

SR CASE #1

Clarified Peer Review Standards

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

Note for Conference Attendees: This case focuses solely on changes that impacted system reviews. If you are interested in changes that impact engagement reviews, you may access a similar conference case for engagement reviews that will be posted to the AICPA's peer review website shortly after the conclusion of the Peer Review Conference.

Estimated Time to Complete: 15 minutes

Question 1

What is the minimum percentage of peer review procedures that should be performed at the reviewed firm's offices?

- a) 0%
- b) 25%
- c) 50%
- d) 100%

Solution 1

The answer is option A. There is no requirement in the clarified peer review standards for any of the procedures in a peer review to be performed at the reviewed firm's offices.

The nature, timing and extent of peer review procedures in a system review, including whether to perform certain peer review procedures at the reviewed firm's offices, should be based, in part, on risks identified during the course of the peer review.

The previous standards (in effect for peer reviews commencing before May 1, 2022) stated that the majority of procedures performed in a System Review should be performed at the reviewed firm's offices. This requirement was not retained within the clarified peer review standards, effective for peer reviews commencing on or after May 1, 2022.

Question 2

What factors should a team captain consider when determining where peer review procedures should take place?

Solution 2

Discussion leaders are encouraged to have attendees brainstorm potential factors that could influence where peer review procedures are performed.

Attendees should also discuss best practices they have identified while performing remote peer reviews during the pandemic. Some best practices recently communicated by the peer review team include:

- Confirm that their peer review information in PRIMA accurately represents all engagements within the scope of their peer review that were performed during the peer review year.
- Block out time to ensure availability of pertinent staff during the review. In essence, pretend the peer reviewer is onsite conducting the review.
- Gain understanding of the technologies their peer reviewer will use, including portals to transmit files; teleconferencing platforms, such as Zoom; and collaboration software such as Microsoft Teams.
- Consider file security.

Question 3

How many surprise engagements are required to be selected?

- 0
- 1, but can be from any level of service
- 1, but only if the firm performs multiple audit engagements
- 1, but only if the firm performs must-select engagements

Solution 3

Option A. There is no requirement in the clarified peer review standards for the team captain to select a surprise engagement. However, based on the risks identified during the course of the peer review, the team captain may deem it appropriate.

Paragraph .A24 of PR-C section 210, *Concepts Common to All Peer Reviews*, states “The reviewer may request that the firm provide access to one of the reviewer’s selections (a surprise engagement) as soon as practical. The selection is ordinarily an audit engagement.”

Question 4

What factors should a team captain consider when determining the number of surprise engagements to select?

Solution 4

Discussion leaders are encouraged to have attendees brainstorm potential factors that could influence whether or not a surprise engagement is selected.

Question 5

When issuing 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?

- With the firm’s name
- With the name of a partner of the firm
- No signature is required.

Solution 5

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

Paragraph .A26 of PR-C section 310, *General Principles and Responsibilities for Reviewed Firms - System Reviews*, contains an illustrative letter of response for firms receiving a non-pass report in a system 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 as described in paragraph .10 of PR-C section 300, *General Principles and Responsibilities for Reviewed Firms*.

SR CASE #2

Risk Assessment Considerations

Consider each scenario separately related to system 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 firm XYZ, a sole practitioner that performs five audits for non-public companies and no other accounting and auditing engagements. You select one audit, and during your review of the engagement, you note that the firm did not evaluate the design and implementation of controls relevant to the audit. Instead, the sole practitioner informed you that since he did not intend on testing controls, his intent was to perform extensive substantive audit procedures, or in his words, "beat up the balance sheet"?

Question 1

Would this constitute a nonconforming engagement?

Solution 1

Yes. If the firm did not evaluate the design and implementation of controls relevant to the audit, the engagement should normally be considered nonconforming.

AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, states: "When obtaining an understanding of controls that are relevant to the audit, the auditor should evaluate the design of those controls and determine whether they have been implemented by performing procedures in addition to inquiry of the entity's personnel."

The April Reviewer Alert lists this situation as a specific example of an instance of noncompliance with the risk assessment standards that would normally lead to a nonconforming engagement.

Question 2

Assume the firm performed the other four audits similarly to the one you selected. Given your answer to Question 1, what would the peer review report rating likely be?

Solution 2

While the identified systemic cause would likely factor into the decision, the peer review report rating would likely be a non-pass peer review report.

Discussion leaders can poll attendees to see if they would be more likely to issue a pass with deficiencies or fail report.

Given the pervasiveness of the nonconformity, as all five engagements would in essence be nonconforming, it would be difficult to conclude that "the system of quality control for the accounting and auditing practice of the reviewed firm in effect for the year

ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects" (from paragraph .68 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*) which is the language from the opinion in a *pass* peer review report.

It is important to note that temporary guidance that had previously been included in pre-clarified peer review standards is no longer in effect. This temporary guidance often limited any identified noncompliance with the risk assessment standards to a finding even if all the engagements reviewed were non-conforming due to noncompliance with the risk assessment standards. The April Reviewer Alert reinforced that this is no longer in effect and that peer reviewers, technical reviewers and RABs should use judgment when assessing the impact of risk assessment nonconformity on the peer review report, including potential repeat deficiencies, as this nonconformity is no longer limited to just a finding.

SCENARIO B

You are the peer reviewer for firm XYZ, a sole practitioner that performs one audit for a non-public company. You select this audit and during your review of the engagement, you note that the firm did not identify any significant risks as part of the risk assessment procedures performed?

Question 1

Would this constitute a nonconforming engagement?

Solution 1

Yes. If the firm did not identify any significant risks during the course of the audit, the engagement should normally be considered nonconforming.

AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, states: "As part of the risk assessment...the auditor should determine whether any of the risks identified are, in the auditor's professional judgment, a significant risk."

The April Reviewer Alert lists this situation as a specific example of an instance of noncompliance with the risk assessment standards that would normally lead to a nonconforming engagement as virtually every audit, including audits of small- and medium-sized entities, has at least one significant risk.

This is due, in part, to the presumption that fraud risks exist in revenue recognition (paragraph .26 of AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*) and fraud risks are significant risks (paragraph .27 of AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*).

SCENARIO C

You are the peer reviewer for firm XYZ, a sole practitioner that performs one audit for a non-public company. You select this audit and during your review of the engagement, you note that the firm did not document its assessed risk for PP&E at the assertion level. The auditor documented its assessed risk at the assertion level for every other relevant assertion identified

during the audit. The peer reviewer noted that the firm inadvertently skipped the PP&E section of the relevant form when documenting its risk assessment procedures. The peer reviewer noted that the firm's procedures addressed all identified risks, had they been documented.

Question 1

Would this constitute a nonconforming engagement?

Solution 1

Probably not. While the firm is required to document their assessed risk at the relevant assertion level, the severity of the firm's noncompliance is not likely significant enough to rise to the level of "in all material respects" given the noncompliance was localized to a few relevant assertions.

AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, states: "The auditor should include in the audit documentation the identified and assessed risks of material misstatement at the financial statement level and at the relevant assertion level."

Paragraph .38 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, states "For each engagement reviewed, the reviewer should...determine whether the firm has performed and reported on the engagement in accordance with the requirements of the applicable professional standards in all material respects."

The April Reviewer Alert reinforced that peer reviewers, technical reviewers and RABs should use judgment to determine whether one or more identified instances of noncompliance with the risk assessment standards would cause an engagement to be nonconforming. This would be done in conjunction when assessing whether this likely "no" answer from the engagement checklist should be included on MFC and FFC forms.

Instructors should encourage attendees to share other instances of noncompliance with risk assessment they have seen while performing peer reviews and whether they identified the engagement as nonconforming.

SR CASE #3

Revenue Recognition

Consider each scenario separately related to system 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 audit for a non-public company. The audit report was dated March 31, 2020 for the financial period ending December 31, 2019. The client did not implement ASC 606, *Revenue from Contracts with Customers*, 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 should 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 audit for a non-public company. The audit 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 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.

SCENARIO C

You are the peer reviewer for firm XYZ, a sole practitioner that only performs one audit for a non-public company. The engagement had a report date of March 31, 2021 for the financial period ending December 31, 2020.

Question 1

On the audit, 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 peer review procedures in the aggregate.

SR CASE #4

Aggregation of Matters

Consider each scenario separately related to system 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

Tucker is a new team captain. He has come across some complex situations during his peer reviews and is wondering how best to proceed. Please consider each of the following scenarios and the questions he posed. How would you handle each scenario?

SCENARIO A

The team captain identified the following matters on a review engagement:

MFC #	MFC Description
1	The footnotes were missing the accounting policy for components of inventory.
2	The footnotes were missing documentation related to the adoption of ASC 606 but there was other evidence available that it was appropriately considered and immaterial.
3	The engagement letter was missing the section for management's responsibilities with respect to non-attest services performed by the firm.
4	The statement of cash flows started with operating income and not net income.
5	The report did not explain the degree of responsibility the accountant was taking with respect to supplementary information.

Each of the items on MFC #'s 1-5 are included in Appendix A – Examples of Noncompliance with Applicable Professional Standards of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews* as matters that would generally not result in a deficiency.

Question 1

How should the matters be aggregated?

- Even though each individual matter is immaterial, is it appropriate to aggregate the matters and identify the engagement as nonconforming?
- Should they be elevated to an FFC? If so, should all of the matters be elevated or just some?

Solution 1

Unless specifically addressed in peer review guidance, a reviewer should use judgment for concluding whether a matter identified results in nonconformity by itself or in aggregate with other matters. Considerations made when concluding about engagement nonconformity should be documented at the end of the engagement checklist or in the SRM. The conclusion about engagement

nonconformity is separate from the conclusion about whether the matter should be elevated to a finding or deficiency and is also based on the reviewer's judgment.

Nonconforming Conclusion

A reviewer should consider all matters identified on the engagement when determining if the engagement is nonconforming. This evaluation is done independently of the evaluation of whether it should be a matter, finding, or deficiency. The reviewer should document any consideration of any "No" answers and the impact on conformity in the conclusion section of the engagement checklist. Additional documentation may be provided in the SRM.

When reviewing engagements subject to the SSARs or SSAEs, team captains can always review Appendix A – Examples of Noncompliance with Applicable Professional Standards of PR-C section 220, *General Principles and Responsibilities for Reviewers - Engagement Reviews* to determine if the engagement should be considered nonconforming. This appendix, while designed for engagement reviews, includes examples of instances of noncompliance that wouldn't necessarily lead to a nonconforming engagement and those instances of noncompliance that would.

Systemic Conclusion

A reviewer should conclude about the relative importance of matters during the peer review separately from engagement nonconformity. A nonconforming engagement should be documented as an MFC but may or may not be elevated further. You can have a nonconforming engagement that stays as an MFC.

Guidance

PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*

.38 For each engagement reviewed, the reviewer should use peer review checklists and questionnaires to determine whether

- a. the financial statements are fairly presented in accordance with generally accepted accounting principles (GAAP) 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 requirements of the applicable professional standards in all material respects.

.41 At a minimum, a nonconforming engagement should be documented as a matter on a matter for further consideration (MFC) form.

.44 The reviewer should determine the relative importance of matters noted during the peer review, individually and in the aggregate. To determine if a matter should be elevated to a finding, deficiency, or significant deficiency, the reviewer should consider the matter's relative importance to the firm's system of quality control, taking into consideration the nature, systemic cause, pattern, or pervasiveness of it. (Ref: par. .A35-.A36)

Engagement Checklists

PRP Section 20,300, *General Review Engagement Checklist for Engagements Performed in Accordance with SSARs*

V. Conclusions (excerpt)

Based on the work performed, did anything come to your attention that caused you to believe that:

The firm did not perform the engagement in all material respects in accordance with SSARS

The review report was not appropriate in the circumstances?

The financial statements were not fairly presented in accordance with GAAP (or when applicable, special purpose framework) in all material respects and the review report was not approximately modified?

The documentation on this engagement does not evidence compliance with professional standards

PRP Section 20,400, *General Audit Engagement Checklist*

VII. Conclusions (excerpt)

Based on your review of the work performed, including other inquiries and observations, did anything come to your attention that caused you to believe that:

1f. although there is not a material error or omission in the performance, including documentation, of the engagement, there are numerous less significant issues that indicate the work was not thoroughly reviewed and the engagement was not properly supervised

2. Other than the preceding matters, was(were) there any other matter(s) that led you to conclude the engagement was not performed or reported on in conformity with applicable professional standards in all material respects?

SRM – Overall Findings and Conclusions

M. Provide any further information for the technical reviewer and/or RAB to assist in their evaluation of the peer review.

Question 2

Assume there is a 6th MFC related to the failure to document expectations for analytics. Would your answers change?

Solution 2

The PRB has determined that failure to document expectations for analytics on a review engagement would result in a nonconforming engagement. Therefore, the team captain does not need to consider whether the matters in aggregate result in nonconformity as that conclusion has already been drawn.

The team still needs to consider and document the consideration of the systemic cause of the matters. As with the previous question, **there is no requirement for an MFC to be elevated to at least an FFC in a system review.** A finding should not be created just because the engagement is nonconforming or because the team captain wants to be able to track it in the next peer review. The standards indicate the reviewer should

consider the matter's relative importance to the firm's system of quality control, taking into consideration the nature, systemic cause, pattern or pervasiveness of it.

SCENARIO B

The team captain identified the following matters:

MFC #	Engagement	MFC Description	FFC/Def #	Systemic Cause
1	Audit 1	Inherent and control risks were assessed at below maximum with no documentation on the rationale. Additionally control risks were reduced below the maximum without the testing of controls.	Deficiency 1	Insufficient CPE – No A&A training
2	Audit 1	No evidence of the implementation of ASC 606.	Deficiency 1	Insufficient CPE – No A&A training
3	Audit 1	Documentation did not cover all of the required elements of the communication to those charged with governance.	FFC 1	Insufficient CPE – No A&A training
4	Audit 1	Inadequate documentation of sampling methodology.	FFC1	Insufficient CPE – No A&A training

Question 1

How should the matters be aggregated?

- The matters are aggregated by materiality. Is that appropriate?
- If all the matters have the same systemic cause, does the severity of the matters impact whether they should be elevated to a deficiency?
- If MFCs 3 and 4 were related to a different audit, Audit 2, would that change your answer?

Solution 1

Unless specifically addressed in peer review guidance, a reviewer should use judgment for determining the relative importance of matters, both individually and in the aggregate to the firm's system of quality control. Considerations made in this conclusion should be documented in the SRM. Generally, all matters with the same systemic cause should be aggregated together as one finding or deficiency.

In this example, all of the matters were determined to have the same systemic cause and the team captain had concluded that a deficiency exists. Therefore, the matters should be aggregated and reported together as one deficiency in the report. The individual MFC impacts on engagement nonconformity should not be the focus when concluding on the system. The solution would be the same even if these MFCs related to different engagements – the focus is on the system of quality control and the team captain determined that at least one of the matters resulted in a deficiency.

Please note that while a singular systemic cause was chosen for this particular case, reviewers may find in practice that several issues with a firm's system of quality control are associated with engagement issues as described in the scenario. For example, a peer reviewer may note the firm provides insufficient CPE and fails to use current practice aids.

Guidance

PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*

.50 To conclude on the results of a peer review, the reviewer should aggregate the matters documented during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures.

.51 To determine the relative importance of matters, both individually and in the aggregate, to the firm's system of quality control, the reviewer should consider each matter's

- a. nature (characteristics),
- b. systemic cause (what went wrong with the firm's system of quality control),
- c. pattern (repeated), and
- d. pervasiveness (whether it is found throughout the firm's system of quality control).

When the firm has responded to matters, the team captain should consider if the response is appropriate and if the response indicates additional impacts to the peer review conclusions. Additionally, the reviewer should evaluate each matter in the context of the firm's size, organizational structure, and the nature of its practice. The relative importance of peer review matters to the firm's system of quality control will determine the impact to the peer review conclusions. In rare circumstances in which it is not practicable to identify the systemic cause, the team captain should document the reason or reasons as part of the Summary Review Memorandum and on the related MFC form. (Ref: par. .A44–.A48)

.54 The team captain should document a deficiency in the report when the reviewer has concluded the firm would not have reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in one or more important respects due to the relative importance of the matter to the reviewed firm's system of quality control or compliance with it, taking into consideration the nature, systemic causes, pattern, or pervasiveness of the matter.

.A47 Variances in individual performance and professional interpretation may affect the degree of compliance with a firm's system of quality control. However, the degree of compliance with the firm's quality control policies and procedures needs to be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Question 2

The team captain believes that MFCs 3 and 4 may have also been caused by insufficient partner review. Can there be multiple systemic causes driving nonconformity on one engagement?

- Is it likely that insufficient partner review is the systemic cause for MFC 3 and 4 (the more minor issues), or would it make sense that lack of A&A training drove all of these issues, regardless of severity?
- If you determined all should be elevated to the report as a deficiency, how would you incorporate multiple systemic causes?

Solution 2

Yes, there may be multiple systemic causes that led to the matters identified. The team captain should work with the firm to determine the appropriate systemic cause(s) and evaluate the relative importance of each one. Guidance does not specifically state whether those systemic cause should be included in one deficiency describing the engagement issues that resulted from them or whether they should be included as separate deficiencies. The team captain should use judgment to determine which approach provides a clear understanding of the deficiencies identified.

Guidance

PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*

.45 The reviewer should discuss and determine in concurrence with the firm the systemic cause of matters identified. (Ref: par. .A37–.A40)

.52 The reviewer should consider the interrelationships among the elements of quality control and weigh the matters against compensating policies and procedures to determine the impact to the peer review conclusions.

.A38 The "no" answers identified when completing peer review checklists for the review and testing of quality control policies and procedures are a helpful resource for reviewers to assess the systemic cause.

.A39 Separate matters that are exactly the same may result from different weaknesses in the firm's system of quality control. Likewise, separate matters that are different may result from the same weakness in the firm's system of quality control.

SCENARIO C

The team captain identified the following matters:

MFC #	Engagement	MFC Description	FFC/Def #	Systemic Cause
1	Audit 1 Audit 2 Review 1 Comp 1	On 4 engagements reviewed, there was no evidence of the implementation of ASC 606.	Deficiency 1	Insufficient CPE – No A&A training
2	Audit 1 Audit 2 SOC 1	On audit 1, there was insufficient documentation to	FFC 1	Insufficient partner review

	<p>Review 1 AUP 1</p> <p>support tests of existence of inventory.</p> <p>On audit 2, the income tax disclosure did not agree to financial statements. Reconciling items between income tax expense and federal income tax was not disclosed.</p> <p>On the SOC, the report didn't describe all service organization and subservice controls.</p> <p>On the review, the report did not refer to all periods presented.</p> <p>On the AUP, the engagement letter was missing certain elements.</p>		
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Question 1

Was it appropriate to aggregate matters in the manner above? Should they have been separated by the type of matter, e.g., reporting, disclosure or performance related items?

Solution 1

Yes, individual engagement issues may be aggregated to a single MFC based on systemic cause. They do not have to be grouped by “type” of matter as the systemic cause is what will drive whether they are elevated further.

Guidance

PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*

.A39 Separate matters that are exactly the same may result from different weaknesses in the firm's system of quality control. Likewise, separate matters that are different may result from the same weakness in the firm's system of quality control.

SR CASE #5

Repeat Findings and Deficiencies

Consider each scenario separately related to system 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

The firm's system of quality control requires audit documentation to be in accordance with applicable professional standards. In the prior peer review, the review team identified a finding related to risk assessment where the systemic cause was insufficient engagement partner review for documentation of risk assessment. As a result, the firm did not adequately document risk at the assertion level on all audit engagements reviewed. During the current peer review, the firm's documentation did not include the linkage between risk assessment and procedures performed. The underlying cause was determined to be insufficient detail and final review of the working papers by the engagement partner as required by firm policy. This occurred on an audit of an investment company which was deemed nonconforming.

Question 1

Does this situation result in a repeat finding?

Solution 1

Very likely. In a system review, a repeat finding is a finding identified during the current review that has the same systemic cause identified in the prior review's finding for further consideration (FFC) forms or report.

Even though the issues giving rise to the FFC forms are different, because the systemic cause to both is insufficient review of the working papers by the engagement partner, this would likely, depending on the reviewer's assessment of the firm's response to the prior issue, be considered a repeat finding in the current peer review.

Paragraph .57 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, states: "When the same systemic cause identified in the prior review is also identified in the current review, the reviewer should determine if a repeat finding, deficiency, or significant deficiency exists. To make this determination, the reviewer should review the results of the reviewer's planning procedures to determine if the firm implemented the planned actions documented in the prior review's FFC forms or letter of response, as applicable. If the actions were implemented, the reviewer should

- a. consider if the actions taken were appropriate to remediate the weakness in the firm's system of quality control, and
- b. reconsider if the same weakness from the prior review is causing the current finding, deficiency, or significant deficiency."

Paragraph.58 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, states: "If a repeat finding, deficiency, or significant

deficiency is identified, it should be documented as such in the FFC form or report, as applicable.”

Question 2

What would be an appropriate implementation plan in this scenario?

Solution 2

The allowable implementation plans for repeat findings in a system review with a nonconforming engagement are:

- Require members of the firm to take specified types and amounts of CPE.
- Require the firm to hire an outside party approved by the 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 a nonconforming engagements.
- Require the firm to hire an outside party approved by the RAB to review the firm’s completion of its intended remedial actions outlined in its response on the finding for further consideration (FFC) form or to evaluate the appropriateness of alternative actions.
- Require the firm to hire an outside party approved by the RAB to review the firm’s internal monitoring or inspection report.

The decision to recommend an implementation plan and what actions or procedures are appropriate is a matter of professional judgement that each peer review team makes, factoring the severity of the non-compliance and its related systemic cause. Selection of an allowable implementation plan may also be affected by any prior corrective actions or implementation plans from the firm’s previous review, if applicable. In the case of less severe instances of non-compliance, completion of CPE may be required.

Peer reviewers are encouraged to discuss with firms the possible implementation plans and the possibility of incorporating these actions into their response to the finding.

Paragraph .07 of PR-C section 420, *Corrective Actions and Implementation Plans*, states: “The decision to require corrective actions or implementation plans should include

- a. considering the nature and significance of the findings, deficiencies, or significant deficiencies;
- b. evaluating whether the firm’s actions taken or planned to remediate nonconforming engagements, if applicable, appear comprehensive, genuine, and feasible; and
- c. considering any actions the reviewed firm has already taken that were reviewed by the reviewer prior to RAB evaluation.”

Exhibit C, “Allowable Implementation Plans: System Reviews,” of PR-C section 420, *Corrective Actions and Implementation Plans*, notes when there are nonconforming engagements and repeat findings in any industry the implementation plan would be one or more of the following:

- 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 a nonconforming engagements.
- Require the firm to hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions outlined in its response on the finding for further consideration (FFC) form or to evaluate the appropriateness of alternative actions.
- Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report.

Question 3

Would your answer to Question 2 change if the engagements were not deemed nonconforming?

Solution 3

When an implementation plan is in response to a repeat finding and the engagement was not deemed to be nonconforming the RAB is limited in the types of implementation plans that could be assigned. In this instance, the RAB may require completion of CPE and/or review of the firm's internal monitoring or inspection report by an outside party approved by the RAB.

Exhibit C, "Allowable Implementation Plans: System Reviews," of PR-C section 420, *Corrective Actions and Implementation Plans*, notes when engagements indicate repeat findings the implementation plan would be one or more of the following:

- Require members of the firm to take specified types and amounts of CPE.
- Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report.

SCENARIO B

Assume the same circumstances as Scenario A, except the insufficient detail and final review of the working papers by the engagement partner is elevated to a deficiency during the current peer review.

Question 1

Does this situation result in a repeat finding or deficiency?

Solution 1

Yes. As the deficiency was caused by the same system of quality control weakness (i.e., systemic cause) noted on a FFC form in the prior review, it would be considered a repeat deficiency.

Paragraph .11 of PR-C section 100, *Concepts Common to All Peer Reviews*, defines repeat finding, deficiency, or significant deficiency (system reviews) as the following: "A finding, deficiency, or significant deficiency identified during the current review that has

the same systemic cause identified in the prior review's FFC forms or report. (Ref: par. .A26)"

Paragraph .A26 of PR-C section 100, *Concepts Common to All Peer Reviews*, states: "The words used to describe the systemic cause are not indicative of whether it is a repeat finding, deficiency, or significant deficiency, and professional judgment will be used to conclude whether the systemic cause is repeated."

Question 2

If a repeat deficiency is identified, what, if any, impact is there on the report?

Solution 2

If a repeat deficiency is identified, it should be stated in the current report "this deficiency was noted on previous reviews."

Paragraph .68 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, states: "The written report in a system review should (Ref: par. .A63)

- r. in a report with a peer review rating of *pass with deficiencies* or *fail*,
- ii. if there are repeat deficiencies or significant deficiencies, state that the deficiency or significant deficiency was noted in the firm's previous peer review. This should be determined based on the systemic cause of the deficiencies or significant deficiencies. (Ref: par. .A65)"

Paragraph .A65 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, states: "If there are repeat deficiencies that have occurred on prior consecutive reviews, the captain should state in the current report that "this deficiency was noted on previous reviews."

SCENARIO C

In the prior peer review, the review team identified the financial statements for several employee benefit plan (EBP) engagements did not include all the reporting language required by professional standards. The review team determined that although a partner performed pre-issuance reviews on the EBP engagements, the review was not thorough enough in scope to avoid reporting deficiencies. The review team elevated this matter to a deficiency and the systemic cause was determined to be the firm's quality control policies and procedures do not require use of a reporting checklist or other method that would help ensure the pre-issuance reviews would be performed comprehensively. In response, the firm updated its quality control policies and procedures to require use of reporting checklists contained in the firm's practice aids.

In the current peer review, the review team identified the auditor's reports were not presented in accordance with professional standards, specifically the auditor's opinion, management's assertions, and system description, on the SOC 1® and SOC 2® engagements. The review team elevated this matter to a deficiency and the systemic cause was determined to be the pre-issuance reviews were not being performed on SOC engagements.

Question 1

Does this situation result in a repeat deficiency?

Solution 1

No. In a system review a repeat is a deficiency or significant deficiency noted during the current review that was caused by the same system of quality control weakness noted in the prior review's report.

The current peer review deficiency is a compliance deficiency while the prior peer review deficiency was a design deficiency. Accordingly, it would not be deemed a repeat even though both systemic causes are related to the firm's system of quality control for pre-issuance review and resulted in reporting deficiencies.

Paragraph .11 of PR-C section 100, *Concepts Common to All Peer Reviews*, defines repeat finding, deficiency, or significant deficiency (system reviews) as the following: "A finding, deficiency, or significant deficiency identified during the current review that has the same systemic cause identified in the prior review's FFC forms or report. (Ref: par. .A26)"

Paragraph .A26 of PR-C section 100, *Concepts Common to All Peer Reviews*, states: "The words used to describe the systemic cause are not indicative of whether it is a repeat finding, deficiency, or significant deficiency, and professional judgment will be used to conclude whether the systemic cause is repeated."

SR CASE #6

Reviewer Independence

Consider each scenario separately related to system 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 firm with a large, diverse A&A practice that includes multiple types of ERISA engagements, SOC 1® and SOC 2® engagements, and various engagements performed under the SSARSSs.

During Finley, Leary, and Wallace, LLP's most recent peer review (for the peer review year ended December 31, 2021), you identified a nonconforming defined contribution plan, and a repeat finding in the area of documentation from that same engagement.

Question 1

What would be an allowable implementation plan for the repeat finding that was identified in a nonconforming must-select engagement?

Solution 1

Paragraph .A16 of PR-C section 420, *Corrective Actions and Implementation Plans*, states the following implementation plans are all allowable for findings associated with identified nonconforming engagements:

- 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 hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions outlined in its response on the finding for further consideration (FFC) form or to evaluate the appropriateness of alternative actions.
- Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report.

Exhibit C of PR-C section 420, *Corrective Actions and Implementation Plans*, outlines allowable implementation plans for system reviews. Each of the items listed above are allowable implementation plans when there is a nonconforming engagement and initial findings in a must-select industry or repeat findings specific to any industry.

Question 2

In response to the identified nonconforming engagement that represents a repeat finding, the report acceptance body (RAB) assigned the following implementation plans:

- Require all members of the firm that work on EBP engagements take the eight-hour AICPA course titled “Documenting your EBP Audit: What you need to know”.
- Require the firm to hire an outside party approved by the RAB to perform a post-issuance review of the firm’s next defined contribution EBP 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 (for the year ended December 31, 2024) 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 (for the year ended December 31, 2024) 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.”

SR CASE #7

Summary Review Memorandum

Consider each scenario separately related to system 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

Note for Discussion Leaders: The following scenarios were taken from reviewer feedback forms over the past two years (2020-2022) related to SRM completion. The most frequently identified edits/feedback sections are included below. These scenarios do not represent an all-inclusive presentation of the SRM.

SCENARIO A – Composition of the Review Team (4804)

Composition of Review Team

- A. Identify the members of the review team (including the team captain) who reviewed the following engagements, if applicable:
- Audits Subject to the Single Audit Act:

 - Other Audits Subject to *Government Auditing Standards* (GAS):

 - Employee Benefit Plan Audits Subject to ERISA:

 - FDICIA Audits of Federally Insured Depository Institutions:

 - System and Organization Control (SOC) engagements:

 - Other team members not identified above, who:
 - reviewed engagements, or
 - were used to determine whether an engagement from a must-cover industry should be selected for review:

All team members listed above are required to be approved by the AE in PRIMA.

Have you determined that all team members possess the necessary qualifications set forth in the standards to perform the review, including additional qualifications which apply to the team members assigned to review certain must-select engagements, for example peer review must-select training? Yes No

Question 1

Give examples of how the above section of the SRM should be completed.

Solution 1

Each individual type of engagement is expected to have the name of the appropriate reviewer(s) that matches team member(s) identified in PRIMA. Not only are the reviewers approved in PRIMA, but they also should be qualified to review the specific type of engagement. For example: team members identified as reviewing SOC engagements should have either SOC specialist denoted on the member information tab in PRIMA, or SOC work listed within his / her resume tab in PRIMA.

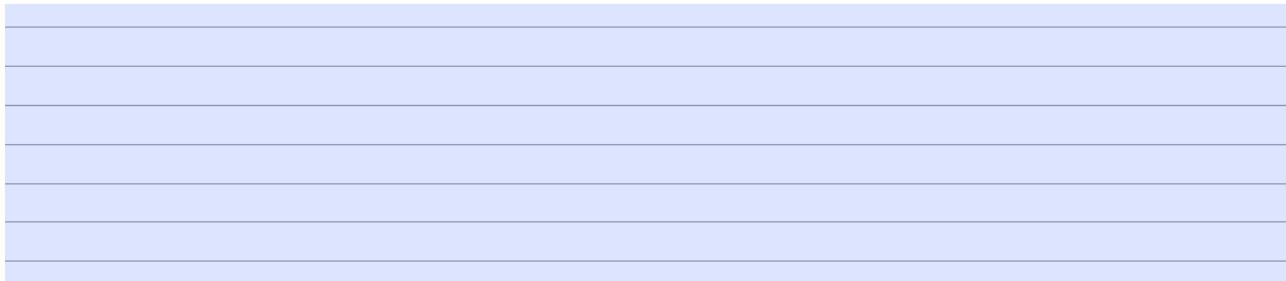
Any changes to the team members subsequent to initial approval of the PRIMA scheduling (SCH) case should be reflected both in PRIMA and in this section of the SRM.

Feedback identified in this section included the following:

- The section was left incomplete
- The section referenced PRIMA for information
- The information listed did not match that information within PRIMA

SCENARIO B – Other Planning (4805)

- B. If the firm was previously reviewed, read the prior report, any findings on FFC forms, and the firm's letter of response, if applicable. Discuss the applicable items with the firm and document the following:
- Summary of the actions taken by the firm in response to any findings, deficiencies, or significant deficiencies
 - Evaluation of whether the actions taken addressed the systemic cause of the finding, deficiency, or significant deficiency
 - If the firm did not perform the actions documented in its prior review responses, evaluation of whether sufficient alternative procedures were performed; if not, evaluation of whether there are deficiencies in the firm's system of quality control such as leadership responsibilities for quality within the firm (tone at the top)
 - Consideration of whether such matters require additional emphasis in the current review and how that will be done



Question 1

Provide an example of what should be included within the above section of the SRM to be comprehensive and inclusive of all points required.

Solution 1

While specific answers may vary, the key is for all information to be included; each of the four bullet points listed in the question should be addressed. An example is below:

"In the previous review the Firm received three FFCs. The first FFC was related to the Firm's failure to observe or corroborate complimentary user controls associated with SOC reports. The second FFC was related to the Firm's failure to identify and verify key entity and activity level controls. The third FFC was related to the Firm's failure to document various planning matters associated with a credit union, including fraud inquiries with management, controls regarding primary financial software, and reliance on internal auditors.

The Firm conducted a Firm-wide training in January 2021, which included discussion of all these matters. Additionally, subsequent engagement reviews have also focused on these matters. A different Partner was assigned to all credit union engagements. We will consider these matters carefully in the current review."

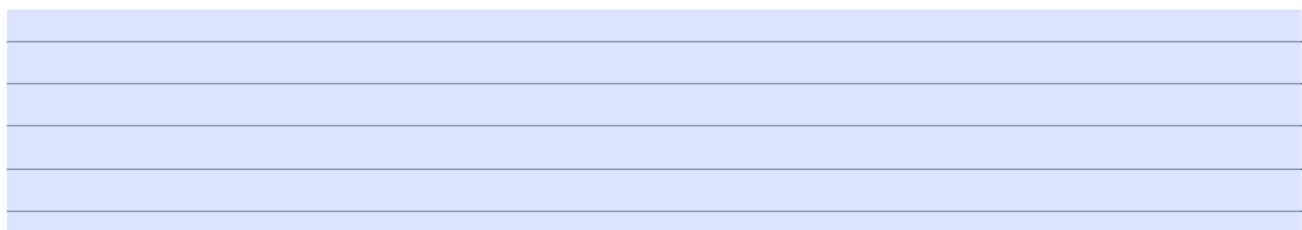
As an informational note, this information does not have to be documented within the actual SRM. Many reviewers place this information within a risk assessment memo or a separate planning memo. Both are fine if the information is adequately documented and the SRM references the place of documentation for the technical reviewer to assess.

Feedback identified in this section included the following:

- Information was contradictory to what was in the prior year documents included in PRIMA
- Information was not completed comprehensively nor included in a separate memo
- The information listed did not match that information within PRIMA for prior review

SCENARIO C – Risk Assessment (4806)

- F. Document your risk assessment of the firm. Consider all the risk assessment requirements and related application and other explanatory material in the standards to develop a risk assessment to support your engagement selections. Specifically, this includes, but is not limited to paragraphs .15–.30 of PR-C section 210.



Question 1

Provide an example of what should be included within the above section of the SRM to be comprehensive and inclusive of all points required.

Solution 1

The Peer Review Risk Assessment is an important element to the overall peer review, and reviewers should carefully document their thought process regarding support for the conclusions reached in this area. While it is acceptable to document your comprehensive Peer Review Risk Assessment in the SRM (see example below), many reviewers opt to use PRPM Section 24,150 – Peer Review

Risk Assessment Tool (the Tool is attached at the end of this case). The Tool is accessible in both PDF and Excel files. To access them, download the “Team and Review Captain Checklists” folder from the Peer Review webpage, click on the April 2022 folder, the “System Review Practice Mgmt Toolkit” folder, the “3 – Preliminary Work Tools” folder, and select the format you would like to use.

Please note that while the tool is extremely helpful, it is not required.

IR: Consistent with the prior peer review, the firm has two offices; one in Charlotte, NC and the other in Charleston, SC. There are 7 partners who supervise all A&A engagements and all have 10+ years of public accounting experience with different areas of specialization. There have been no acquisitions, divestments, or restructurings since the last peer review. The firm has not entered into any new industries and has concentrations in the following areas: manufacturing (24%), ERISA (22%), wholesale (13%), and construction (8%). The firm's largest A&A engagement is not material, relative to the firm's total practice. There are no initial engagements in the peer review year. The results of the prior peer review were a pass report with one FFC. Per inquiry of firm management, there have been no regulatory/governmental oversights or inspections since the prior peer review. Inherent risk is assessed at low.

CR: The firm's quality control document indicates a good tone at the top as it appears all of the firm's QC policies are regularly updated. The firm's QC policies and procedures with respect to relevant ethical requirements appear appropriate and stress independence. The firm's acceptance and continuance policies appear appropriate as these decisions are documented in all engagements. All minimum continuing education requirements appear to have been met. Also, the QC partner indicated they firm has a subscription to an online library which provides current professional standards, industry standards, and third-party manuals and tools pertinent to the performance of the firm's engagements. All employees have access to this library. With respect to monitoring, the firm performs annual inspections in years other than its peer review year. CR is reduced as the firm uses QCMs developed by a third-party. An EQCR is performed on audits considered "high" risk such as Yellow Book engagements and audits with a first year or new partner. All engagement have a concurring review performed on the financial statements. Control risk is assessed at low.

Overall risk assessment is considered low.

Feedback identified in this section includes the following:

- Risk assessment was not submitted (in any format)
- Overall risk assessment did not agree with the number of selections made to reduce risk to a tolerable level
- Risk assessment conclusion was not adequately documented by control risk, inherent risk and detection risk
- Risk assessment: Inherent risk did not correctly identify the changes in the Firm's practice since prior peer review
- Risk Assessment documentation did not agree with the SRM and other documents within the peer review

SCENARIO D – Specific Findings (4810)

Specific Findings

- A. Did the review disclose any situations that led the reviewers to conclude that an engagement was not performed or reported on in conformity with professional standards in all material respects (nonconforming)?
Yes No N/A

If “Yes,”⁴ reflect in PRIMA and document the following for each nonconforming engagement:

1. The level of service and industry of the engagement

2. The MFC numbers where the reasons contributing to the nonconformity are documented and the disposition of those MFCs

3. Procedures performed to expand scope and the results of the procedures or explanation why scope expansion was not considered necessary

4. The firm’s planned or taken remediation of the nonconforming engagement

Question 1

Provide an example of what should be included within the above section of the SRM to be comprehensive and inclusive of all points required.

Solution 1

Answers may vary by reviewer and engagement. However, all items should be addressed with specific documentation that is as detailed as possible.

An example is provided below:

Specific Findings

- A. Did the review disclose any situations that led the reviewers to conclude that an engagement was not performed or reported on in conformity with professional standards in all material respects (nonconforming)?
Yes No N/A

If "Yes,"¹⁴ reflect in PRIMA and document the following for each nonconforming engagement:

1. The level of service and industry of the engagement

Audit of medical device manufacturer

2. The MFC numbers where the reasons contributing to the nonconformity are documented and the disposition of those MFCs

MFC #1

3. Procedures performed to expand scope and the results of the procedures or explanation why scope expansion was not considered necessary

Selected two more manufacturing engagements and reviewed inventory observation procedures as well as testing of the inventory reserve, noting the workpapers indicated the firm appeared to comply with auditing standards. Per discussion with the firm, and review of the additional selections, determined the nonconforming engagement was isolated.

4. The firm's planned or taken remediation of the nonconforming engagement

The firm will perform the omitted procedures and add the additional workpapers to the engagement file.

Feedback identified from this section included the following:

- Procedures performed and the planned steps for remediation were not explicit or comprehensive
- Scope was not expanded and / or rationale not documented as to why
- Inconsistencies between documentation on SRM and MFC related to why the engagement was deemed nonconforming

SCENARIO E – Overall Findings and Conclusions (4814)

- C. If you identified nonconforming engagements, explain your evaluation of the following:

- pervasiveness of the issues leading to nonconforming engagements
- systemic cause for the matters noted
- effect on the report rating

Question 1

Provide an example of what should be included within the above section of the SRM to be comprehensive and inclusive of all points required.

Solution 1

While answers may vary, it is critical that all information is included.

Acceptable answers include:

Example 1: Nonconforming engagements were documented on MFCs and were included in the peer review report. This was attributed to engagement performance – consultation and proper audit completion of third-party practice aids and consultation with professional standards. The systemic cause was identified as inadequate CPE and training in auditing standards. This systemic cause was discussed with the firm.

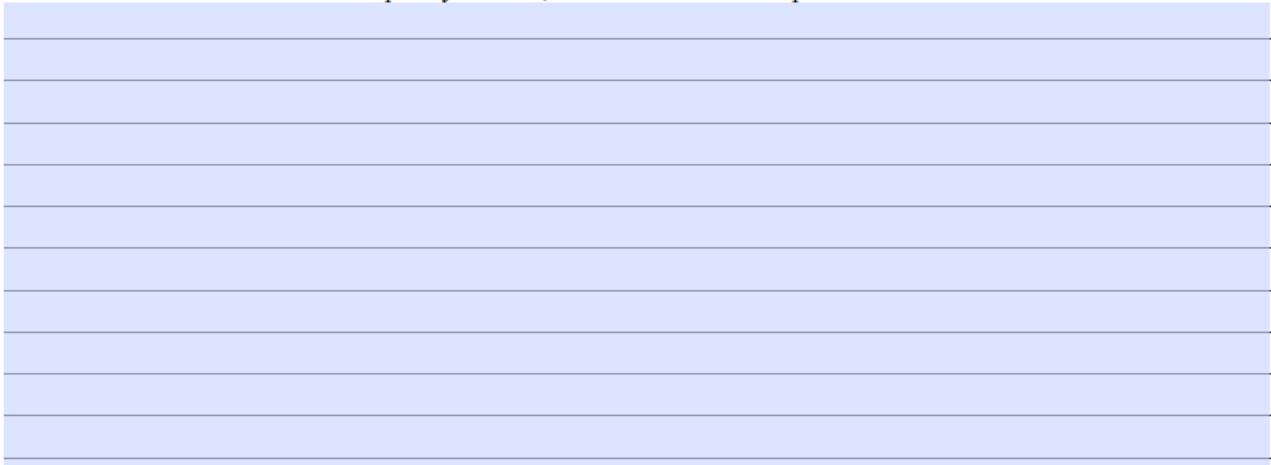
Example 2: We identified one nonconforming engagement – refer to documentation at page 4811 above. We expanded the scope to two additional engagements and determined the matter to be isolated. Because we expanded scope and found the matter to be isolated, the report was not modified, and the matter was left at the MFC level.

Feedback identified from this section included the following:

- Not completed comprehensively regarding impact on type of report
- FFC did not clearly identify a non-conforming engagement
- Information included herein does not agree to the MFC / FFC / other workpapers

SCENARIO F – Overall Findings and Conclusions (4814)

- D. If the systemic cause for any findings, deficiencies or significant deficiencies on the previous review are repeated in the current report or FFCs, describe the firm's actions to prevent recurrence of the issue. Discuss the timing of such actions, what is different from previous actions, and whether you concur with the firm's approach. Additionally, address whether the repeat is an indication of findings, deficiencies, or significant deficiencies in other elements of quality control, such as tone at the top.



Question 1

Provide an example of what should be included within the above section to be comprehensive and inclusive of all points required.

Solution 1

While answers may vary, the key is for all information included to be as specific as possible.

Remember there are multiple questions in this item, and all of them should be addressed (if repeat systemic causes are identified):

1. **Describe the firm's actions to prevent recurrence of the issue.**
 - a. **Discuss the timing of such actions.**
 - b. **Discuss what is different from previous actions.**
 - c. **Discuss whether you concur with the firm's approach.**
2. **Address whether the repeat is an indication of findings, deficiencies, or significant deficiencies in other elements of quality control, such as tone at the top.**

Additionally, remember this documentation can be included in supplemental memos, as long as all required details are addressed AND the supplemental memo is referenced within the SRM (i.e., "See memo at wp XX").

An example acceptable response to this question is as follows:

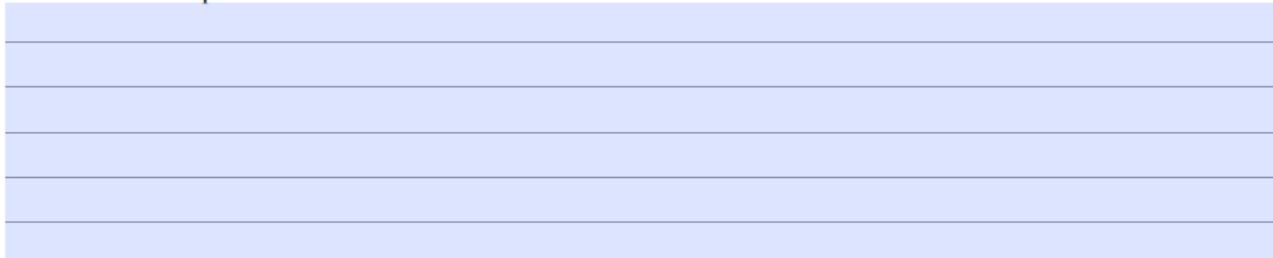
"The systemic cause of the deficiency in the prior review was also engagement performance as it relates to adequate ERISA CPE. The firm will commit to 16 hours of ERISA CPE to be taken by July 1, 2022 for both the engagement partner and the engagement staff. The firm will also commit to a pre-issuance review for the ERISA engagement prior to October 31, 2022. Further, the Firm has also agreed to consider its acceptance and continuance of ERISA engagements".

Feedback identified in this section includes the following:

- Information documented herein was contradictory to MFC, FFC, and PRIMA documentation; didn't address the quality control element
- Two matters reported as separate FFCs that had the same systemic cause and thus should have been aggregated together into one FFC; the FFC was not identified as repeat
- FFC did not include what the firm's policies and procedures include or exclude

SCENARIO G – Specific Findings (4816)

- H. Describe any situations encountered which require consultation with the administering entity or AICPA staff. Indicate name of person consulted and date.



Question 1

Provide an example of what should be included within the above section to be comprehensive and inclusive of all points required.

Solution 1

While answers may vary, all documentation should be as specific as possible.

Examples of acceptable answers include the following:

Example 1: Refer to separate memo related to discussions with AICPA Peer Review Staff (Fran McClintock and Tracy Peterson) on July 23, 2021 on engagement selection questions and oversight.

Example 2: Called the AICPA peer review hotline on September 26 because the firm had a compilation of a construction contractor who changed its year end to 12/31 in 2020. The compilation was of an interim period ending 12/31/2020, and the financial statements did not contemplate ASC 606. ASC 606 is effective for annual periods beginning after December 15, 2019, and interim reporting periods with annual reporting periods beginning after December 15, 2020. Spoke with Fran McClintock, who suggested calling the AICPA A&A hotline regarding the definition of interim. The AICPA

hotline indicated that the definition of an interim period was less than one year. Based on the definition in professional standards, we did not think we had any basis to conclude that the firm had erred in issuing a compilation report where the financial statements did not address ASC 606.

Feedback identified in this section includes the following:

- Consultation with AICPA with regards to report ratings were not documented sufficiently
- Details within this section were not included such that the TR could draw the same conclusions

October 2021

PRP Section 24,150

Peer Review Risk Assessment Tool

Inherent Risk Factors to Consider	Col Inherent Risk Factor Assessment	Col Level of Risk	Col Impact to Engagement Selection	Col Impact to Procedures
1. The relationship of the firm's audit hours to total accounting and auditing hours				
2. The size of the firm's major engagement(s), relative to the firm's practice as a whole				
3. Initial engagements and their impact on the firm's practice				
4. The industries in which the firm's clients operate, especially the firm's industry concentrations (consider the industries represented in the "other" category of the firm's review summary information)				
5. The results of the prior peer review				
6. The actions of the firm in response to the prior report and FFC				
7. The results of any regulatory or government oversight or inspection procedures				
8. The risk level of the engagements performed				
9. Extent of non-audit services performed for audit clients				
10. Changes in professional standards				
11. Changes in regulatory requirements				
12. Adverse economic developments in an industry in which one or more of the firm's clients operate				
13. Significant developments in the client's organization				
14. Changes in the firm's structure or personnel since the prior peer review ¹				
15. Other inherent risk factors considered by the reviewer ²				
Overall assessment of inherent risk				

¹ Risk factors may include recently merged or opened offices.

² Risk factors may include the number, size and geographic distribution of offices, and the degree of centralization of the firm's system of quality control.

PRP Section 24,150

Peer Review Risk Assessment Tool

Control Risk Factors to Consider	Col Control Risk Factor Assessment	Col Level of Risk	Col Impact to Engagement Selection	Col Impact to Procedures
1. The results of the reviewer's assessment of the firm's design of and compliance with quality controls in accordance with AICPA professional standards				
a. describe any no answers on the <i>Guidelines for Review of Quality Control Policies and Procedures</i> checklist				
b. describe the firm's CPE policy and the firm's philosophy toward education ³				
c. describe the adequacy of the firm's professional library				
d. describe the firm's engagement acceptance policy				
e. describe the firm's EQCR policy and procedures				
f. describe the firm's second review policies and procedures				
g. describe the firm's monitoring activity				
h. describe the firm's hiring and evaluation policies and procedures				
i. describe the firm's QCM				
j. describe the firm's policies and procedures for timely completion of the assembly of final engagement files by engagement teams ⁴				
2. Other control risk factors considered by the reviewer				
Overall assessment of control risk				

³ The team captain should ascertain that the appropriate amounts and types (accounting, auditing, and quality control) of CPE are being taken by the appropriate firm personnel, including that personnel follow CPE requirements for boards of accountancy in states in which the firm's personnel are licensed.

⁴ The team captain should document their consideration of a surprise engagement while evaluating risk.

Peer Review Risk - Describe how procedures and engagement selections support an acceptable level of detection risk to keep peer review risk low.

Must Select Risk Assessment Considerations

How many audits are performed in each practice area?

How long has the firm performed in each practice area?

How many team members are experienced in each practice area?

Have team members taken CPE or specialized training?

Are the hours spent for engagements performed in each practice area reasonable?

Any communications from regulatory agencies?

Additional Risk Assessment Considerations by Practice Area

a. *Governmental -- Governmental Auditing Standards* -- Inclusion of a must select engagement should not supersede the reviewer's consideration of engagements and industries that have a significant public interest such as state and local governments, school districts and HUD engagements. For example, if for-profit HUD multifamily housing project audit engagements constitute a significant percentage of a firm's practice, one would expect the reviewer to select at least one such engagement for review. However, if the firm also performed an audit of an engagement subject to the Single Audit Act, such as a local government or not-for-profit organization, one engagement must also be selected to perform an evaluation of the firm's single audit compliance.

b. *Employee benefit plans* -- For employee benefit plans under the ERISA, the peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in limited versus full scope audits and in different types of benefit plans such as defined benefit, defined contribution, and voluntary health and welfare plans. If a firm has more than one of the proceeding types of plans, the reviewer must consider the unique risks associated with that type of plan and document how these risks were addressed in the risk assessment.

c. *Depository Institutions* -- For FDICIA engagements, peer reviewers should take into consideration the amount of total assets held by the federally insured depository institution (less than \$500 million, more than \$500 million, more than \$1 billion). Further consideration should be given to the risks of the audited company such as the level of reporting the institution complies with (the holding company level or the subsidiary level and the regulatory issues associated with each), the balance of the lending portfolio (the industries and concentration percentage of the portfolio), any regulatory correspondence and examination results, capital ratios, financial institution management experience, economic environment and geographic location of the institution, number of branches, and experience and longevity of the board of directors and audit committee.



d. *Service Organizations* -- The peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in different types of SOC engagements (SOC 1 and SOC 2 engagements). Additional considerations should be given to whether the firm performs SOC engagements with significant sub-service organizations identified in the auditor's opinion (inclusive method is higher risk than carve out). Further consideration should be given to communications from regulatory agencies. Although SOC 1 and SOC 2 engagements are different, noncompliance for one type may be indicative of noncompliance in the other. SOC 3 engagements are not must select engagements but when considering the pervasiveness of a systemic cause and the portion of the firm's practice that may be impacted by matters identified with other SOC engagements, the re-viewer should also consider SOC 3 engagements.



SR CASE #8

Writing FFCs

Consider each scenario separately related to system 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

The following are examples of reviewer descriptions found on finding for further consideration (FFC) forms. Assume each FFC form is independent from the others, and based on the limited information provided, consider questions that may be asked by the next peer reviewer, a technical reviewer, or a report acceptance body (RAB) member.

Review the following guidance from the AICPA Standards for Performing and Reporting on Peer Reviews, Effective for Peer Reviews Commencing on or After May 1, 2022 (the standards) before proceeding to the questions.

Paragraph .50 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states "To conclude on the results of a peer review, the reviewer should aggregate the matters documented during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures."

Paragraph .51 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states "To determine the relative importance of matters, both individually and in the aggregate, to the firm's system of quality control, the reviewer should consider each matter's

- a. nature (characteristics),
- b. systemic cause (what went wrong with the firm's system of quality control),
- c. pattern (repeated), and
- d. pervasiveness (whether it is found throughout the firm's system of quality control)."

Paragraph .A40 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states: "The following are some examples of systemic causes that could affect the peer review report rating. The examples cover a broad range of conditions that may not be relevant to every peer review and are not a complete list.

- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
- b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
- c. The failure may have been detected if the firm's quality control policies and procedures had been followed.

- d. The failure may have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the AE before reaching such a conclusion."

Question 1

Discuss what can be improved in the FFC form, including whether the peer reviewer has complied with the standards.

Reviewer's Description of the Finding: In an audit of a defined contribution plan, while the firm's engagement letter did state that the firm would prepare the plans' financial statements, the firm did not document the member of management that would assume responsibility for the nonattest services nor managements' related ability to oversee the services.

Systemic Cause of Finding: The firm did not comply with its quality control policies and procedures regarding engagement performance and human resources.

Solution 1

Discussion Leader Note: The suggested areas for improvement listed throughout the solutions are areas for participants to consider, and questions that can be posed to generate discussion. The revised descriptions and systemic causes are one possible solution, but there could be many variations due to the limited fact pattern and certain assumptions made by participants.

The reviewer has not fully complied with peer review standards, and the following are suggested areas for improvement:

- The description of the finding does not include the scenario that led to the finding.
- The systemic cause is very general and appears to encompass two issues: engagement performance and human resources.
- When systemic causes are vague or written too generally it is difficult for a subsequent reviewer to identify a repeat finding and for the firm to fully understand why the issue occurred to prevent recurrence.

Revised Description of the Finding: The firm's policies and procedures promote consistency in the quality of engagement performance through the use of appropriately tailored audit practice aids and industry-specific guidance materials. Even though tailored programs were used we noted on an audit of a defined contribution plan the firm's engagement letter establishing the terms of the engagement did not identify the member of management that would assume responsibility for the nonattest services nor managements' related ability to oversee the services. However, we were able to determine that the firm had properly evaluated the nonattest services and was in fact independent with respect to the engagement.

Revised system cause of the finding: The firm did not comply with its policies and procedures regarding engagement performance, specifically regarding proper utilization of required third-party practice aids used in audit planning situations and adequate training of audit staff in the intended way to complete practice aids and related software.

Question 2

Discuss what can be improved in the FFC form, including whether the peer reviewer has complied with the standards.

Reviewer's Description of the Finding: Audit documentation for this engagement could be more robust in testing workpapers, audit programs, and documentation of internal controls, including information technology controls, in order to provide a clearer path to reperformance.

System Cause of Finding: Although certain audit planning program steps were initiated and dated, few working papers existed to support the audit program steps.

Solution 2

The reviewer has not fully complied with peer review standards, and the following are suggested areas for improvement:

- The description of the finding does not include the applicable requirement of SQCS.
- The description of the finding does not include the scenario that led to the finding.
- The systemic cause on the FFC form is not written in enough detail to enable another reviewer to determine if a finding should be identified as a repeat in the next peer review. To determine the systemic cause, the team captain should discuss with the firm why few working papers existed to support the audit program steps. Questions to consider include, but are not limited to:
 - Whether professional staff were adequately trained.
 - Whether the supervision and review on the engagement appropriate.
 - Whether the firm performed an engagement in which they did not have the professional competence to perform.

Revised Description of the Finding: The firm's policies and procedures addressing engagement performance were not complied with to provide reasonable assurance that an employee benefit plan audit was consistently performed in accordance with professional standards. The firm is required to adequately document the procedures performed on all engagements to ensure compliance with this requirement. As a result, the following matters were identified during the review:

- Evaluation of internal controls was not adequately documented. Specifically, the firm's documentation of walk-throughs in some areas did not demonstrate observing or inspecting the controls but rather it described verifying the results of a substantive test.
- The auditor did not adequately identify all risks and controls associated with the role of information technology (IT) that are relevant to the audit. Specifically, the auditor gave no consideration for IT controls at the plan sponsor location.
- The auditor did not adequately document the testing allocation of contributions to participant selected investments or the allocation of investment income to participant accounts.

Revised system cause of the finding: The firm did not comply with its policies and procedures for engagement performance, specifically regarding partner review of each

engagement thoroughly to ensure documentation is complete and in accordance with applicable professional standards.

Question 3

Discuss what can be improved in the FFC form, including whether the peer reviewer has complied with the standards.

Reviewer's Description of the Finding: Risk assessment summary was incomplete in that it did not assess risk at the assertion level for all appropriate areas.

System Cause of Finding: The firm should obtain a better understanding in the identifying and documenting risk assessment at the assertion level.

Solution 3

The reviewer has not fully complied with peer review standards, and the following are suggested areas for improvement:

- The description of the finding does not include the applicable requirement of SQCS.
- The description of the finding does not include the scenario that led to the finding.
- The description of the finding does not indicate if any of the associated engagements were nonconforming as seems likely given the nature of the finding.
- The systemic cause is not systemically written and reads more as a recommendation as opposed to a cause.

Revised Reviewer's Description of the Finding: The firm's policies and procedures require professional staff to participate in continuing education programs in order to obtain and maintain professional competence specific to the engagements to which they are assigned. We noted that audit staff had not maintained adequate competencies with regards to risk assessment procedures and related documentation requirements. As a result, on several audit engagements, we noted instances in which the firm did not document their risk assessment procedures at the assertion level. This contributed to an employee benefit plan, investment company and not-for-profit organization audits to not be performed in accordance with the requirements of applicable professional standards in all material respects.

Revised system cause of the finding: The firm's quality control policies and procedures for human resources were not complied with to ensure the firm has sufficient training related to assessing and documenting the assessment of risk at both the relevant assertion level and financial statement level.

Question 4

Discuss what has been written well and what can be improved in the FFC form, including whether the peer reviewer has complied with the standards.

Reviewer's Description of the Finding: The engagement performance portion of the firm's quality control policies and procedures includes the requirement for engagement quality control review (EQCR) under certain criteria as determined by the firm. However,

certain requirements related to EQCR are not present, including the provisions itemized on MFC 1.

System Cause of Finding: When the firm updated its quality control document the specific provisions were not included.

Solution 4

The reviewer's description includes the applicable requirement of SQCS and the scenario that led to the finding. However, the reviewer has not fully complied with peer review standards, and the following are suggested areas for improvement:

- The description does not describe what the "missing provisions" were. The team captain is referring to a MFC form; however, the FFC form should stand alone as it is retained through the subsequent peer review.
- The systemic cause is not clear regarding why the specific provisions were not included in the updated quality control document.
- When systemic causes are vague or written too generally it is difficult for a subsequent reviewer to identify a repeat finding and for the firm to fully understand why the issue occurred to prevent recurrence.

Revised reviewer's description of the finding: The firm's quality control policies and procedures regarding engagement performance require an engagement quality control review (EQCR) be performed for audit engagements that meet the established criteria. We noted that the firm's engagement performance element of its quality control document does not address:

- when an engagement quality control review should be performed,
- how an eligible Engagement Quality Control Reviewer should be selected,
- the nature and timing of such a review, or
- the extent of the documentation necessary including the results of the EQCR.

Revised systemic cause of the finding: The firm's EQCR policies and procedures are not designed to provide the firm with reasonable assurance that engagements are consistently performed in accordance with professional standards.

Question 5

Discuss what can be improved in the FFC form, including whether the peer reviewer has complied with the standards.

Reviewer's Description of the Finding: On a review engagement selected for this peer review we encountered incidents of professional standards not being complied with in all respects. Items noted during the review included: 1) the engagement letter did not designate whose financial statements were being reviewed, or cover management's responsibilities for the nonattest services to be performed; 2) no documentation in regard to independence considerations; 3) no analytical procedures performed; 4) no disclosures included in the financial statements; 5) no management representation letter obtained; 6) the review report was not in accordance with current standards; and, 6) no statement of cash flows was presented with the financial statements.

System Cause of Finding: The firm did not comply with its policies and procedures regarding engagement acceptance.

Solution 5

The reviewer has not fully complied with peer review standards, and the following are suggested areas for improvement:

- The description of the finding does not include the applicable requirement of SQCS.
- The description of the finding does not include the scenario that led to the finding.
- The description of the finding does not indicate if the associated engagement was nonconforming, which is likely given the nature of the finding.
- The systemic cause could be more descriptive in order to assist the firm with identifying the appropriate remediation of the firm's system of quality control.
- When systemic causes are vague or written too generally it is difficult for a subsequent reviewer to identify a repeat finding and for the firm to fully understand why the issue occurred to prevent recurrence.

Revised Reviewer's Description of the Finding: The firm's quality control policies and procedures in regard to acceptance and continuance of clients and engagements, requires the firm to accept engagements that can be completed with professional competence. However, the firm performed a review engagement in which they did not have the professional competence to perform. Items noted during the review included: 1) the engagement letter did not designate whose financial statements were being reviewed, or cover management's responsibilities for the non-attest services to be performed; 2) no documentation in regard to independence considerations; 3) no analytical procedures performed; 4) no disclosures included in the financial statements; 5) no management representation letter obtained; 6) the review report was not in accordance with current standards; and, 7) no statement of cash flows was presented with the financial statements. This resulted in a nonconforming engagement.

Revised system cause of the finding: The firm did not comply with its policies and procedures in reference to acceptance and continuance of specific engagements because the selected engagement related to a review of financial statements, and the firm had no experience in that practice area and did not acquire training in the practice area or obtain appropriate consultation.

SR CASE #9

Evaluating Letters of Response

Consider each scenario separately related to system 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 team captain on the system review. Kevin received the list of engagements 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 system reviews, the letter of response should be dated as of the exit conference date. Thus, the letter of response should be dated February 28, 2022.

Item d in paragraph .14 of PR-C section 310, *General Principles and Responsibilities for Reviewed Firms - System Reviews*, states: The firm's responses to findings, deficiencies, or significant deficiencies should be dated as of the exit conference date 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 member 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 310, *General Principles and Responsibilities for Reviewed Firms - System 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.

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.

Item c in paragraph .14 of PR-C section 310, *General Principles and Responsibilities for Reviewed Firms - System Reviews*, states: The firm's responses to findings, deficiencies, or significant deficiencies should 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 310, *General Principles and Responsibilities for Reviewed Firms - System 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 team captain's responsibility related to the firm's letter of response?

Solution 4

It is the team 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 team captain would likely request the firm make revisions prior to its submission to the administering entity to prevent any delays in acceptance.

Paragraph .62 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states: The team captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The team captain should consider the following:

- a. The firm's response should include
 - i. the firm's actions taken or planned to remediate the findings or deficiencies in the firm's system of quality control and nonconforming engagements, if applicable,
 - ii. timing of the remediation, and
 - iii. additional procedures to ensure the finding or deficiency is not repeated in the future.
- b. The action should be feasible, genuine, and comprehensive.
- c. If the firm has taken action, the reviewer should review documentation of actions taken and consider whether the action is appropriate.

Paragraph .A32 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states: Although it is ultimately the firm's responsibility, the team captain and firm may collaborate to determine the remediation.

SCENARIO B

You are the team captain on a system 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 System of Quality Control

"We noted the following deficiencies during our review:

1. The firm's quality control policies and procedures require the firm to obtain industry specific CPE for a specialized industry. They also require the firm to perform acceptance and continuance evaluations to enable them to make the decision to accept new engagements or continue to perform recurring engagements. The firm has not adequately performed these evaluations or obtained adequate CPE in a specialized industry. Our review noted an audit of an employee benefit plan where the firm failed to adequately document testing of risk assessment considerations, related party and party in interest transactions, consideration of participating employers in a multiemployer plan, and testing of the completeness of populations used in testing. In addition, on the Yellow Book engagement, the firm did not document independence for nonattest services and there was a general lacking certain level of consistency in workpaper documentation where details and checklists were omitted. In addition, the report was deficient. In both cases, the deficiency resulted in a nonconforming engagement.
2. The firm's quality control policies and procedures regarding monitoring have not been suitably complied with to provide reasonable assurance that engagements are consistently performed in accordance with professional standards. The firm's quality control policies and procedures require that an internal inspection of the accounting and auditing practice be performed annually. However, we determined that the inspections were not effective relative to the industry-specific requirements noted during the review. In our opinion, an effective inspection would have identified the matters that caused the engagements to not conform to professional standards in all material respects."

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

"...The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality control.

1. For the ERISA engagement we relied on SOC 1 type 2 report. The service auditor tested and reported on those controls. The SOC 1 report and user entity controls were evaluated and tested. We will require EBP audit staff to take 16 hours of additional CPE. This should better enable the audit team to more adequately document the risk assessment considerations. In addition, we will reassign EBP audit responsibility to a new partner.
2. For future engagements we will expand documentation in the areas of related party/party in interest transactions. The fact that two employers with the same ownership were participating in the plan was considered. Testing included selections from both employers. The comment about incomplete population

relates to one test. In future engagements, we will ensure this test ties to the financial statements. That test covered 89% of the population. While EBP audit staff complied with EBP CPE requirements, we will require additional CPE to address the foregoing areas when it becomes available. We will engage an outside CPA with EBP audit experience to perform a pre-issue review for all EBP audits in the coming year.

3. We will make the correction to next ERISA financial statement which will be issued shortly.”

Question 1

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

1. Has the firm adequately addressed all the deficiencies in the report?
2. Has the firm adequately addressed remediation of the nonconforming engagements?
3. Has the firm given enough specificity to the timing of remediation?

Solution 1

Discussion Leader Note: This example does not meet the requirements of the Peer Review Standards. Please discuss with your tables the way(s) the letter could be improved so that it is in accordance with Standards.

- As a reminder, paragraph .14 of PR-C section 310, *General Principles and Responsibilities for Reviewers - System Reviews*, states: The firm's responses to findings, deficiencies, or significant deficiencies should
- a. include the firm's actions taken or planned to remediate the findings or deficiencies in the firm's system of quality control and nonconforming engagements, if applicable, 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, if applicable.
 - d. be dated as of the exit conference date in a letter of response, if applicable.
 - e. be on firm letterhead in a letter of response, if applicable.

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

Discussions may also include considerations outlined in paragraph .62 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*.

Responses to discussion questions:

1. No. The firm's response doesn't address the deficiency in its monitoring element of quality control. The deficiency cited the firm's annual internal inspections were not effective relative to the industry-specific requirements noted during the review, but the response does not specifically address the firm's actions taken or planned to remediate

this deficiency in the firm's system of quality control and ensure it is not repeated in the future.

2. No. The firm's response doesn't address its plan to remediate the Yellow Book engagement. Additionally, the firm's response lacks specificity regarding its plan to remediate the nonconforming employee benefit plan engagement. While the response addresses the firm's plans going forward, it doesn't include actions taken or planned for remediation. Firms are discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be the appropriate response, but firms should be able to articulate why that is the appropriate response.
3. No. Paragraph .14 of PR-C section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*, states the firm's responses to findings, deficiencies or significant deficiencies should include timing of the remediation. The firm should be more specific in when and how they plan to obtain CPE.

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

Solution 2

No. While team captains should request a revised response if the firm's response is not deemed to be comprehensive, genuine and feasible, 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 .40 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews* states: Team captains or AEs should not require firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. The team captain should provide information about risks in the firm's system of quality control (as identified through the review and testing of quality control policies and procedures).

SR CASE #10

RAB Observation Comments

Consider each scenario separately related to system reviews. It is assumed that each question is separate from the previous or following question within the scenario, unless otherwise indicated. The revised representation letter in accordance with the clarified standards has been included at the end of this case as Attachment A, and the revised report (rating of pass) as Attachment B.

Estimated Time to Complete: 20 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 team captain a list of all engagements with periods ending June 30, 2022, during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1® and SOC 2® engagements), as applicable. We understand that failure to properly include engagements subject to the scope of the peer review 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 team captain, if applicable. We have also provided the team 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, to the best of our knowledge and belief, that 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 and auditing 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 the 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 310, *General Principles and Responsibilities for Reviewed Firms – System 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

Review the following examples of reviewer deficiency descriptions found on *pass with deficiencies* reports in a system review:

Example A

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiency during our review:

In an audit of a state and local government (SLG) performed under *Government Auditing Standards*, the firm failed to document (a) its rationale for the inherent risk assessment being less than high (b) the skill, knowledge, or experience of the client's representative to oversee the non-attest services, and (c) the assessment and audit conclusions of the actuary qualifications in the firm's testing of the employee defined benefit plan. This contributed to the audit engagement performed under *Government Auditing Standards* not conforming to professional standards in all material respects.

Example B

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiency during our review:

The firm's quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. The firm requires the use of a non-industry specific audit program but does not require that program to be tailored to cover requirements of specialized industries or those subject to regulatory bodies. During our review, we noted procedures were not performed to determine if a banking institution met its minimum capital requirements. In our opinion, this contributed to audit engagements in the banking industry that did not conform to professional standards in all material respects.

Example C

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiencies during our review:

The firm failed to obtain and document the following: expectations during analytical procedures during audit planning; rationale for inherent risk below the maximum; and testing of opening balances of an initial audit of a NFP entity. This makes the audit engagement nonconforming to professional standards in all material respects.

Question 1

Which of the following scenarios is correct regarding the appropriate wording of a deficiency within the peer review report?

Solution 1

Example B is the correctly written deficiency due to the systemic cause being appropriately documented as well as the industry. Both the systemic cause and the industry for nonconforming must-select engagements should be identified within the report.

Relevant guidance includes Exhibit B, Illustration 3 - A Reviewer's Report on the Firm's System of Quality Control With a Peer Review Rating of Pass With Deficiencies of PR-C section 210, General Principles and Responsibilities for Reviewers – System Reviews.

Examples A and C are missing required elements including the reference to the applicable requirements of the Statements on Quality Control Standards and the scenario that led to the deficiency or significant deficiency.

Additional relevant guidance includes the following:

- Paragraph .11 of PR-C section 100, *Concepts Common to All Peer Reviews*, defines systemic cause as the following: A condition in the firm's system of quality control that allowed noncompliance to occur and remain undetected.
- Paragraph .45 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states: The reviewer should discuss and determine in concurrence with the firm the systemic cause of matters identified.
- Paragraph .50 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states: To conclude on the results of a peer

review, the reviewer should aggregate the matters documented during the peer review and determine whether the matters were the result of the design of the reviewed firm's system of quality control or the failure of its personnel to comply with the firm's quality control policies and procedures.

- Paragraph .51 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states: To determine the relative importance of matters, both individually and in the aggregate, to the firm's system of quality control, the reviewer should consider each matter's
 - nature (characteristics),
 - systemic cause (what went wrong with the firm's system of quality control),
 - pattern (repeated), and
 - pervasiveness (whether it is found throughout the firm's system of quality control).

When the firm has responded to matters, the team captain should consider if the response is appropriate and if the response indicates additional impacts to the peer review conclusions. Additionally, the reviewer should evaluate each matter in the context of the firm's size, organizational structure, and the nature of its practice. The relative importance of peer review matters to the firm's system of quality control will determine the impact to the peer review conclusions. In rare circumstances in which it is not practicable to identify the systemic cause, the team captain should document the reason or reasons as part of the Summary Review Memorandum and on the related MFC form.

- Paragraph .A40 of PR-C section 210, *General Principles and Responsibilities for Reviewers - System Reviews*, states: The following are some examples of systemic causes that could affect the peer review report rating. The examples cover a broad range of conditions that may not be relevant to every peer review and are not a complete list.
 - a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
 - b. The failure related to an issue covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
 - c. The failure may have been detected if the firm's quality control policies and procedures had been followed.
 - d. The failure may have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the AE before reaching such a conclusion.

SCENARIO C – Implementation and Corrective Action Plans

Review the following example of implementation plans and / or corrective actions that were either presented to or implemented by the RAB. Identify the item(s) for correction and explain why the material (as presented) is incorrect.

Example A

System Review with the following statistics and results:

Firm has one office, five partners, and 15 staff. The system review included three governmental audits, three ERISA, three other audits, two reviews, and one compilation.

The firm received a *pass* report with one MFC. The MFC was related to one of the non-must-select audits in which one “no” answer was included in the audit checklist. The review team expanded scope to the same partner’s second audit where another “no” answer was identified. They were not related and were not significant enough to warrant further evaluation.

An implementation plan was proposed by the peer reviewer for the partners and audit staff to take four hours of CPE relating to audit documentation and reporting.

Question 1

Is the above implementation plan appropriate for the facts presented for the system review?

Solution 1

No, an implementation plan is not allowed when there are no FFCs.

RAB should not require any remedial, corrective action(s) as a condition of acceptance of a system review with a report with a rating of *pass*. However, there may be instances where an implementation plan is required as a result of FFCs. As noted above, no FFCs therefore no IMP plan.

Relevant Guidance:

Paragraph .07 of PR-C section 420, *Corrective Actions and Implementation Plans*, states “The decision to require corrective actions or implementation plans should include

- a. considering the nature and significance of the findings, deficiencies, or significant deficiencies;
- b. evaluating whether the firm’s actions taken or planned to remediate nonconforming engagements, if applicable, appear comprehensive, genuine, and feasible; and
- c. considering any actions the reviewed firm has already taken that were reviewed by the reviewer prior to RAB evaluation.

For guidance on allowable implementation plans for a system review, refer to Exhibit C of PR-C section 420, *Corrective Actions and Implementation Plans*.

Example B

System Review with the following statistics and results:

Firm has one office, five partners, and 15 staff. The system review included three governmental audits, three ERISA, three other audits, two reviews, and one compilation.

The firm received a *pass* report with one MFC and one FFC. FFC 1 was related to one of the must-select audits for which several “no” answers were included in the audit checklist. The review team expanded scope to the same partner’s second audit where there were additional “no” answers. The “no” answers were similarly related (consideration of related party transactions and inventory) and it was deemed these engagements were not performed or reported on in conformity with applicable professional standards in all materials respects.

In addition to remediation of the current engagements, an implementation plan was proposed by the peer reviewer for the partners and audit staff to take four hours of CPE relating to audit documentation and reporting.

Question 1

Is the above implementation plan appropriate for the facts presented for the system review?

Solution 1

Because an FFC was issued within a must select industry, and nonconforming engagements were identified, an implementation plan may be warranted.

Again, judgment is required as a RAB ordinarily would not require an implementation plan for a firm when its responses to the findings addressed on the FFC form(s) are genuine, comprehensive, and feasible.

If the RAB determines, as part of its deliberations regarding the peer review, that an implementation plan in addition to the plan described by the firm in its responses on the FFC forms is warranted, the firm can be issued an implementation plan.

According to Exhibit C of PR-C section 420, *Corrective Actions and Implementation Plans*, the implementation plan of CPE for a nonconforming engagement is an allowable implementation plan.

Relevant guidance from PR-C section 420, *Corrective Actions and Implementation Plans*, includes the following:

.07 The decision to require corrective actions or implementation plans should include
a. considering the nature and significance of the findings, deficiencies, or significant deficiencies;

b. evaluating whether the firm’s actions taken or planned to remediate nonconforming engagements, if applicable, appear comprehensive, genuine, and feasible; and

c. considering any actions the reviewed firm has already taken that were reviewed by the reviewer prior to RAB evaluation.

.08 If a finding, deficiency, or significant deficiency relates to an area where prevalent nonconformity has been identified through the AICPA Enhancing Audit Quality Initiative, then specific CPE to address the common areas of noncompliance should be required by the RAB.

Example C

System Review with the following statistics and results:

A firm received a *pass* report with three MFCs and two FFCs. FFC 1 was related to a Single Audit engagement audit whereby the firm did not follow independence rules. It was deemed the engagement was not performed or reported on in conformity with applicable professional standards in all materials respects. When scope was expanded, the same issue was prevalent on two other engagements. Further, this was a repeat finding from the previous peer review.

FFC 2 pertained to a not-for-profit engagement whereby compliance audit programs were not correctly completed. Scope was expanded where similar findings were identified. It was deemed the engagement was not performed or reported on in conformity with applicable professional standards in all material respects.

In addition to remediation of the current engagements, the following implementation plans were proposed by the peer reviewer:

1. Have a third-party preissuance review of the next NFP engagement
2. Join the Government Audit Quality Center

Question 1

Are the above implementation plans appropriate for the facts presented for the system review?

Solution 1

Implementation plan 1 is acceptable based on facts presented, FFC with a nonconforming engagement in a must-select industry. Involvement of a 3rd party in the implementation plan is only allowed when there is a nonconforming engagement in a must-select industry or when there is a repeat finding with nonconforming engagements in a non-must select industry.

Implementation plan 2 is not acceptable. Joining an audit quality center cannot be required as an implementation plan. This can only be issued as a corrective action for a *pass with deficiencies* or *fail* report. See Exhibit D of PR-C section 420, *Corrective Actions and Implementation Plans*, for suggested corrective actions for system reviews.

See answers for Examples A and B for applicable guidance references.

Attachment A: Illustrative Representation Letter (PR-C section 310, General Principles and Responsibilities for Reviewed Firms - System Reviews)

[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 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)*]

Attachment B: Illustrative Report (PR-C section 210, General Principles and Responsibilities for Reviewers - System Reviews)

A Reviewer's Report on the Firm's System of Quality Control With a Peer Review Rating of Pass With Deficiencies

[Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association-formed review team]

Report on the Firm's System of Quality Control

[Exit Conference Date]

To the Partners of [or other appropriate terminology] XYZ & Co. and the Peer Review Committee of the [insert the name of the applicable administering entity],

We have reviewed the system of quality control for the accounting and auditing practice of XYZ & Co. (the firm) in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing and complying with a system of quality control to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of and compliance with the firm's system of quality control based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1® and SOC 2® engagements).

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiencies Identified in the Firm's System of Quality Control

We noted the following deficiencies during our review:

1. The firm's quality control policies and procedures addressing continuing professional education (CPE) are not suitably designed or complied with to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. Although the firm's policies require that personnel attain a minimum of 40 hours of CPE courses annually and comply with CPE requirements of the applicable external bodies, the firm lacks appropriate procedures to determine whether the personnel are in compliance with these requirements. During our review, we noted several personnel who did not comply with CPE requirements of *Government Auditing Standards*. In our opinion, this contributed to audit engagements performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.
2. The firm's quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. The firm requires the use of a non-industry-specific audit program but does not require that program to be tailored to cover requirements of specialized industries or those subject to regulatory bodies. During our review, we noted procedures were not performed to determine if a banking institution met its minimum capital requirements. In our opinion, this contributed to audit engagements in the banking industry that did not conform to professional standards in all material respects.

Opinion

In our opinion, except for the deficiencies previously described, the system of quality control for the accounting and auditing practice of XYZ & Co.^{fn 7} in effect for the year ended June 30, 20XX, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting 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 *pass with deficiencies*.

[*Name of team captain's firm*]

SR CASE #11

Initial Peer Reviews

Consider each scenario separately related to system 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 a system 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 audit engagement, a not-for-profit entity. The audit engagement has a period end of December 31, 2020, and the auditor'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
Other SAS Audits	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 AE 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 team captain performing a system review. The firm, Lindstrom and Morgenstern, PA submitted enrollment information to its administering entity, on February 17, 2021, as it issued its first audit report, a special purpose local government. Since then, the firm has performed additional engagements that require a peer review.

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

Industry	Industries and Practice Areas		
	Response	Initial Engagement Period End Date	Initial Engagement Report Date
Other GAS Audits	Performed	6/30/2020	2/17/2021
Other SAS Audits	Performed	12/31/2020	5/31/2021
Reviews	Performed	9/30/2020	3/18/2021
Compilations (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 AE 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

Should the team captain include the firm’s initial engagement in the peer review selections?

Solution 2

Not necessarily. While it may be appropriate in some circumstances, 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 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 AE 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, 2021 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.”

SR CASE #12

Alternating Reviews and Audits

Consider each scenario separately related to system 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

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 reflects the following information:

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?

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).

Question 3

If a system review is performed rather than an engagement review, should the audit from the previous year be selected?

Solution 3

Not necessarily as the firm's SSARS engagements are firm's only engagements within the peer review year.

However, because the firm will continue to perform audits, it is recommended that the firm consult with its administering entity to determine if the prior year audit is reviewed since guidance does permit reviewers to look at prior period engagements (outside of peer review year) in certain circumstances.