

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

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

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

Question 2

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

Question 3

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

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.

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?

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?

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?

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.

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.

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.

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.

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?

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?

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?

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?

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?

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?

Question 2

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

Question 3

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

Question 4

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

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?

Question 2

Who should sign the firm's letter of response?

Question 3

Who should the letter of response be addressed to?

Question 4

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

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?

Question 2

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

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?

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?

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?

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?

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?

ER Case #8

Discussion Topic: Quality Management

Estimated time to complete: 20 minutes

Question 1

Based on the nature of an Engagement Review are you able to determine which System of Quality Control elements your peer review clients struggle with? If so, which elements do your clients struggle with the most?

- a. Leadership Responsibilities
- b. Relevant ethical requirements
- c. Acceptance and continuance
- d. Human resources
- e. Engagement performance
- f. Monitoring

Question 2

Do your peer review clients ever request assistance in developing or maintaining their system of quality control? If so, what elements do they typically ask for assistance?

Question 3

What sections of the Quality Control Standards create the most challenges for your own firm?

Examples of these challenges could be the development of appropriate policies, documentation of the results of the procedures or maintenance of existing policies to account for an evolving practice.

Question 4

Have you begun discussing the quality management standards at your own firm? What challenges do you envision your firm having with respect to implementing the quality management standards?

Question 5

Have you begun discussing the quality management standards with your peer review clients? What challenges do you envision your peer review clients having with respect to implementing the quality management standards?

Question 6

What resources related to the implementation of the system of quality management have you used, provided to peer review clients or believe should be developed or promoted?

ER CASE #9

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?

Question 2

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

ER CASE #10

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 (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 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.

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.

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*.

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 #11

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?

Question 2

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

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?

Question 2

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

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?

Question 2

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

ER CASE #12

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 (SSARs)

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?

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?

ER CASE #13

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?

Question 2

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

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?

Question 2

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

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?