



Peer Review
Program

2023 Conference Cases

System Reviews

with solutions

CASE #1

[Case #1 intentionally omitted.]

CASE #2

Risk Factors for Must-Select Engagements

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 of a firm that performs multiple types of Employee Benefit Plan audit engagements.

The following matrix is from the firm's engagement listing:

Engagement Listing			
Client	Engagement Type	Engagement Period End Date	Engagement Report Date
Client A	Defined Contribution 103(a)(3)(c)	12/31/20X0	8/15/20X1
Client B	Defined Contribution	12/31/20X0	8/25/20X1
Client C	Defined Contribution 103(a)(3)(c)	12/31/20X0	10/13/20X1
Client D	Defined Benefit	12/31/20X0	10/1/20X1
Client E	Defined Benefit	12/31/20X0	10/5/20X1
Client F	Health and Welfare	12/31/20X0	9/30/20X1
Client G	ESOP	12/31/20X0	9/17/20X1

Question 1

Would you select each engagement type as part of your engagement selections? What factors would make you more likely to do so? Less likely? What facts and circumstances have led you to select more or less engagement types in peer reviews with similar engagement listings?

Solution 1

There is no correct answer for this question, rather we hope each table discusses the pros and cons of selecting each type of employee benefit plan as part of any peer review and the facts and circumstances that led them to conclude one way or another.

Team captains should be reminded that while they themselves may not be reviewing the EBP engagements, they are ultimately responsible for the sufficiency of the engagement selections so they should be somewhat aware of the unique risks of these (and other) must-select engagements in order to select the required reasonable cross-section of the firm's engagements.

Paragraph .A71 of PR-C section 210, General Principles and Responsibilities for Reviewers — System Reviews, (otherwise known as "Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements") states that for employee

benefit plans under ERISA, the peer reviewer should consider whether the engagement selection process has adequately addressed the risks involved in ERISA Section 103(a)(3)(C) audits (formerly called “limited-scope” audits) versus non-ERISA 103(a)(3)(C) audits (formerly called “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, a selection from each type of plan is not required; however, the reviewer must consider the unique risks associated with those types of plans and document how these risks were addressed in the risk assessment.

The December 2022 Reviewer Alert included a list of some of the unique risks associated with EBP engagements:

- Defined contribution plans - participant account and allocation testing and timely remittance of participant contributions.
- Defined benefit plans - actuarial present value of accumulated plan benefits and changes in the actuarial present value of accumulated plan benefits.
- Health and welfare plans - benefit obligations and changes in benefit obligations (for example, claims payable, claims incurred but not reported, postemployment benefits, postretirement health care benefits, and so on).
- Employee stock ownership plans (ESOPs) - annual appraisal of securities and leveraged ESOPs.
- Other items - plans with a master trust arrangement, multiemployer plans, initial audits of plans, terminating plans, plan mergers, and so on.

Not the primary focus of this scenario, but additional factors that may influence the nature and extent of EBP engagements selected include the timing of when the engagement will be complete, the implementation of new standards and partner or office coverage. For example, a partner in a firm may have historically performed a number of defined contribution plan audits, but in the peer review year performed her first defined benefit plan audit. The peer reviewer may determine the risk associated with this defined benefit plan audit warrants its selection.

Multiple Choice Lightning Round

Question 1

Participant account and allocation testing, and timely remittance of participant contributions are unique risk factors for what type of Employee Benefit Plan audit?

- A) Defined Contribution
- B) Defined Benefit
- C) Health & Welfare
- D) ESOP

Solution 1

A - Defined Contribution

Question 2

Benefit obligations and changes in benefit obligations (for example, claims payable, claims incurred but not reported, postemployment benefits) are unique risk factors for what type of Employee Benefit Plan audit?

- A) Defined Contribution
- B) Defined Benefit
- C) Health & Welfare
- D) ESOP

Solution 2
C – Health & Welfare

Question 3

Annual appraisal of securities is a unique risk factors for what type of Employee Benefit Plan audit?

- A) Defined Contribution
- B) Defined Benefit
- C) Health & Welfare
- D) ESOP

Solution 3
D – ESOP

Question 4

Actuarial present value of accumulated plan benefits and changes in the actuarial present value of accumulated plan benefits are unique risk factors for what type of Employee Benefit Plan audit?

- A) Defined Contribution
- B) Defined Benefit
- C) Health & Welfare
- D) ESOP

Solution 4
B – Defined Benefit

SCENARIO B

You have been engaged to perform a system review of a firm that performs multiple types of SOC examination engagements.

The following matrix is from the firm’s engagement listing:

Engagement Listing			
Client	Engagement Type	Engagement Period End Date	Engagement Report Date
Client A	SOC 1	6/30/20X0	2/17/20X1
Client B	SOC 1	12/31/20X0	5/31/20X1
Client C	SOC 1	9/30/20X0	3/18/20X1
Client D	SOC 2	12/31/20X0	3/1/20X1

Question 1

Would you select each engagement type as part of your engagement selections? What factors would make you more likely to do so? Less likely? What facts and circumstances have led you to select more or less engagement types in peer reviews with similar engagement listings?

Solution 1

There is no correct answer for this question, rather we hope each table discusses the pros and cons of selecting each type of SOC engagement as part of any peer review and the facts and circumstances that led them to conclude one way or another.

Paragraph .A71 of PR-C section 210, General Principles and Responsibilities for Reviewers — System Reviews, (otherwise known as “Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements”) states 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). If a firm performs more than one type of SOC engagements, the reviewer must consider the unique risks associated with each engagement and document how these risks were addressed in the risk assessment.

Up until recently this paragraph also stated If a firm performs an examination of one or more service organizations and issues a SOC 1 or SOC 2 report, at least one examination should be reviewed. If a firm performs both SOC 1 and SOC 2 engagements and a proper risk assessment determined that only one SOC engagement should be selected, a SOC 1 engagement should be reviewed due to the reliance on the report by other auditors. However, this guidance was removed to allow peer reviewers more judgement when selecting what type of SOC engagement should be selected.

Question 2

What are examples of unique risks associated with SOC 2 examination engagements?

Solution 2

While not all-inclusive, the 2022 December Reviewer Alert provided a list of unique risks associated with SOC 2 engagements that peer reviewers should consider when determining which SOC engagements to select as part of the peer review.

These include:

- Service auditors may over rely on the information provided by the SOC 2 tools without adequately testing whether the tool operates as intended and the information is complete and accurate for their purposes.
- Service auditors whose clients (service organizations) use SOC 2 tools appear to believe that the use of such tools somehow eliminates or reduces their performance and reporting responsibilities under professional standards. This is especially a concern when the fees quoted are well below market rates for a SOC 2 audit performed in conformity with standards.
- SOC 2 tools are often marketed to start up organizations led by managements that do not have expertise in IT security. Among other concerns, management may lack the requisite knowledge and skills to make decisions about the organization’s risks and control activities necessary to mitigate those risks – those decisions are often made by consultants that work for the tool providers.
- Some SOC 2 tool providers have a “related” CPA firm that provides the audit based on the SOC 2 information generated by the SOC 2 tool. Depending on how the tool is used by the service organization (e.g., whether the tool becomes

part of the service organization's internal controls), there may be a self-review threat that cannot be mitigated to an acceptable level.²

- Some SOC 2 tool providers enter business relationships with CPA firms that will provide the SOC 2 audit. This raises concerns about whether such firms are meeting ethical requirements around marketing and advertising.
- Some audit organizations identified on SOC 2 tool providers' websites do not appear to be licensed CPA firms. Most state boards of accountancy require attestation engagements, including SOC 2 examinations, to be performed by licensed CPA firms.

SCENARIO C

You have been engaged to perform a system review of a firm that performs engagements under *Government Auditing Standards* including entities subject to the Single Audit Act and entities that are not.

Question 1

Is it required to select an engagement performed under the Single Audit Act?

Solution 1

Yes. Paragraph .A71 of PR-C section 210, General Principles and Responsibilities for Reviewers — System Reviews, (otherwise known as “Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements”) informs team captains that if the firm performs engagements of entities subject to the Single Audit Act, the reviewer must evaluate a compliance audit.

Question 2

Does a team captain have to review the financial statement audit of an entity subject to the Single Audit Act?

Solution 1

Not necessarily.

Paragraph .A71 of PR-C section 210, General Principles and Responsibilities for Reviewers — System Reviews, (otherwise known as “Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements”) states that the 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 Department of Housing and Urban Development (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 such engagement must also be selected to perform an evaluation of the firm's single audit compliance.

In short, the requirement to review an engagement conducted in accordance *Government Auditing Standards* (GAS), issued by the U.S. Government Accountability Office can be accomplished through the review of an entity not subject to the Single Audit Act, while the requirement to review an engagement of an entity subject to the Single Audit Act can be accomplished through the evaluation of a compliance audit of a

different entity. However, most peer reviewers meet both requirements through the selection of one entity by reviewing the financial statement audit and the compliance audit.

CASE #3

Systemic Causes

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

SCENARIO A

The following are some examples of systemic causes found on finding for further consideration (FFC) forms within PRIMA:

1. The firm did not have enough detailed training per the firm's quality control policies.
2. The firm did not include all relevant documents during binder finalization due to lacking partner's review.
3. Consultation would have been beneficial to the firm because this was an unusual situation where it wasn't clear whether the normal rules on group audits applied to the situation at hand.
4. The firm's continuing professional education and consultation and use of third-party practice aid materials did not lead the firm to document aspects of the consideration of multiple nonattest services.
5. The firm's quality control policies and procedures require all accounting and auditing engagements to be performed in compliance with current, applicable professional standards. On a SOC 2 engagement we reviewed, the scope paragraph in the service auditor's report did not make reference to subservice organization controls that were incorporated, reported, and opined upon on in the design of the system.

Question 1

How can the preceding examples be enhanced to indicate a true systemic cause?

Solution 1

Discussion Leader Note: The revised systemic causes throughout the solutions are suggested possible systemic causes, but there could be many variations due to the limited fact pattern and certain assumptions made by participants.

Please note all of the solutions identify the applicable element of quality control.

1. The firm's quality control policies and procedures for human resources were not complied with to ensure that firm personnel have sufficient training with respect to understanding the specific requirements of documentation and testing as it relates to auditing in accordance with the Uniform Guidance for compliance requirements.
2. The firm's quality control policies and procedures addressing engagement performance were not complied with to ensure sufficient partner review time is allocated prior to the completion of the engagement to provide reasonable assurance that a common interest realty association audit was consistently performed in accordance with professional standards.

3. The firm's consultation policies and procedures are not designed to provide the firm with reasonable assurance that appropriate consultations take place and the resulting conclusions are documented and implemented.
4. The firm's quality control policies and procedures regarding engagement performance were not complied with to ensure that third-party practice aids are properly completed and contain adequate documentation to determine that procedures were appropriately performed in accordance with professional standards.
5. The firm's quality control policies and procedures over engagement performance do not specifically identify the criteria for the eligibility of engagement quality control reviewers (EQCR) to ensure engagements are consistently performed in accordance with professional standards. In the SOC 2 engagement reviewed, a detailed review was performed; however, the EQCR did not appear to be performed by a practitioner with specialized expertise in the requirements of SOC 2 reporting.

Paragraph .11 of PR-C section 100 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 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 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.

Proper determination of the systemic cause is essential to assist the firm with identifying the appropriate remediation of the firm's system of quality control. Reviewers should be careful to avoid the "one size fits all" explanation such as lack of review; however, the true cause might be client acceptance, or CPE, or perhaps that the staff did not have appropriate training to use practice aids or know what the practice aid was asking. One way to identify the systemic cause is to ask "why?" over and over, until you reach it. Peer reviewers are encouraged to leverage the design and compliance checklists to help with determining the systemic cause.

SCENARIO B

Gavin Bricker, of the accounting firm Bricker, Stubing, and Smith, LLP, agreed to perform a financial audit under *Government Auditing Standards* (also referred to as the Yellow Book and GAGAS) as a favor to one of his long-time clients who requested assistance navigating the requirements associated with federal funding for the first time. Mr. Bricker did not audit any other Yellow Book engagements and did not take steps to obtain the sufficient competencies prior to issuing the audit report. During Bricker, Stubing, and Smith, LLP's peer review, the engagement was selected for peer review procedures by team captain Julie Washington. Ms. Washington

determined a report rating of pass with one FFC form related to the Yellow Book engagement was appropriate. The FFC form indicated the following systemic cause:

“The firm should comply with its quality control policies and procedures by evaluating its existing clients in accordance with the criteria set forth in its quality control document. The firm should also document such evaluations and decisions as required by firm policy, and the firm’s partners should monitor client relationship continuance decisions.”

Question 1

Discuss what can be improved in the systemic cause description, including whether Ms. Washington has complied with the standards.

Solution 1

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

- **The systemic cause is not systemically written and implies that the firm did not comply with its policies and procedures for the acceptance and continuance of client relationships and specific engagements but does not state it explicitly.**
- **The systemic cause is not clear regarding why the specific provisions required by the quality control policies and procedures were not complied with.**
 - **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.**

An example of an appropriate systemic cause description would be: “The firm did not comply with its policies and procedures in reference to acceptance and continuance of specific engagements because the selected engagements related to a specialized industry practice, and the firm had no plan in place to obtain the necessary competence needed to perform the engagement, through CPE, consultation, or otherwise.”

Paragraph .11 of PR-C section 100 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 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 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 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).

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.

SCENARIO C

Assume the same circumstances as Scenario B, except the insufficient acceptance and continuance evaluations is elevated to a deficiency during the current peer review. Ms. Washington's report on the firm's system of quality control indicates the following deficiency:

"The firm's quality control policies and procedures were not complied with in reference to acceptance and continuance of specialized engagements. The firm's quality control policies and procedures require evaluation of prospective and continuing clients for approval prior to acceptance."

Question 1

Discuss what can be improved in the deficiency description, including whether Ms. Washington has complied with the standards.

Solution 1

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

- **The description of the deficiency does not include the scenario that led to the finding.**
- **The description of the deficiency does not discuss what issues were found on the engagement or include reference to the nonconforming engagement that resulted from the deficiency, which is likely given the nature of the deficiency.**
- **The systemic cause could be more specific to enable another reviewer to determine if a finding should be identified as a repeat in the next peer review.**

An example of an appropriate deficiency description would be: "The firm's quality control policies and procedures for acceptance and continuance of client relationships and specific engagements require the firm to assess if the firm can continue providing

professional services and the engagement can be completed with professional competence. Our review disclosed an instance where the engagement partner on an audit performed in accordance with *Government Auditing Standards* did not have or obtain the appropriate competence and capabilities to perform that role. As a result, we noted that both members of the engagement team did not obtain sufficient continuing professional education credits relevant to performing an engagement under *Government Auditing Standards*. We also noted that *Government Auditing Standards* independence requirements were not complied with as the engagement team did not properly document safeguards applied to the firm's preparation of the financial statements. We also noted that the report in accordance with *Government Auditing Standards* was omitted by the firm. In our opinion, the matters noted above resulted in the audit performed under *Government Auditing standards* that was not performed in accordance with professional standards in all material respects. Consequently, it was determined to be nonconforming."

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. .A65)

- r. in a report with a peer review rating of *pass with deficiencies or fail*,
 - i. have numbered deficiencies or significant deficiencies that include
 - (1) a description,
 - (2) reference to the applicable requirements of the Statements on Quality Control Standards,
 - (3) the scenario that led to the deficiency or significant deficiency, and
 - (4) reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable.
 - 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. .A67)
 - iii. identify the level of service for any deficiencies or significant deficiencies.
 - iv. identify the applicable industry if a deficiency or significant deficiency is industry specific.
 - v. identify any must-select engagement types in which nonconforming engagements were noted as a result of a deficiency or significant deficiency.

Paragraph .A65 of PR-C section 210 states: Exhibit B, "Illustrative Examples of the Reviewer's Report on the Firm's System of Quality Control," contains example reports

that may be tailored by the reviewer to meet the requirements described in paragraph .69.

Paragraph .A67 of PR-C section 210 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."

CASE #4

System Reviews – Evaluation of Risk Assessment Non-Compliance

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

SCENARIO A

The team captain on a peer review was reviewing the working papers on an audit of a retail company performed by Partner A. While reviewing the working papers related to the firm's risk assessment procedures, a sense of dread fell over the team captain. Apparently, all the time she spent discussing the risk assessment requirements with the firm during their last peer review did not help.

Specifically, when looking at the firm's working papers, she noticed:

- For several, but not all relevant assertions, the firm had factored in a moderate assessment of control risk into its combined risk assessment, even though the firm had elected not to test controls.
- For the cash audit area, which is significant, the firm did not assess risk at the relevant assertion level, instead applying one overall risk of material misstatement for the audit area. For every other audit area, risk was assessed at the relevant assertion level.
- For the inventory audit area, the risk of material misstatement for each relevant assertion appeared appropriate, but when designing the related audit procedures for inventory, the firm only performed basic procedures for every assertion. Based on the assigned risk of material misstatement, the firm's quality control materials suggested more extensive procedures related to the existence assertion should have been designed.

The team captain expanded scope to other audits and determined that the issues were pervasive. No other issues that would have resulted in the engagement being deemed nonconforming were identified.

The team captain re-reviewed the [April 2022 Reviewer Alert](#) and the [September 2018 Reviewer Alert](#) to make sure she came to the right conclusion.

As alluded to above, the firm had issues complying with the risk assessment standards in the prior review. These issues resulted in all of the audits being deemed nonconforming with professional standards in all material respects. Because there were no other issues that resulted in a deficiency, the team captain provided the firm with a finding. The RAB required that the firm take risk assessment training as their implementation plan.

Question 1

Is the engagement non-conforming?

Solution 1

Yes, each bullet listed above represents an instance of non-compliance with the risk assessment standards that would likely make the engagement be non-conforming.

Discussion leaders should emphasize to attendees that each individual item of non-compliance noted above would likely cause the engagement to be non-conforming.

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."

AU-C 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, defines Risk Assessment Procedures as: "The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels."

AU-C 330, *Performing Audit Procedures in Response for Assessed Risks*, states that the auditor should "obtain more persuasive audit evidence the higher the auditor's assessment of risk."

In summary, determining whether non-compliance with the Risk Assessment Standards exists is not always an easy decision to reach so reviewers are encouraged to consult early and often. Great resources to determine if non-compliance with the Risk Assessment Standards exists are the [A&A Technical Hotline](#) and the [Issue Advisory Hotline](#).

Question 2

What type of report should the team captain issue?

Solution 2

The team captain should consider issuing a pass with deficiency or fail report depending on the significance of audits to the firm's total A&A practice.

Given the pervasiveness of the nonconformity, as all audits would 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 PR-C 210.68) 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 nonconforming 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.

Question 3

What follow up action (for example, corrective action or implementation plan) would be appropriate in this scenario?

Solution 3

The appropriate corrective action or implementation plan depends on the nature and extent of issues identified by the review team, factoring the severity of the non-compliance and its related systemic cause. Generally, in this case, the RAB would likely consider requiring the firm to complete training on risk assessment in addition to a pre- or post-issuance review.

PR-C 420.08 states “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.”

Even though the firm has already taken risk assessment training as suggested by the AICPA, the RAB would likely require the following on demand course:

[Risk Assessment Today](#) or [Risk Assessment Under SAS No. 145](#)

Additionally, PR-C 420.09b. states “for repeat findings, deficiencies, or significant deficiencies, evaluating whether the firm made a genuine effort to correct the prior issue and considering whether a more rigorous or targeted requirement is appropriate (Ref: par. .A6) Accordingly, the RAB should consider whether a pre-issuance review or a post-issuance review is appropriate.”

When discussing with the firm its response to the peer review results, reviewers are encouraged to discuss with firms these corrective actions and the possibility of incorporating these actions into their response to the finding.

Question 4

Discuss whether any of the following situations could cause the non-compliance with the risk assessment standards to result in a conforming engagement if this was the only issue noted?

- The risk assessment was documented in accordance with professional standards with the exception of one immaterial audit area. Necessary procedures were performed in that area.
- The firm failed to include the audit program to link the risk assessment to the audit procedures performed for one significant audit area. However, the review team noted that the substantive procedures were documented sufficiently such that the review team could see that all of the risks were addressed. Additionally, the reviewer believes that all of the risks were identified.
- The firm failed to include a specific work paper that addressed the firm’s understanding of the IT control environment. However, the review team found documentation of the firm’s consideration of the IT control environment scattered in other working papers.

Solution 4

Discussion leaders should remind attendees that judgement is a key element in determining whether non-compliance with the risk assessment standards exists.

The April 2022 Reviewer alert states that peer reviewers, technical reviewers and RAB members should consider the following when determining whether an engagement is nonconforming

- The pervasiveness and egregiousness of the noncompliance, not only across engagements, but within an engagement itself. For example, was a singular audit area impacted, or several?
- Were significant risks properly identified and addressed appropriately?
- Were any relevant documentation requirements met versus could documentation be improved upon?

Option A above states that the noncompliance was isolated to one immaterial audit area. Option B indicates that the firm appropriately identified and addressed all risks. Finally, in Option C the description of the issue indicates that the documentation was there but could be improved by centralizing it in one place.

CASE #5

Identifying and Writing 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: 20 minutes

Multiple Choice Lightning Round

Question 1

When a pass with deficiencies or fail peer review report is issued, the deficiencies (or significant deficiencies) should include all of the following, except:

- A. the scenario that led to the deficiency
- B. reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable.
- C. reference to the applicable requirements of the Statements on Quality Control Standards,
- D. the number of engagements impacted by the deficiency

Solution:

D. The number of engagements impacted by the deficiency should not be included.

Question 2

Complete the statement, when _____ is/are the same from the prior review, a repeat deficiency is appropriate.

- A. The same disclosures being impacted on an audit
- B. The systemic cause
- C. The level of service for deficiencies
- D. The industry of the deficiency

Solution:

B. The systemic cause

Question 3

True or False: If a deficiency is industry specific, the industry must be named within the deficiency.

Solution:

True

Question 4

Which of the following items should be avoided when writing deficiencies:

- A. The must-select engagement types in which nonconforming engagements were noted
- B. References to specific individuals, offices, or third-party practice aids
- C. The level of service for deficiencies
- D. References to common acronyms such as GAAP, GAAS, CPE

Solution:

B. References to specific individuals, offices, partners, etc., when writing deficiencies should be avoided.

Lightning Round Guidance

PRC 210 paragraph .68r discusses the parameters of how the report should read and what details the deficiencies (significant deficiencies) should include.

- r. in a report with a peer review rating of pass with deficiencies or fail,
 - i. have numbered deficiencies or significant deficiencies that include
 - (1) a description,
 - (2) reference to the applicable requirements of the Statements on Quality Control Standards,
 - (3) the scenario that led to the deficiency or significant deficiency, and
 - (4) reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable.*
 - 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)*
 - iii. identify the level of service for any deficiencies or significant deficiencies.*
 - iv. identify the applicable industry if a deficiency or significant deficiency is industry specific.*
 - v. identify any must-select engagement types in which nonconforming engagements were noted as a result of a deficiency or significant deficiency.**

Other Recommendations

On a System Review, the deficiencies in the report should be written with a systemic orientation and include:

- a. what the firm's policies and procedures include or exclude (what the system is designed to do or not designed to do), and the particular reference to the applicable requirement of Statements on Quality Control Standards. The deficiency in the report articulates that the firm's system of quality control is not designed in accordance with professional standards or if designed appropriately, the firm's failure to comply with or document its compliance with an appropriately designed system.*
- b. the systemic cause of the deficiency. What happened (design failure or pervasive compliance is-sues) that caused the deficiency? This is often the most difficult area to identify when writing a deficiency and should be determined in collaboration with the firm. It is extremely important to identify the systemic cause and not just the firm's failure to comply with professional standards in all material respects. This is ultimately what the firm will need to change (the design of its system of quality control or how the firm complies with an appropriately designed system) in order for the deficiency not to recur.*

- c. the failure to comply with professional standards in all material respects (nonconforming) as a result of the deficiency or significant deficiency, if applicable.*
- d. an identification of the industry and level of service for any deficiencies or significant deficiencies that are determined to be industry specific.*
- e. an identification of must select industries and practice areas in which nonconforming engagements were noted as a result of a deficiency or significant deficiency (such as the failure to document several procedures performed on Employee Retirement Income Security Act [ERISA] audits).*
- f. grouping issues with the same systemic cause that meet the threshold of a deficiency, into a single deficiency.*
- g. using the term significant deficiencies as a caption before all of the identified deficiencies only when a report with a peer review rating of fail is issued.*
- h. if any of the current deficiencies or significant deficiencies were also noted in the firm's previous peer review(s), whether in the prior report or FFC, in either case, that fact should be identified by stating, "this deficiency was noted in the firm's previous peer review."*

SCENARIO A

Background

Mosco, LLP (the Firm) is a CPA firm with three partners, two managers, and eight other personnel. The managers each have seven years of experience, and the other eight personnel have from six months to two years of experience.

Two of the three partners are responsible for one audit each, but all the partners are responsible for compilation and review services. All partners and staff are significantly involved in tax preparation and related services, which is a significant portion of the firm's practice.

Prior Review: This is the firm's initial review.

Current Peer Review Matters Identified: While performing the review, the review team initially noted performance issues related to the lack of documentation for the following areas of planning on an audit engagement selected for review:

- Preliminary judgment of materiality
- Analytical review procedures
- Internal control structure considerations
- Assessment of risk
- Consideration of fraud risk factors

Although the audit planning program steps were initialed and dated, few work papers existed to support the audit program steps. In addition, documentation of certain other areas of the audit were also lacking and little documentation existed for the partner's review of the work papers prepared by the staff person assigned to the audit.

After discussing the preceding issues with the partner and staff on the engagement and reviewing the firm's written responses to the Matter for Further Consideration forms detailing the

procedures performed by the firm, the review team determined that the firm had given inadequate attention to fraud risk factors, assessment of risk, and internal control structure considerations. However, sufficient planning procedures had been performed in the other areas though they were not documented. The review team was also able to conclude that similar issues would be encountered on the other audit performed by the firm.

Current Peer Review System Issues: The review team believes the firm's quality control policies and procedures are adequately designed for a firm of its size and that the library is appropriate because it contains, among other things, appropriate auditing and accounting practice aids purchased from a third-party provider. When asked by the review team about the reason for the lack of documentation and the inadequate consideration of fraud risk, other risk factors, and internal control considerations, the partner indicated that they had encountered time constraints when completing the audits.

Question 1

Based on the items above, what possible deficiency(ies) could be identified by the review team for this review?

Solution 1

Note for the discussion leader: Solutions may vary, however, the following are some possible answers:

The review team could conclude engagement performance related deficiency should be included in the report because the partner's review of the engagements was not adequate to identify the performance, including documentation deficiencies.

Depending upon other circumstances the group may consider or interpret – such as:

- *personnel on the audit engagements that the staff was uncertain about how to perform the procedures outlined in the audit planning program, and the extent and nature of work papers necessary to support the procedures performed; or*
- *the items identified were due to lack of courses provided in the accounting area and none in the audit area, and the partners had indicated that training courses in the audit area were not beneficial to the firm because the firm only performs the two audits to fill in during its slower periods*

If so, a deficiency related to the design of the firm's system of quality control could also be warranted.

Question 2

Based upon the deficiency (ies) identified in Question 1 – how should the deficiency for the report be written?

Solution 2

Wording may vary but should include the major components below:

The firm's quality control policies and procedures regarding engagement performance are not complied with on a regular basis, therefore do not provide reasonable assurance that engagements are consistently performed in accordance with professional standards. The firm's quality control policies and procedures require a partner to review audit work papers, financial statements, and auditors' reports. During our review, we noted that the firm's audit planning work papers do not evidence either adequate considerations or

documentation of the firm's preliminary judgment about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests.

The firm's quality control policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence to perform engagements in accordance with professional and regulatory requirements. The firm's quality control policies and procedures require all personnel to participate in 40 hours of CPE each year. Even though the firm's personnel met these requirements, the courses taken did not provide the firm's personnel with sufficient information about auditing pronouncements and related procedures. In our opinion, this led to firm personnel on the audit engagements reviewed, not including sufficient evidence of either adequate considerations or documentation of the firm's preliminary judgments about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests

CASE #6

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

Question 1

Findings in a system review should be written systemically. What are the required elements that should be included in the reviewer's description on the finding for further consideration (FFC)?

Solution 1

- **A description of the finding,**
- **Reference to the applicable requirement of Statements on Quality Control Standards,**
- **The scenario that led to the finding, and**
- **A reference to nonconforming engagements resulting from the finding, if applicable.**

Paragraph .53 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, states: "The reviewer should document a finding on an FFC form when the reviewer concludes that one or more related matters result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with the requirements of applicable professional standards. Documentation of a finding should include the following:

- a. A description of the finding
- b. Reference to the applicable requirements of the Statements on Quality Control Standards
- c. The scenario that led to the finding
- d. Reference to nonconforming engagements as a result of the finding, if applicable"

Question 2

From the list below, select the item(s) that the reviewer should consider when reviewing and evaluating the firm's response on the FFC.

- a. The firm's actions taken or planned to remediate the findings in the firm's system of quality control and nonconforming engagements, if applicable.
- b. Any additional procedures to ensure the finding is not repeated in the future.
- c. The number of engagements the situation occurred.
- d. Timing of the remediation.
- e. Whether the firm's actions are feasible, genuine, and comprehensive.

Solution 2

The correct answer is all of the above except C.

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: (Ref: par. .A56–.A57)

- 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. (Ref: par. .A58)”

Question 3

Which of the following statements is true regarding repeat findings in a system review?

- a. When one or more related matters that result from a condition in the reviewed firm’s system of quality control or compliance with it that is noted during the current review and also on an FFC in the prior peer review.
- b. When the identified finding is substantially the same as noted on an FFC in the prior peer review.
- c. When the actions taken by the firm in response to the prior report are substantially the same as in the current peer review.
- d. When similar issues are raised in regulatory oversight(s) and the peer review.

Solution 3

The correct answer is A.

Paragraph .11 of PR-C section 100, *Concepts Common to All Peer Reviews*, states: “**Repeat finding, deficiency, or significant deficiency (system reviews)**. 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 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 4

Describe risks of writing a systemic cause that does not truly describe why the issue occurred?

Solution 4

Identifying the real systemic cause(s) is where peer reviewers can truly add value and positively impact the firm by discussing potential solutions going forward. Peer reviews that only recommend fixing the issue, and not the underlying reason that caused the issue, do not add insights that improve the longer-term effectiveness and efficiency of the firm's processes and the overall system of quality control. Without identifying and understanding the underlying reason(s), a reviewer cannot make meaningful recommendations that help reduce the likelihood of repeat finding(s).

Peer reviewers are the ideal group to analyze issues and identify the systemic cause(s) given their independence and objectivity. This perspective helps ensure biases are minimized, assumptions are challenged, and evidence is fully evaluated.

Paragraph .11 of PR-C section 100, *Concepts Common to All Peer Reviews*, states: **"Repeat finding, deficiency, or significant deficiency (system reviews).** 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 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."

SCENARIO B

You are performing the technical review of Grant, Moore, and Nivens, LLP and have received FFC 1 in the documentation submitted by the team captain, Mr. Smithson. Mr. Smithson determined that the firm did not properly document the nonattest services provided on all of the firm's compilation engagements and concluded that elevation to an FFC was appropriate. No other "no" answers were noted on the review. The relevant content of the FFC appears below.

Reviewer's Description of the Finding: The firm has not established and communicated to the firm's personnel a method how to effectively document consideration of nonattest services on compilation engagements. As a result, nonattest services were not documented sufficiently.

Systemic Cause of Finding: Lack of policies and procedures established over compilation engagements.

Reviewed firm's response: The firm is already using on all of its compilation engagements an independence checklist to ensure documentation and assessment of all nonattest services and their impact on independence. Additionally, on all audit engagements, the firm is utilizing relevant third-party practice aids and ensures that on these engagements all nonattest services provided are documented.

Question 1

What, if any, modifications would you suggest the team captain make to FFC 1 in order to comply with the standards?

Solution 1

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 could be more detailed to assist the firm in their response. In this case, it is not clear what specific documentation required by professional standards was insufficient with regard to the nonattest services provided by the firm. A thorough description will enable the firm to provide a more meaningful response.
- 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.
- The firm's response is not specific as to what actions have been taken or will be taken to remediate the finding, including timing of the remediation.
- The firm's response does not provide additional procedures to ensure the finding will not be repeated in the future.

Reviewers are reminded that in this circumstance, ordinarily there would be "no" answers on both PRP section 4,600, *Guidelines for Review of Quality Control Policies and Procedures for Firms with Two or More Personnel*, and PRP section 4,650, *Guidelines for Testing Compliance with Quality Control Policies and Procedures for Firms with Two of More Personnel*.

Paragraph .53 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, states: "The reviewer should document a finding on an FFC form when the reviewer concludes that one or more related matters result from a condition in the reviewed firm's system of quality control or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with the requirements of applicable professional standards. Documentation of a finding should include the following:

- a. A description of the finding
- b. Reference to the applicable requirements of the Statements on Quality Control Standards
- c. The scenario that led to the finding
- d. Reference to nonconforming engagements as a result of the finding, if applicable"

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: (Ref: par. .A56–.A57)

- 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. (Ref: par. .A58)”

Question 2

Assume that the FFC 1 was revised to reflect the following:

Reviewer’s Description of the Finding: The firm’s quality control policies and procedures regarding engagement performance have not been suitably designed or complied with to provide reasonable assurance that the compilation engagements are consistently performed in accordance with professional standards. During our review we noted that the firm did not adequately consult its quality control material, and also did not properly complete specified quality control materials as required by the firm’s quality control policies and procedures. As a result, in the compilations reviewed the practitioner did not identify all nonattest services to be provided to the client in the engagement letter and the firm’s quality control material, and did not evaluate multiple nonattest services provided to the entity that individually would not impair independence, but in the aggregate could create a threat to independence that could not be reduced to an acceptable level by application of safeguards. The captain was satisfied the practitioner understands the nonattest standards and was independent of the clients on the two compilation with disclosure engagements reviewed.

Systemic Cause of Finding: The firm was not aware that the firm’s quality control materials provider had available practice aids specific to nonattest services documentation in compilation engagements. As a result, the firm did not utilize these practice aids, which would have included steps to address the issues noted above.

Reviewed firm’s response: We agree that we did not address all nonattest services in the engagement letter and we did not document the cumulative effect of multiple nonattest services in the aggregate. Documentation will be added to have proper independence analysis on all future compilation engagements.

What, if any, modifications would you suggest the team captain make to FFC 1 in order to comply with the standards?

Solution 2

The reviewed firm's response still does not contain the required elements. It does not describe the firm's actions taken or planned to remediate the findings in the firm's system of quality control, including timing of remediation, and additional procedures to ensure the finding is not repeated in the future.

An example of an appropriate reviewed firm's response would be: "All partners and supervisory personnel were reminded of the importance of thoroughly reviewing engagement files as it pertains to independence documentation prior to issuance. We have also identified, included, and updated the appropriate practice aids to ensure that we meet the documentation requirements. Additionally, the firm will revise its quality control policies and procedures (QCPP) to require a partner not associated with the engagement to review all engagement files to be sure they meet the requirements of the applicable professional standards. The revision to the QCPP will be completed by July 31, 2022."

CASE #7

Critical Elements and Reviewer Judgment

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

Crinkle & Associates, CPAs underwent their most recent peer review for the period of July 1, 20X2 through June 30, 20X3. The engagement listing provided to the peer reviewer, indicated that Crinkle performed one review engagement during the peer review period: a report on the comparative financial statements of Swagger Production, Inc. for the years ended December 31, 20X2 and 20X1. This review engagement was selected by the peer review team.

During the peer review team's procedures, it was noted that all elements of the review report were in accordance with paragraph .76 of AR-C section 90, *Review of Financial Statements*, with the exception of (1) a title that included the word "independent", and (2) the fact that the accountant is required to be independent of the entity and to meet the accountant's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the review, was not included under the "Accountant's Responsibility" heading of the report.

Question 1

Should this review engagement be considered nonconforming?

Solution 1

Likely this review engagement should be considered nonconforming.

Although not specifically written for System Reviews, Appendix A of PR-C section 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews*, states that circumstances in which there is a failure to adopt current applicable professional standards (for engagements subject to an Engagement Review), or the accountant's report does not contain critical elements of the current applicable professional standards, are considered to represent nonconforming engagements.

SCENARIO B

Instead of the findings outlined in Scenario A, assume that during the peer review team's procedures, it was noted that all elements of the review report were in accordance with paragraph .76 of AR-C section 90, *Review of Financial Statements*, with the exception of a title that included the word "independent".

Question 1

Should this review engagement be considered nonconforming?

Solution 1

Not likely, however, circumstances may exist that influences a reviewer's judgment to conclude otherwise. For more information refer to solution discussion below at Scenario C.

SCENARIO C

Instead of the findings outlined in Scenarios A or B, assume that during the peer review team's procedures, it was noted that all elements of the review report were in accordance with paragraph .76 of AR-C section 90, *Review of Financial Statements*, with the exception of the fact that the accountant is required to be independent of the entity and to meet the accountant's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the review, was not included under the "Accountant's Responsibility" heading of the report.

Question 1

Should this review engagement be considered nonconforming?

Solution 1

Not likely, however, circumstances may exist that influences a reviewer's judgment to conclude otherwise.

As noted in the solution to Scenario A, Appendix A of PR-C section 220, *General Principles and Responsibilities for Reviewers – Engagement Reviews*, circumstances in which there is a failure to adopt current applicable professional standards, or the accountant's report does not contain critical elements of the current applicable professional standards, are considered to represent nonconforming engagements.

As always, it is important that professional judgment be exercised to determine what constitutes "critical elements".

The inclusions and requirements for an accountant's review report are listed in paragraph .76 of AR-C section 90, *Review of Financial Statements*. With respect to expressing the accountant's independence, there are two mentions:

.76a. "A title that includes the word independent to clearly indicate that it is the report of an independent accountant for a review engagement", and

.76eiii. "A section with the heading "Accountant's Responsibility" that includes the following statements... The accountant is required to be independent of the entity and to meet the accountant's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the review."

In Scenario B, Crinkle & Associates omitted the word "independent" from the title of the review report. However, based on the wording of the question ("it was noted that all elements of the review report were in accordance with paragraph .76 of AR-C section 90, *Review of Financial Statements*, with the exception of..."), one can assume the report complied with .76eiii and stated under the "Accountant's Responsibility" heading that the accountant was independent.

In Scenario C, Crinkle & Associates omitted the independence disclosure from the “Accountant’s Responsibility” heading, but based on the wording of the question, one can assume the review report’s title appropriately included the word “independent”.

A peer reviewer alert article published in October of 2021 stated that if “firm did not include a statement that the accountant is required to be independent of the entity in accordance with SSARS No. 25, but did include ‘Independent’ in the title of the report” that the engagement would generally not be considered nonconforming as even though the accountant should include this statement, a reasonably expected user may not be misled since the term “Independent” was included in the title. Reviewers are reminded that reviewer alert articles are not designed to be authoritative and ultimately, the PRB recognizes that each peer review is unique and that reviewers need to exercise professional judgment when forming conclusions.

Note: The Peer Review Board is currently assessing the guidance provided by the October 2021 and December 2022 Reviewer Alerts.

CASE #8

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

Ms. Meri Logan, Partner with Logan and Associates is serving as team captain for the peer review of Mark Wills and Swiss LLC (the Firm). The peer review year end is April 30, 2023.

The *prior* peer review (2020 year-end) had the following results (please assume the report acceptance body approved this peer review with the following items appropriately identified as FFCs):

- The firm accepted a new SOC engagement with no prior experience in this industry nor did the firm obtain sufficient CPE in this area before or after accepting the engagement; further, the firm did not use its third-party practice aids for this industry or seek independent consultation outside of the firm.
 - **FFC 1:** Firm's QCPP require consultation for firm's services involving new engagements in high-risk service areas and / or industries. The firm accepted a new SOC engagement with no prior experience in this industry nor did the firm obtain sufficient CPE in this area before or after accepting the engagement or use its third-party practice aids for this industry or seek independent consultation outside of the firm.
- The firm's third-party practice aids, which serve as a reminder to perform the necessary procedures identified in the related MFCs,(such as required communication with audit committee and planning documentation) in workpapers were not completed
 - **FFC 2:** The firm did not adequately comply with its Engagement Performance quality control policies and procedures, which resulted in the following findings on an audit selected for review: Required communication regarding firm independence and communication with audit committee regarding strategy in the planning phase and conclusion phase was not performed. An t audit summary memo was not prepared as required by firm policy. Required wording on the net capital reconciliation in the report was not presented.
- The firm did not obtain sufficient CPE related to EBPs and did not properly complete and review its third-party practice aids related to EBPs.
 - **FFC 3:** The firm did not adequately comply with its Human Resources quality control policies and procedures which resulted in the firm placing an over-reliance on a SOC 1 report. CPE was not obtained and therefore the testing of participant income was not documented appropriately. The firm represents that the same audit approach was used on the firm's other EBP plan.

The initial results of the current peer review being considered by Ms. Logan are the following:

- **FFC 1:** Review - The firm's report on a Review engagement has not updated for recently issued standards that require that the report include wording about the firm's independence.

- On an audit of an employee benefit plan, the audit documentation did not include any specific audit procedures applied to participant testing of investment income allocation and investment directions. Rather, the firm relied on a SOC 1 report.
 - **FFC 2:** The firm's quality control policies and procedures require that engagement personnel participate in appropriate training in specialized industries in which they are assigned to perform attest services. While firm personnel did take some training on EBP audits, the personnel did not gain enough of an understanding of the work and documentation required in this area. Further, personnel failed to identify the use of incorrect audit programs on one engagement. Therefore, insufficient training in EBP audits and improper use of the firm's QC materials for performing these types of audits was identified as the underlying systemic cause.

Additional information, the Firm only has 1 EBP; the primary industry that the Firm practices is general audits, reviews, and compilations. The EBP in question was deemed non-conforming.

Question 1

The technical reviewer had the following question for the RAB:

The prior review FFC 1 and 3 appear to have the same systemic cause (insufficient CPE). Based on that assessment would the current review FFC 2 constitute a repeat (based upon systemic causes of FFC 1 and 3)?

Solution 1

Yes. A repeat finding for a system review 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 deficiencies.

Even though the issues giving rise to the FFC forms in question are different, the systemic cause of insufficient CPE is the same; therefore, FFC 2 would be considered a repeat finding in the current peer review.

Further, based on the fact pattern presented above, because the systemic cause of both of the prior review FFCs is insufficient CPE, – FFC 2 of the current review is also considered a repeat as instances of insufficient CPE were identified as a systemic cause of issues identified in the prior peer review. . (reviewer's assessment of the firm's response to the prior issue should be taken into account in all situations)

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 .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

Would the issuance of an implementation plan be appropriate in this scenario?

Solution 2

Yes, given that FFC 2 was determined to be a repeat finding. Even if it hadn't been determined to be a repeat finding, if the peer reviewer had determined the engagement to be non-conforming (which is likely), an implementation plan would be appropriate given the engagement comes from a must-select category.

According to paragraph .28 PR-C Section 400, *General Principles and Administration Responsibilities*, the RAB should consider an implementation plan only for:

- repeat findings,
- findings that identify at least one must-select nonconforming engagement in a system review
- a finding related to the reviewed firm's licensure

Question 3

The technical reviewer also had the following question for the RAB:

Based on the above information, does the RAB feel that current year FFC 2 represents a deficiency?

Solution 3

Professional judgement is required to determine if an issue identified in a system review should be documented as an FFC or included in the peer review report as a deficiency or significant deficiency. In this situation, the Firm's only EBP engagement was determined to be non-conforming. Based on the information provided, it would not be unreasonable to determine that FFC 2 is likely a deficiency in the current year review. Ultimately, this decision would be based on the entire set of facts and circumstances of the peer review in question.

Paragraph .68 of PR-C section 210, *General Principles and Responsibilities for Reviewers – System Reviews*, discusses the impact to the report when deficiencies (and / or significant deficiencies) in the Firm's System of Quality Control are identified that include related nonconforming engagements.

Please note that if FFC 2 does become a deficiency, the answer to question 2 becomes moot as a corrective action would be required, as it would for any identified deficiency.

SCENARIO B

Ms. Meri Logan, Partner with Logan and Associates is serving as team captain for the peer review of Mark Wills and Swiss LLC (the firm). The peer review year end is April 30, 2023.

In the prior peer review (2020 year-end), Ms. Logan and the review team identified several missing financial statement disclosures. The review team determined that the firm's system of quality control required pre-issuance reviews on all engagements. While those reviews were performed as required, the pre-issuance reviews were not sufficiently comprehensive. The use of a checklist could have contributed to a comprehensive review. The review team elevated this matter to a deficiency. Please assume the report acceptance body approved this peer review with the following item appropriately identified as a deficiency.

Deficiency in the prior review: The systemic cause was determined to be the firm's failure to require the use of an appropriate practice aid or to employ any other method that would ensure that a comprehensive pre-issuance review would be performed.

As a result, in their LOR, the firm introduced a new policy whereby a pre-issuance review checklist was required to be completed on every engagement by the pre-issuance reviewer. This checklist included a step to review the engagement team's engagement reporting and disclosure checklist as part of the review of the client's financial statements

In the current peer review (2023), the review team again identified missing financial statement disclosures in the engagements reviewed. Pre-issuance reviews were performed on all engagements as required; however, the review team determined that checklists were not being completed on all engagements as required. The review team elevated this matter to a deficiency.

Deficiency in the current review: The systemic cause was determined to be the failure of pre-issuance reviewers to properly complete the engagement reporting and disclosure checklists as required by firm policy.

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 systemic cause identified in the prior review's FFC forms or report. The current year deficiency is a compliance deficiency – the firm did not comply with the new policy of requiring checklists to be completed for each engagement. Whereas the prior review deficiency was a design deficiency - the firm didn't have policies in place to ensure the reviews were comprehensive.

As such, it would not be deemed a repeat even though both systemic causes resulted in the same significant disclosure issues.

Talking Points:

- If corrective actions have been implemented and the same deficiency or significant deficiency is occurring, the review team, in conjunction with the firm,

should determine the weakness in the firm's system of quality control that is causing the deficiency or significant deficiency to occur.

- If the prior corrective actions appear to be effective, the deficiency or significant deficiency may be caused by some other weakness in the firm's system of quality control. If the systemic cause of the deficiency or significant deficiency is different from that reported in the prior review, it would not be a repeat.

PR-C 100 Deficiency (system reviews). When evaluating the reviewed firm's system of quality control taken as a whole, one or more matters that the team captain has concluded could create a situation in which the reviewed 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. Deficiencies should be documented in a peer review report with a rating of pass with deficiencies.

PR-C 100 Repeat finding, deficiency, or significant deficiency (system reviews). 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.

CASE #9

Performance Deficiency Letters and Corrective Actions

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

Mr. Johnston is serving as the team captain for the peer review of Eola & Gates LLC. The Committee noted that the FFCs required revisions to properly address the systemic cause, the report and representation letter did not follow the templates, thus requiring revisions, and the reviewer did not appropriately aggregate and evaluate matters. The Committee noted that Mr. Johnston has received several feedback forms over the last three years for similar performance issues.

Question 1

Can the Committee consider issuing a performance deficiency letter (PDL) in this situation?

Solution 1

Yes, even though the performance findings do not rise to the level of a deficiency, the reviewer has exhibited a pattern and thus, a PDL is warranted.

Paragraph .06 of PR-C section 430, *Reviewer Monitoring and Performance*, states: Performance deficiency letters (PDLs) are issued to improve reviewer performance and assist the committee in ensuring reviewers are fulfilling all reviewer responsibilities in the performance of reviews. PDLs should be issued when there is (Ref: par. .A6–.A8)

- a. a pattern of reviewer performance findings by a reviewer or
- b. more than one reviewer performance deficiency on one review (regardless of whether a pattern is present).

SCENARIO B

Mr. Wilburn is serving as the team captain for the peer review of Ormond Malvern PLLC. The Committee noted that Mr. Wilburn failed to conclude that a Single Audit engagement was nonconforming and did not include it on a MFC prior to technical review. The technical reviewer noted that Mr. Wilburn did not appear to have sufficient knowledge and experience required to identify and assess the impact of the noted issues prior to technical review. The Committee concluded that given the pervasiveness of the matter, a deficiency was warranted. Mr. Wilburn has no prior history of pattern of performance feedback.

Question 1

Can the Committee consider issuing a performance deficiency letter (PDL) in this situation?

Solution 1

Yes, even though the reviewer does not have a history of performance feedback, there is more than one reviewer performance deficiency noted on the Ormond Malvern PLLC peer review. In this case, the deficiencies are due to the reviewer

failing to appropriately identify a nonconforming engagement and demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight, or RAB consideration.

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- a. a pattern of reviewer performance findings by a reviewer or
- b. more than one reviewer performance deficiency on one review (regardless of whether a pattern is present).

Paragraph .A3 of PR-C section 430, *Reviewer Monitoring and Performance*, states: Examples of reviewer performance deficiencies that may be documented on a reviewer performance feedback form include, but are not limited to, the following:

- a. Related to engagement selection and review, the reviewer
 - i. Did not appropriately identify a nonconforming engagement prior to technical review, oversight, or RAB consideration **and**
 - ii. Did not demonstrate sufficient knowledge and experience required to review the engagement and identify issues prior to technical review, oversight, or RAB consideration.
- b. Related to assessment and disposition of matters, the reviewer did not appropriately aggregate or evaluate matters noted on the review such that the RAB determined
 - i. a deficiency was present but the reviewer did not elevate the matter beyond a matter for further consideration (MFC) or
 - ii. a significant deficiency (or a *fail* report rating on an engagement review) was present but the reviewer did not elevate the matter beyond an FFC.

Question 2

Assume that the Committee decided to issue Mr. Wilburn a PDL. What information is typically included in a PDL? What type of corrective actions do you believe would be helpful for the reviewer in this situation?

Solution 2

Given the nature of the deficiencies in this scenario, examples of appropriate corrective actions would be oversight until performance improves on all reviews for which he serves as a review or team captain on and pre-issuance reviews on all future engagements he reviews as part of a system or engagement review; however, the Committee can use judgements based on the details.

Paragraph .07-.08 of PR-C section 430, *Reviewer Monitoring and Performance*, states: .07 A PDL should do the following: (Ref: par. .A9)

- a. State that improvements are needed in the performance of the reviewer.
- b. Include an explanation of the performance deficiencies.
- c. Indicate that the individual must agree to comply with one or more corrective actions or restrictions in order to continue performing reviews, such as, but not limited to, the following:
 - i. Oversight (at the reviewer's expense) until performance improves
 - ii. Consulting with the AE to discuss the planning and performance of the next review until performance improves

- iii. Submitting all reports and appropriate documentation on all outstanding peer reviews before scheduling or performing another review
 - iv. Having pre-issuance reviews of the report and peer review documentation on future peer reviews by an individual acceptable to the RAB (at the reviewer's expense)
 - v. Submitting evidence of completion of specified types of and amounts of CPE or training, or passing the related AICPA advanced certificate exam
 - vi. Removing or revising certain peer reviewer resume items until appropriate proof of experience and knowledge have been provided to the satisfaction of the RAB
- d. Specify whether any corrective actions or restrictions are specific to the individual's performance as a captain or team member, if applicable.
 - e. Indicate that other AEs will impose the preceding corrective actions or restrictions on the reviewer.
 - f. Indicate that the committee may request that the board remove the individual's name from the list of qualified reviewers if improvements are not noted in the performance of the reviewer on subsequent reviews or the reviewer refuses to cooperate, such as by failing to return a signed acknowledgment copy of the letter within 30 days from the date of the letter.
 - g. Indicate that the reviewer will be suspended from scheduling reviews and performing reviews that are scheduled but not commenced by all AEs if the reviewer has not acknowledged the letter within 30 days from the date of the letter.
 - h. Give the reviewer an opportunity to appeal the decision before a hearing panel of the board, via telephone conference or in writing. (Ref: par. .A9)
 - i. Indicate that a request for appeal must be made within 30 days of receipt of the letter and that the actions or restrictions outlined in the letter will remain in effect for all reviews that the reviewer commences, pending the appeal results.
 - j. Be copied and sent to the managing partner of the reviewer's firm if the reviewer is not a sole practitioner and be sent to all AEs for which the reviewer is scheduled to perform reviews or has performed a review in the past year.

.08 The entity issuing a PDL should document its communication (either through discussion or email) with the reviewer to ensure the reviewer is knowledgeable about the evidence supporting the PDL. (Ref: par. .A10)

Question 3

Based on the above facts, Mr. Wilburn has been issued a PDL requiring:

- oversight until performance improves on all system reviews for which he serves as a team captain on and
- pre-issuance reviews on all future Single Audit engagements he reviews either as a team captain or a team member.

Would you expect these corrective actions to apply to the reviews he performs for AEs other than the one who issued the PDL?

Solution 3

Yes, corrective actions or restrictions included in a PDL should be adhered to by all AEs and current reviews evaluated by each AE.

Paragraph .09 of PR-C section 430, *Reviewer Monitoring and Performance*, states: Corrective actions or restrictions included in a PDL should be adhered to by all AEs and

applied to the individual's participation in the performance of any peer review unless the condition is specific to the individual's service as a team captain, review captain, or team member. Corrective actions or restrictions included in a PDL should remain in effect for reviews that the reviewer commences after acknowledging receipt of the PDL until

- a. either the corrective actions and restrictions are withdrawn or
- b. the reviewer has appealed the PDL and the hearing panel determines that the corrective actions or restrictions should be removed or revised.

Paragraph .16 of PR-C section 430, *Reviewer Monitoring and Performance*, states: Because reviews will be in different stages of completion when a reviewer is issued a PDL, the AE should evaluate the situation and ensure appropriate actions are taken, if any, due to the PDL. (Ref.: par. .A16)

Question 4

How long is Mr. Wilburn required to comply with the corrective actions imposed by the PDL?

Solution 4

The corrective actions or restrictions are in place until the Committee that issued the PDL determines they have been completed to its satisfaction.

Paragraph .34 of PR-C section 200, *General Principles and Responsibilities for Reviewers*, states:

The committee (or its designated body) or board that issued the performance deficiency letter will determine when a corrective action is no longer required. To assist the committee (or its designated body) or board in making this determination, the reviewer should provide evidence that supports the reviewer's remediation of the related performance deficiency for each corrective action to the AE or board. (Ref: par. .A43)



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