-end of the applicable engagement.

Paragraph .18 of PR-C Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*, states that “If, after the year-end of its engagement review, a firm performs an engagement requiring a system review, the reviewed firm should

- a. immediately notify the AE and
- b. undergo a system review.

The system review is due the earlier of 18 months from the year-end of the engagement (or, for financial forecasts and projections, 18 months from the date of the report) requiring a system review or by the firm’s next scheduled due date.”

ER CASE #11

Alternating Reviews and Audits

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 15 minutes

SCENARIO A

Smith, LLC (the firm) is scheduling their peer review for the period of 7/1/2020 – 6/30/2021. The firm has historically had system reviews.

Between the 2018 and 2021 peer review year, the firm dropped all but one of its audit clients. This particular client alternates between requesting a review engagement in one year, with an audit engagement the next year. The firm performed an audit for the period ending 12/31/2019; a review for the period ending 12/31/2020 (included in peer review year) and is scheduled to perform an audit for the period ending 12/31/2021.

The firm's reviewer, Joe Sweeney, learned of the changes and is trying to advise the firm on whether an engagement review or system review is appropriate and if the audit would be in scope. Because the firm did not perform an audit during the peer review year, PRIMA is defaulting to an engagement review.

Smith's Current PRIMA Review Summary: Statements on Standards for Accounting and Review Services (SSARSs)

Reviews: 5

Compilations Omit Disclosures: 15

Preparations Omit Disclosures: 9

Question 1

Should the current peer review be an engagement review or system review? What guidance supports your decision?

Solution 1

Because the firm did not perform an audit engagement in the peer review year, an engagement review could be performed. However, the firm may elect to have a system review performed to avoid an accelerated peer review as explained in paragraphs .18 - .19 of PR-C 320, General Principles and Responsibilities for Reviewed Firms – Engagement Reviews.

.18 If, after the year-end of its engagement review, a firm performs an engagement requiring a system review, the reviewed firm should

- a. immediately notify the AE and
- b. undergo a system review.

The system review is due the earlier of 18 months from the year-end of the engagement (or, for financial forecasts and projections, 18 months from the date of the report) requiring a system review or by the firm's next scheduled due date.

.19 If the firm fails to immediately notify the AE of the performance of an engagement described in paragraph .18, the firm should participate in a system review with a peer review year-end that covers that engagement.

Question 2

If an engagement review is performed, what type of review and when would the next peer review be due – what guidance supports your decision?

Solution 2

If the firm chooses to have an engagement review, and then performs an audit with a period end date of 12/31/2021, a system review would be due 18 months from the audit period end date (June 30, 2023).

If the firm does not perform the audit engagement for this client and performs no other engagements that would require a system review, the firm's due date for its next peer review would be December 31, 2024 (three years and six months after the original 6/30/21 peer review year-end).

ER CASE #12

Selecting Engagements Outside the Peer Review Year

Consider each scenario separately related to engagement reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated.

Estimated Time to Complete: 15 minutes

SCENARIO A

You are the peer reviewer for the firm ABC LLP (the firm), a sole practitioner in the Northern Mariana Islands. The sole practitioner performs compilation engagements periodically (the firm may perform two compilation engagements in one year and none the next year).

For the firm's current peer review year (ending on December 31, 20X2), the firm was expecting to issue the accountant's report for a 12/31/X2 compilation engagement by May 31, 20X3.

However, the firm's client was delinquent in providing the necessary information so now the firm expects to issue the report by July 31, 20X3, after the due date of the firm's peer review. This engagement is the only engagement the firm performs.

Question 1

Based on the fact pattern above, how would you recommend the firm proceed?

Solution 1

In this scenario, since the accountant's report for the engagement will be issued within three months of the due date, the firm would benefit from requesting a brief extension. The subsequent review would still be on the normal three-year cycle. While likely not necessary in this scenario, you could also discuss with the reviewed firm and the administering entity about whether a year-end change would be beneficial for future peer reviews.

Question 2

Would your answer change if the firm stated that the accountant's report wouldn't likely be issued until 20X4?

Solution 2

In this scenario, since the engagement will not be issued within six months of the due date, you could consider reviewing a prior engagement depending on the year end of the engagement and tailor the report to accurately reflect the year-end of the engagement reviewed.

Additionally, you could discuss with the firm and administering entity about whether a year-end change would be appropriate. For example, if the firm had a 9/30/X1 year-end compilation, a peer review year-end of 8/31/X2 could be considered to include this compilation engagement.

The subsequent review would still be on the normal three-year cycle. Again, you could also discuss with the reviewed firm and the administering entity about whether a year-end change would be beneficial for future peer reviews.

SCENARIO B

You are also the peer reviewer for the firm DEF LLP (the firm) a two-partner firm in Guam. Both partners perform compilation engagements periodically; the firm may perform two compilation engagements in one year and none the next year).

For the firm's current peer review year (ending on December 31, 20X2), partner D was expecting to issue the accountant's report for a 12/31/X2 compilation engagement by May 31, 20X3. However, the firm's client was delinquent in providing the necessary information so now the firm expects to issue the report by July 31, 20X3, after the due date of the firm's peer review. This was the only compilation engagement partner D performed.

Partner E however, issued two compilation reports, both dated on September 1, 20X2 with periods ending on June 30, 20X2.

Question 1

Based on the fact pattern above, how would you recommend the firm proceed?

Solution 1

Since partner D expects to issue the report related to the compilation engagement within three months of the due date, you could recommend that the firm request a brief extension.

The subsequent review would still be on the normal three-year cycle. While likely not necessary in this scenario, you could also discuss with the reviewed firm and the administering entity about whether a year-end change would be beneficial for future peer reviews.

Question 2

Would your answer change if the partner D's accountant's report wouldn't likely be issued until 20X4?

Solution 2

In this scenario, since the engagement will not be issued within six months of the due date, you could consider reviewing a prior engagement. In this case, however, it would be likely that tailoring the peer review report wouldn't be necessary.

Additionally, you could discuss with the firm and administering entity about whether a year-end change would be appropriate. For example, if the firm had a 9/30/X1 year-end compilation, a peer review year-end of 8/31/X2 could be considered to include this compilation engagement.

The subsequent review would still be on the normal three-year cycle. Again, you could also discuss with the reviewed firm and the administering entity about whether a year-end change would be beneficial for future peer reviews.

SCENARIO C

You are the peer reviewer for firm GHI LLP, a sole practitioner in Maine. The sole practitioner performs monthly compilation engagements for his one A&A client.

For the firm's current peer review year (ending on December 31, 20X2), the firm performed monthly compilation engagements each month and continued to perform monthly compilation engagements for the first five months of 20X3. These five engagements were completed prior to the commencement of the peer review.

Question 1

Would it be appropriate to select an engagement performed in 20X3 given that they are more recently completed engagements?

Solution 1

No. You would still select to review engagement(s) with periods ending within the peer review period. Additionally, this scenario would not require any modifications to the peer reviewer's report.