

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%

Question 2

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

Question 3

How many surprise engagements are required to be selected?

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

Question 4

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

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?

- a) With the firm's name
- b) With the name of a partner of the firm
- c) No signature is required.

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?

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?

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?

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?

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?

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?

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?

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?

Question 2

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

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?

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?

SCENARIO C

The team captain identified the following matters:

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

	Comp 1			
2	Audit 1 Audit 2 SOC 1 Review 1 AUP 1	<p>On audit 1, there was insufficient documentation to 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>	FFC 1	Insufficient partner review

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?

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?

Question 2

What would be an appropriate implementation plan in this scenario?

Question 3

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

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?

Question 2

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

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?

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 SSARs.

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?

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 if the engagement has a period end of December 31, 2022?

Question 3

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

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.

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.

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.

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.

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.

Question 1

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

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 preceding 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.

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 initialed and dated, few working papers existed to support the audit program steps.

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.

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.

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.

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?

Question 2

Who should sign the firm's letter of response?

Question 3

Who should the letter of response be addressed to?

Question 4

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

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?

Question 2

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

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.

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?

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?

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 two FFCs. 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?

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?

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?

Question 2

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

SCENARIO B

It is April 1 and you are a 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:

<u>Industry</u>	<u>Industries and Practice Areas</u>		
	<u>Response</u>	<u>Initial Engagement Period End Date</u>	<u>Initial Engagement Report Date</u>
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?

Question 2

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

SCENARIO C

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

Question 1

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

Question 2

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

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 (SSARs):

Reviews: 5

Compilations Omit Disclosures: 15

Preparations Omit Disclosures: 9

Question 1

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

Question 2

If an engagement review is performed, what type of review and when would the next peer review be due?

Question 3

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