



Peer Review
Program

2023 Conference Cases

System Reviews

without 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?

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

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

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

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

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?

Question 2

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

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?

Question 2

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

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?

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.

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.

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?

Question 2

What type of report should the team captain issue?

Question 3

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

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.

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

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

Question 3

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

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

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?

Question 2

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

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)?

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.

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.

Question 4

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

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?

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?

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?

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?

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?

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)?

Question 2

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

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?

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?

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?

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?

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?

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?

Question 4

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



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