

CASE #1

Engagement Reviews – When to Select Preparation Engagements

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

Estimated Time to Complete: 15 Minutes

Note: At the end of this case, you will find guidance from the Peer Review Standards as it relates to engagement selection in an Engagement Review.

SCENARIO A

You have been engaged to perform an engagement review. There are three partners in the firm that perform A&A work, and no other individuals are responsible for issuing reports or performing preparation engagements.

The Engagement Summary Form reflects the following information:

	Responsible party 1	Responsible party 2	Responsible party 3
Reviews (SSARS)	4	-	2
Compilations (with disclosures)	-	1	-
Compilations (w/o disclosures)	-	-	-
Preparations (with disclosures)	1	-	6
Preparations (w/o disclosures)	-	12	-

Question 1

Given this fact pattern, should a preparation engagement be selected for review? Why or why not?

Solution 1

Yes, in this case a preparation engagement should be selected to meet the requirement in paragraph .104(c)(2) of PRP Section 1000 that states an engagement that omits substantially all disclosures should be selected for review.

As the firm does not perform any other engagements that omit substantially all disclosures, a preparation engagement should be selected to fulfill this requirement.

Question 2

Based on discussions with the firm, the Review Captain learned that the firm inaccurately completed its engagement listing and the compilation with disclosures actually omits substantially all disclosures. Should a preparation engagement still be selected?

The corrected Engagement Summary Form reflects the following information:

	Responsible party 1	Responsible party 2	Responsible party 3
Reviews (SSARS)	4	-	2
Compilations (with disclosures)	-	-	-
Compilations (w/o disclosures)	-	1	-
Preparations (with disclosures)	1	-	6
Preparations (w/o disclosures)	-	12	-

Solution 2

No. A preparation engagement should not be selected.

An appropriate engagement selection would be:

1. Review from responsible party 1
2. Compilation without disclosures from responsible party 2
3. Review from responsible party 3

This selection satisfies the requirements to 1) include an engagement with disclosures, 2) include an engagement that omits substantially all disclosures, 3) include an engagement for each responsible party, 4) include both reviews and compilations, and 5) review at least 2 engagements.

Refer to examples 5 and 6 from Interpretation 104-4.

Question 3

Using the corrected Engagement Summary Form in Question 2, is it acceptable to select the review from responsible party 1, the compilation without disclosures from responsible party 2, and the preparation with disclosures from responsible party 3?

Solution 3

No. A review engagement would meet the requirement for selecting an engagement with disclosures and even though a review engagement was selected for responsible party 1, it would not be appropriate to select a preparation engagement for responsible party 3 unless that individual only performs preparation engagements.

Refer to examples 5 and 6 from Interpretation 104-4.

SCENARIO B

You have been engaged to perform an engagement review. There are three partners in the firm that perform A&A work, and no other individuals are responsible for issuing reports or performing preparation engagements.

The Engagement Summary Form reflects the following information:

	Responsible party 1	Responsible party 2	Responsible party 3
Reviews (SSARS)	4	-	2
Compilations (with disclosures)	-	-	-
Compilations (w/o disclosures)	-	1	-
Preparations (with disclosures)	1	-	6
Preparations (w/o disclosures)	-	12	3

Question 1

Given this fact pattern, should a preparation engagement be selected for review? Why or why not?

Solution 1

No. A preparation engagement should not be selected.

An appropriate engagement selection would be:

1. Review from responsible party 1
2. Compilation without disclosures from responsible party 2
3. Review from responsible party 3

This selection satisfies the requirements to 1) include an engagement with disclosures, 2) include an engagement that omits substantially all disclosures, 3) include an engagement for each responsible party, 4) include both reviews and compilations, and 5) review at least 2 engagements.

SCENARIO C

You are the Review Captain performing an engagement review for a sole practitioner. Determine an appropriate engagement selection for each question below.

Question 1

The sole practitioner performed 5 compilations with disclosures and 2 preparations without disclosures. What is an appropriate engagement selection?

Solution 1

Because the compilation engagements have disclosures and the preparation engagements do not, one of each should be selected.

Refer to example 2 from Interpretation 104-4.

Question 2

The sole practitioner performed 5 compilations with disclosures and 2 preparations with disclosures. What is an appropriate engagement selection?

Solution 2

Because all of the engagements have disclosures, 2 compilations should be selected for review. No preparation engagements should be selected.

Refer to example 4 from Interpretation 104-4.

Question 3

The sole practitioner performed 1 review, 1 compilation with disclosures and 2 preparations that omitted substantially all disclosures. What is the appropriate engagement selection?

Solution 3

The review engagement, compilation engagement and one preparation engagement should be selected. The review and compilation engagements should be selected to satisfy the requirements of paragraph .104(a) of PRP Section 1000. Further, because the review and the compilation both have disclosures, the preparation engagement should be selected to meet the requirement in paragraph .104(c)(2) of PRP Section 1000, which is to review an engagement that omits substantially all disclosures.

Refer to paragraph .104 of PRP Section 1000.

Question 4

The sole practitioner performed 1 preparation that omitted substantially all disclosures and 3 agreed upon procedures (AUP) engagement. What is the appropriate engagement selection?

Solution 4

The preparation engagement should be selected, along with an AUP engagement.

Item c 2 within paragraph .104 of PRP Section 1000 states that one preparation engagement that omits substantially all disclosures should be selected when... “the firm’s only omit disclosure engagements are preparation engagements”. By definition, an AUP engagement cannot “omit disclosures” as this is not a concept discussed by the SSAEs.

Additionally, item d within paragraph .104 of PRP Section 1000 requires that two engagements ordinarily be selected for review.

PEER REVIEW STANDARDS:

.104 The criteria for selecting the peer review year-end and the period to be covered by an Engagement Review are the same as those for a System Review (see paragraphs .13–.19). Engagements subject to review ordinarily should be those with periods ending during the year under review, except for financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection. The reviewed firm should provide summarized information showing the number of its compilation, review and preparation engagements performed under SSARS and engagements performed under the SSAEs, classified into industry categories. That information should be provided for each partner, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements or the issuance of prepared financial statements with or without disclaimer reports. On the basis of that information, the review captain or the administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines (see interpretations):

- a) One engagement should be selected from each of the following areas of service performed by the firm:
 1. Review of historical financial statements (performed under SSARS)
 2. Compilation of historical financial statements, with disclosures (performed under SSARS)
 3. Compilation of historical financial statements that omits substantially all disclosures (performed under SSARS)
 4. Engagements performed under the SSAEs other than examinations
- b) One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item *a*.
- c) Selection of preparation engagements should only be made in the following instances:
 1. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item *a*.
 2. One preparation engagement with disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item *a* or when the firm's only engagements with disclosures are preparation engagements.
 3. One preparation engagement that omits substantially all disclosures (performed under SSARS) should be selected when performed by an individual in the firm who does not perform any engagements included in item *a* or when the firm's only omit disclosure engagements are preparation engagements.
 4. One preparation engagement should be selected if needed to meet the requirement in item *d*.
- d) Ordinarily, at least two engagements should be selected for review.

.105 The preceding criteria are not mutually exclusive. The objective is to ensure that one engagement is selected for each partner and one engagement is selected from each of the areas of service performed by the firm listed in item *a* in the previous list. Therefore, one of every type of engagement that a partner, or individual if not a partner, responsible for the issuance of the reports listed in item *a* in the previous list performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in item *a* in the previous list performed by the firm are covered.

Interpretation 104-4 adds that:

Question—What are some examples of when a preparation engagement should be selected during an Engagement Review?

Interpretation—

Example 1. If a sole practitioner performs compilation engagements with disclosures (or SSAEs, or reviews) and compilation engagements that omit substantially all disclosures, then one of each of these levels of service should be selected as part of the peer review. None of the firm's preparation engagements should be selected.

Example 2. If a sole practitioner only performs compilation engagements with disclosures and preparation engagements that omit substantially all disclosures (and no other engagements under SSAEs or SSARSs), then one of each type of engagement should be selected as part of the peer review because an engagement that omits substantially all disclosures should be selected.

Example 3. If a sole practitioner only performs compilation engagements that omit substantially all disclosures and preparation engagements with disclosures (and no other engagements under the SSAEs or SSARSs), then one of each type of engagement should be selected as part of the peer review because a full disclosure engagement should be selected.

Example 4. If a sole practitioner only performs compilation engagements with disclosures and preparation engagements with disclosures, then two compilation engagements should be selected as the selection of a preparation engagement is not required to be and should not be selected to meet any of the criteria outlined in paragraph .104 of the standards. However, if the firm only performs one compilation engagement with disclosures (as well as preparation engagements with disclosures and no other engagements under SSAEs or SSARSs), the compilation engagement and a preparation engagement should be selected as part of the peer review. In this case, a preparation engagement is selected in order to meet the requirement of selecting a minimum of two engagements.

Example 5. Firm ABCDE is a five-partner firm and partner A performs agreed-upon procedure engagements, partner B performs review engagements, partner C performs full disclosure compilation engagements, partner D performs compilation engagements that omit substantially all disclosures and partner E performs preparation engagements. In this scenario one engagement is selected from each partner A, B, C and D which fulfills the requirement to select an engagement in each level of service outlined in paragraph .104a of the standards. However, because every person in the firm responsible for the issuance of financial statements must have an engagement selected, one of partner E's preparation engagements should be selected. Because the requirement to select an engagement with disclosures and an engagement that omits substantially all disclosures has been met (through the selection of engagements performed by the other partners) any preparation engagement performed by partner E may be selected.

Example 6. Using the same facts described in example 5, if partner E also performed a review engagement and a compilation engagement that omits substantially all disclosures, either the review engagement or the compilation engagement should be selected. The reviewer should not select any of partner E's preparation engagements unless one of the requirements listed in paragraph .104 of the standards cannot otherwise be met.

CASE #2

Engagement Reviews – Repeat Findings and Appropriate Implementation Plans

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

Estimated Time to Complete: 10 Minutes

Karl Johnson, CPA is performing the review of Britt & Co. and has identified an FFC for a review engagement that is missing disclosures related to payments of long-term debt for the subsequent five years. The prior review included an FFC for a review engagement where the financial statements failed to disclose related party transactions. Based on discussions with the firm, they did not utilize disclosure checklists on either engagement.

Question 1

Would the current review FFC be considered a repeat finding?

Solution 1

No, this would not be a repeat finding based on Interpretation No. 83-2 because the identified finding is not substantially the same as noted on the FFC in the prior peer review.

Though both findings are related to note disclosures (and potentially related to failing to utilize a disclosure checklist), they are not considered substantially the same and thus would not be a repeat finding in an Engagement Review.

Question 2

Would the FFC identified in the current peer review be considered a repeat finding if the prior review included a deficiency for failing to disclose payments of long-term debt for the subsequent five years?

Solution 2

Yes, though the prior review MFC was elevated to a deficiency whereas the current review MFC was elevated to an FFC, this would be a repeat finding because the identified finding is substantially the same as noted in the prior peer review (even though it was elevated to a deficiency versus an FFC).

When a finding is considered a repeat from the prior review, the reviewed firm may be required to complete an implementation plan, thus it is important for reviewer's to appropriately identify repeat findings in an engagement review.

Question 3

For repeat findings in an engagement review, the review captain should discuss potential implications of the report acceptance process, specifically potential implementation plans the report acceptance body may impose. What types of implementation plans should the review captain discuss with the firm?

Solution 3

The allowable implementation plans for repeat findings in an engagement review are:

- **Require members of the firm to take specified types and amounts of CPE.**
- **Require firm to submit monitoring report or inspection report to the report acceptance body.**

Review captains are reminded that these are the only implementation plans allowable in instances of a repeat finding.

If the RAB believes a more significant implementation plan is warranted, the RAB may ask the reviewer to reevaluate whether the nature and significance of the matter(s) warrants a deficiency in the report.

If a deficiency is warranted, the report should be revised and a letter of response requested from the reviewed firm. The corrective actions allowable for Engagement Reviews with a report rating of *pass with deficiencies* or *fail* are:

- Require firm to submit a copy of a subsequent report and accompanying financials statements to review caption.
- Require members of the firm to take specific types and amounts of CPE.
- Require the firm to hire an outside party acceptable to the RAB to perform pre-issuance and post-issuance reviews of certain types or portions of engagements and to report periodically to the RAB on the firm's progress.
- Require the firm to hire an outside party acceptable to the RAB to review the firm's remediation of an engagement not performed or reported on in conformity with professional standards in all material respects.
- Require the firm to hire an outside party acceptable to the RAB to review the firm's completion of its intended remedial actions outlined in its letter of response or evaluate the appropriateness of alternative actions.

CASE #3

Engagement Reviews – Consideration of New Standards

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

Estimated Time to Complete: 15 Minutes

SCENARIO A

Throughout this scenario, you are reviewing engagements with period ends covered within the implementation period for FASB ASC 606, *Revenue from Contracts with Customers* (ASC 606).

Question 1

As you are reviewing the workpapers and financial statements for review engagement A, you see no indication that ASC 606 was implemented or that the client considered implementing ASC 606. Based on this, would you consider the engagement nonconforming; why or why not?

Solution 1

The engagement would likely be considered nonconforming given the firm's client did not implement ASC 606 when required, and based on peer review procedures performed, there is no evidence that implementation was considered.

While it is certainly possible for ASC 606 to have minimal (i.e. an immaterial) impact on an entity's financial statements, in this case, the accountant would not be able to take credit for such a claim as such an assessment is not in the firm's working papers, such as the documentation for the analytical procedures or inquiries with management.

As a reminder, there is no expectation that peer reviewers perform procedures out of the ordinary when reviewing an engagement in order to determine if ASC 606 has been appropriately implemented.

Question 2

As you are reviewing the workpapers and financial statements for compilation engagement A (with disclosures), you note some of the disclosures that are required in order to comply with ASC 606, but not all of the elements are present. You do not believe the items that are missing would be misleading to the users of the financial statements. Would you consider the engagement nonconforming; why or why not?

Solution 2

It is certainly possible that this would not result in a nonconforming engagement.

The review captain will have to use professional judgment in determining the level of noncompliance and whether it rises to the level of a nonconforming engagement. As with any potential nonconforming engagement, when a review captain encounters a scenario such as this, it is very important to fully document what was present and what was missing so that technical reviewers and RABs can have a full understanding of the situation.

Note for presenters: Consider discussing what a review captain would be required to do as it relates to reviewing a compilation engagement (both with or without disclosures), particularly as it concerns adopting new standards, as the working papers for a compilation engagement could be quite limited.

Question 3

As you are reviewing the workpapers and financial statements for review engagement B, you see the accountant included a reference to the client's adoption of ASC 606 in the analytical procedures workpapers. Additionally, you note that the financial statements properly included all related disclosures. However, after conversations with the firm, you determine the guidance was misapplied, resulting in material issues in the financial statements. Would you consider the engagement nonconforming; why or why not?

Solution 3

Most likely, this would result in a nonconforming engagement as there are material issues impacting the financial statements.

Even though the client adopted ASC 606 as required (as opposed to the situation in question 1), it did not do so appropriately, and the firm did not identify the material issues.

SCENARIO B

During the course of your most recent engagement review, you select two agreed upon procedures engagements, one from Partner A and one from Partner B. Both engagements had reports dated July 31, 2021. Partner A's engagement was performed in accordance with SSAE No. 18. Partner B's engagement was performed in accordance with SSAE No. 19.

Question 1

Based on this information alone, should either engagement be considered nonconforming?

Solution 1

Partner A's engagement could be considered nonconforming given it was performed in accordance with outdated standards.

SSAE No. 19 is effective for agreed upon procedures reports dated on or after July 15, 2021. As Partner A's engagement was performed in accordance with outdated standards, it is certainly possible that this engagement could be considered nonconforming. Partner B's engagement was performed in accordance with the correct standards.

Question 2

Would your answer to question 1 change if both engagements had reports dated June 30, 2021?

Solution 2

If both engagements had reports dated on June 30, 2021, a review captain would not be able to identify either engagement as nonconforming based on the information provided in the Scenario.

Partner A's engagement is correctly performed under the standards in effect at the time of the date of the report. For Partner B, SSAE 19 permitted early implementation.

SSAE No. 19 superseded SSAE No. 18 AT-C section 215 of the same title in AICPA *Professional Standards*. SSAE No. 19, which also amended SSAE No. 18 AT-C section 105, *Concepts Common to All Attestation Engagements*, provides flexibility to a practitioner's ability to perform an AUP engagement by (1) removing the requirement that the practitioner request a written assertion from the responsible party; (2) allowing procedures to be developed over the course of the engagement; (3) allowing the practitioner to assist in developing the procedures; (4) no longer requiring intended users to take responsibility for the sufficiency of the procedures and instead requiring the engaging party to acknowledge the appropriateness of the procedures prior to the issuance of the practitioner's report; and (5) allowing the practitioner to issue a general-use report.

SCENARIO C

It is now June 2022, and during the course of your most recent engagement review, you select a review engagement from both Partner A and Partner B, each with a period end of December 31, 2021. You identified the following items:

- There is no evidence that Partner A determined materiality for the financial statements as a whole and applied that materiality when designing procedures and evaluating the results obtained from those procedures.
- The accountant's report for Partner B's engagement is titled "Independent Accountant's Review Report", however, it omits the statement 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.

Question 1

Based on the information provided, would Partner A's engagement be considered nonconforming?

Solution 1

Partner A's engagement would likely be considered nonconforming given it did not comply with SSARS No. 25.

SSARS No. 25 includes an explicit requirement for the accountant to determine materiality for the financial statements as a whole and apply this materiality in designing the procedures and evaluating the results obtained from those procedures. The standard also requires the accountant, in obtaining sufficient appropriate review evidence as a basis for a conclusion on the financial statements as a whole, to design and perform the analytical procedures and inquires to address all material items in the financial statements, including disclosures.

As a reminder, SSARS No. 25 is effective for engagements performed in accordance with SSARSs for periods ending on or after December 15, 2021. Early implementation is permitted.

Question 2

Based on the information provided, would Partner B's engagement be considered nonconforming?

Solution 2

While ultimately up to the review captain's judgment, it would not be unreasonable for the review captain to conclude that the engagement is not nonconforming.

While SSARS No. 25 adds a requirement for the accountant to explicitly state in the accountant's report 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, as the report's title included the word "independent", a reasonable user of the financial statements may not be misled to believe that the accountant was not independent.

CASE #4

Engagement Reviews – Evaluating Firm Responses to Deficiencies

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

Estimated Time to Complete: 10 Minutes

Holden Miller performed the Engagement Review of Smith LLP and identified a non-conforming review engagement for the firm failing to identify that a material amount was omitted from the allowance for doubtful accounts line item. The firm's letter of response indicates the engagement team will correct the allowance amount on future engagements.

Question 1

What should the review captain expect to see in the firm's letter of response?

Solution 1

Per Standards paragraph .125, the firm's response should:

- **Address the firm's actions taken or planned to remediate the deficiency,**
- **The timing of the remediation and additional procedures to ensure the deficiency is not repeated in the future.**

The action(s) should be feasible, genuine, and comprehensive and address each of the requirements outlined in paragraph .125.

Illustrative letters of response by a firm undergoing an Engagement Review are included in Appendix O and Appendix Q in the Standards.

Question 2

If the firm's draft letter of response does not address all requirements in paragraph .125 or is not feasible, genuine, and comprehensive, what should the review captain do?

Solution 2

Per Standards paragraph .126, the review captain should discuss the appropriateness of the response with the firm during the exit conference.

After the review captain has evaluated the letter of response to determine if it addresses the elements in paragraph .125 and whether that response is feasible, genuine, and comprehensive, the review captain should discuss the appropriateness of the firm's response during the exit conference and request a revised letter of response, if the necessary.

If the firm has taken actions related to the nonconforming engagement, the review captain should review documentation of those actions (for example, omitted procedures performed, reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the actions are appropriate and comply with the relevant professional standards.

If the firm has not taken action on the nonconforming engagement, the review captain should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).

Question 3

Is the firm's letter of response appropriate in this scenario?

Solution 3

No. Peer review guidance states that firms should be discouraged from defaulting to a response of "we'll fix it on the next engagement" without thought behind that response. It may be appropriate, but firms should also articulate why it is the appropriate response.

The firm's response should show, it has complied with any relevant professional standards.

Question 4

Should the review captain instruct the firm to recall and reissue the non-conforming engagement?

Solution 4

No. While review captains should request a revised response if the firm's response is not deemed to be comprehensive, genuine and feasible (as the technical reviewer or RAB will ultimately request a revised response in these situations), reviewers should not instruct firms to perform omitted procedures, reissue accounting reports or have previously issued financial statements revised and reissued (as these are decisions for the firm and its client to make).

However, administering entities can require the firms to make and document appropriate considerations regarding such engagements as a condition of acceptance of the peer review.

The firm's response may affect other monitoring actions the administering entity's peer review committee may impose, including actions to verify the firm adheres to the intentions indicated in its response.

CASE #5

Engagement Reviews – Engagement Selection

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

Estimated Time to Complete: 15 Minutes

Note: At the end of this case, you will find guidance from the Peer Review Standards as it relates to engagement selection in an Engagement Review.

SCENARIO A

The following Engagement Summary Form was received from the firm:

	Responsible party 1	Responsible party 2	Responsible party 3
Reviews (SSARSs)	-	4	-
Compilations (with disclosures)	10	-	-
Compilations (w/o disclosures)	8	-	36

Question 1

Based on the Engagement Summary Form above, how many and what types of engagements should be selected for review?

Solution 1

A total of three engagements should be selected. The review captain should select a compilation with disclosures performed by responsible party 1, a review performed by responsible party 2, and a compilation without disclosures performed by responsible party 3. This covers all levels of service and all responsible parties.

SCENARIO B

The following Engagement Summary Form was received from the firm:

	Responsible party 1	Responsible party 2	Responsible party 3
Reviews (SSARSs)	-	10	-
Compilations (w/o disclosures)	6	12	8
Preparations (w/o disclosures)	-	-	4

Question 1

Based on the Engagement Summary Form above, how many and what types of engagements should be selected for review?

Solution 1

A total of three engagements should be selected. The review captain should select a compilation without disclosures performed by responsible party 1, a review performed by responsible party 2, and a compilation without disclosures performed by responsible party 3. According to paragraph .104c, selection of the preparation engagement is not required and should not be selected. This covers all levels of service and all responsible parties.

SCENARIO C

The following Engagement Summary Form was received from the firm:

	Responsible party 1	Responsible party 2	Responsible party 3
Reviews (SSARSs)	3	-	1
Compilations (with disclosures)	12	1	1
Compilations (w/o disclosures)	1	12	1
Preparations (w/o disclosures)	-	-	12
Agreed-upon procedures (SSAEs)	-	-	1

Question 1

Based on the Engagement Summary Form above, how many and what types of engagements should be selected for review?

Solution 1

A total of four engagements should be selected. The review captain should select one review, one compilation with disclosures, one compilation without disclosures, and one agreed-upon procedures engagement. According to paragraph .104c, selection of the preparation engagement is not required and should not be selected. The type of engagement selected for review from each partner is arbitrary as long as at least one engagement from each of the four levels of service provided by the firm is selected and all three partners are covered in the selection.

SCENARIO D

The following Engagement Summary Form was received from the firm:

	Responsible party 1
Compilations (w/o disclosures)	5
Preparations (w/o disclosures)	12

Question 1

Based on the Engagement Summary Form above, how many and what types of engagements should be selected for review?

Solution 1

A total of two engagements should be selected. The review captain should select two compilations without disclosures. According to paragraph .104c, selection of

the preparation engagement is not required and should not be selected. This covers all levels of service and all responsible parties.

SCENARIO E

The following Engagement Summary Form was received from the firm:

	Responsible party 1	Responsible party 2
Reviews (SSARs)	-	10
Compilations (with disclosures)	10	-
Compilations (w/o disclosures)	8	-

Question 1

Based on the Engagement Summary Form above, how many and what types of engagements should be selected for review?

Solution 1

A total of three engagements should be selected. The review captain should select a compilation with disclosures and without disclosures performed by responsible party 1, and a review performed by responsible party 2. This covers all levels of service and all responsible parties.

SCENARIO F

The following Engagement Summary Form was received from the firm:

	Responsible party 1	Responsible party 2	Responsible party 3
Reviews (SSARs)	1	2	-
Compilations (with disclosures)	-	15	-
Compilations (w/o disclosures)	15	12	31
Agreed-upon procedures (SSAEs)	-	5	-

Question 1

Based on the Engagement Summary Form above, how many and what types of engagements should be selected for review?

Solution 1

A total of four engagements should be selected. The review captain should select the review performed by responsible party 1, a compilation with disclosures and agreed-upon procedures engagement performed by party 2, and a compilation without disclosures performed by party 3. This covers all levels of service and all responsible parties.

PEER REVIEW STANDARDS

.104 The criteria for selecting the peer review year-end and the period to be covered by an Engagement Review are the same as those for a System Review (see paragraphs .13–.19). Engagements subject to review ordinarily should be those with periods ending during the year under review, except for financial forecasts or projections and agreed upon procedures. Financial forecasts or projections and agreed upon procedures with report dates during the year under review would be subject to selection. The reviewed firm should provide summarized information showing the number of its compilation, review and preparation engagements performed under SSARs and engagements performed under the SSAEs, classified into industry categories. That information should be provided for each partner, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements or the issuance of prepared financial statements with or without disclaimer reports. On the basis of that information, the review captain or the administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines (see interpretations):

- a. One engagement should be selected from each of the following areas of service performed by the firm:
 1. Review of financial statements (performed under SSARs)
 2. Compilation of financial statements, with disclosures (performed under SSARs)
 3. Compilation of financial statements that omits substantially all disclosures (performed under SSARs)
 4. Engagements performed under the SSAEs other than examinations
- b. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item a.
- c. Selection of preparation engagements should only be made in the following instances:
 1. One preparation engagement with disclosures (performed under SSARs) should be selected when performed by an individual in the firm who does not perform any engagements included in item a or when the firm's only engagements with disclosures are preparation engagements.
 2. One preparation engagement that omits substantially all disclosures (performed under SSARs) should be selected when performed by an individual in the firm who does not perform any engagements included in item a or when the firm's only omit disclosure engagements are preparation engagements.

3. One preparation engagement should be selected if needed to meet the requirement in item *d*.

d. Ordinarily, at least two engagements should be selected for review.

.105 The preceding criteria are not mutually exclusive. The objective is to ensure that one engagement is selected for each partner and one engagement is selected from each of the areas of service performed by the firm listed in item *a* in the previous list. Therefore, one of every type of engagement that a partner, or individual if not a partner, responsible for the issuance of the reports listed in item *a* in the previous list performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in item *a* in the previous list performed by the firm are covered.

Interpretation 104-4 adds that:

Question—What are some examples of when a preparation engagement should be selected during an Engagement Review?

Interpretation—

Example 1. If a sole practitioner performs compilation engagements with disclosures (or SSAEs, or reviews) and compilation engagements that omit substantially all disclosures, then one of each of these levels of service should be selected as part of the peer review. None of the firm's preparation engagements should be selected.

Example 2. If a sole practitioner only performs compilation engagements with disclosures and preparation engagements that omit substantially all disclosures (and no other engagements under SSAEs or SSARs), then one of each type of engagement should be selected as part of the peer review because an engagement that omits substantially all disclosures should be selected.

Example 3. If a sole practitioner only performs compilation engagements that omit substantially all disclosures and preparation engagements with disclosures (and no other engagements under the SSAEs or SSARs), then one of each type of engagement should be selected as part of the peer review because a full disclosure engagement should be selected.

Example 4. If a sole practitioner only performs compilation engagements with disclosures and preparation engagements with disclosures, then two compilation engagements should be selected as the selection of a preparation engagement is not required to be and should not be selected to meet any of the criteria outlined in paragraph .104 of the standards. However, if the firm only performs one compilation engagement with disclosures (as well as preparation engagements with disclosures and no other engagements under SSAEs or SSARs), the compilation engagement and a preparation engagement should be selected as part of the peer review. In this case, a preparation engagement is selected in order to meet the requirement of selecting a minimum of two engagements.

Example 5. Firm ABCDE is a five-partner firm and partner A performs agreed-upon procedure engagements, partner B performs review engagements, partner C performs full disclosure compilation engagements, partner D performs compilation engagements that omit substantially all disclosures and partner E performs preparation engagements. In this scenario, one engagement is selected from each partner A, B, C and D which

fulfills the requirement to select an engagement in each level of service outlined in paragraph .104a of the standards. However, because every person in the firm responsible for the issuance of financial statements must have an engagement selected, one of partner E's preparation engagements should be selected. Because the requirement to select an engagement with disclosures and an engagement that omits substantially all disclosures has been met (through the selection of engagements performed by the other partners) any preparation engagement performed by partner E may be selected.

Example 6. Using the same facts described in example 5, if partner E also performed a review engagement and a compilation engagement that omits substantially all disclosures, either the review engagement or the compilation engagement should be selected. The reviewer should not select any of partner E's preparation engagements unless one of the requirements listed in paragraph .104 of the standards cannot otherwise be met.

CASE #6

Engagement Reviews – Nonattest Services

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

Estimated Time to Complete: 15 Minutes

The AICPA's Code of Professional Conduct states that:

When a member performs a nonattest service for an attest client, threats to the member's compliance with the "Independence Rule" may exist. However, independence would not be impaired, if the following exists:

"The member determines that the attest client and its management agree to oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. The member should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or re-perform the services."
[Subpoint *ii* of ET sec.1.295.040 .01a]

SCENARIO A

Question 1

Discuss best practices for evaluating skills, knowledge, or experience (SKE). If your client does not have documentation of the evaluation of these areas, how does that impact a peer review? How do you come to the conclusion that the client has considered SKE if they have not documented it?

Solution 1

Note this question is for discussion purposes; there is no proposed solution included.

Please refer to the consideration items below for discussion points.

- Does the responsible party hold a CPA license or other credential in the related area?
- Has the responsible party taken CPE courses specific to the related area?
- What is the responsible party's tenure with this task, and have there been any prior audit finding in the related area?
- Documentation of SKE is not required by SSARSs but is considered a best practice.
- Responsible party's educational background and related industry experience

SCENARIO B

Ginn LLP (Ginn) has been engaged to perform a review of the financial statements of Dudy Noble (DN) in accordance with SSARSs. Ginn will prepare, under SSARSs and as a nonattest service, the financial statements, and related notes subject to the review engagement.

Ginn obtained an engagement letter, signed by management of DN, which outlined the following terms of the review engagement:

- The objectives of the engagement,
- The limitations of a review engagement,
- The responsibilities of the accountant,
- Identification of the applicable financial reporting framework for the preparation of the financial statements, and
- The expected form and content of the accountant's review report and a statement that there may be circumstances in which the report may differ from its expected form and content.

Question 1

You are the review captain on Ginn's peer review and have selected this review engagement. When completing your engagement review checklist, how do you respond to the following question?

“Were the agreed-upon terms of the engagement documented in an engagement letter or other suitable form of written agreement between the parties and include all the required elements from paragraph .11 of AR-C section 90A and signed by (a) the accountant or the accountant’s firm and (b) management or those charged with governance, as appropriate? Did the accountant ensure that the written agreement between the parties included all required items?”

Solution 1

The correct response to this question would be a “No” answer because the engagement letter, while appropriately signed by both Ginn and the management of DN, failed to include the responsibilities of management, including those related to nonattest services.

According to AR-C 60, Paragraph .26b:

As a precondition for accepting an engagement to be performed in accordance with SSARs, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility

- i. for the selection of the financial reporting framework to be applied in the preparation of financial statements.
- ii. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, unless the accountant decides to accept responsibility for such internal control.
- iii. for preventing and detecting fraud.
- iv. for ensuring that the entity complies with laws and regulations applicable to its activities.
- v. for the accuracy and completeness of the records, documents, explanations, and other information, including significant judgments provided by management for the preparation of financial statements.
- vi. to provide the accountant with
 1. access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 2. additional information that the accountant may request from management for the purpose of the engagement.

3. unrestricted access to persons within the entity of whom the accountant determines it necessary to make inquiries.

According to AR-C 90, Paragraph .13:

As a condition for accepting an engagement to review an entity's financial statements, in addition to the requirements in paragraph .26 of section 60, the accountant should obtain the agreement of management that it acknowledges and understands its responsibility

- a. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework and the inclusion of all informative disclosures that are appropriate for the applicable financial reporting framework used to prepare the entity's financial statements. If the financial statements are prepared in accordance with a special purpose framework, this includes
 - i. a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effect of which need not be quantified, and informative disclosures similar to those required by GAAP in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP;
 - ii. a description of any significant interpretations of the contract on which the special purpose financial statements are prepared in the case of financial statements prepared in accordance with a contractual-basis of accounting; and
 - iii. additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose framework to achieve fair presentation.
- b. to provide the accountant, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.
- c. to include the accountant's review report in any document containing financial statements that indicates that such financial statements have been reviewed by the entity's accountant unless a different understanding is reached.

Question 2

What would be the impact of this answer on the peer review?

Solution 2

This matter generally would NOT result in a deficiency. Appendix E of PRP Section 6200 may be helpful to the peer reviewer in deciding if the non-compliance is a matter, finding, deficiency, or significant deficiency.

Per PRP Section 6200, Appendix E – List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification*¹ (with the exception of the signature requirement which is discussed in the following section).

Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is

required in forming conclusions. A matter is noted as a result of evaluating whether an engagement submitted for review was performed and/or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, related accountant's reports, and adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A finding is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed and/or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency.

It is important to consider the specific facts and circumstances when determining the relative importance of items noted during the peer review. For example, if this scenario also stated that Ginn did not obtain a management representation letter from DN, it likely would change your answer to this question.

SCENARIO C

Ginn LLP (Ginn) has been engaged to perform a review of the financial statements of Dudy Noble (DN) in accordance with SSARs. Ginn will prepare, under SSARs and as a nonattest service, the financial statements and related notes subject to the review engagement. Additionally, Ginn will perform account reconciliation procedures for DN and prepare DN's tax return.

Question 1

Given these additional nonattest services provided by Ginn, would Ginn's independence be impaired?

Solution 1

At times, the "*General Requirements for Performing Nonattest Services*" interpretation [ET sec. 1.295.040] may not by themselves reduce threats to an acceptable level. When an attest client asks a firm to perform multiple nonattest services, that firm should reassess its independence based on the cumulative effect of providing the services.

Although individually the nonattest services may not impair independence, the firm should evaluate the threats in the aggregate to ensure that the safeguards provided for in the "General Requirements" continue to adequately reduce threats such as self-review and management participation to an acceptable level. However, performing multiple nonattest services can increase the significance of these threats as well as other threats to independence.

If the "General Requirements" safeguards do not reduce threats to an acceptable level, the accountant should determine whether additional safeguards can be applied to reduce threats to an acceptable level or whether threats are so significant that the accountant should not perform the additional nonattest service.

According to ET sec. 1.295.020:

.01 The interpretations of the "Nonattest Services" subtopic [1.295] under the "Independence Rule" [1.200.001] include various examples of nonattest services that individually would not impair independence because the safeguards in the "General

Requirements for Performing Nonattest Services” interpretation [1.295.040] reduce the self-review and management participation threats to an acceptable level. However, performing multiple nonattest services can increase the significance of these threats as well as other threats to independence.

.02 Before agreeing to perform nonattest services, the member should evaluate whether the performance of multiple nonattest services by the member or member’s firm in the aggregate creates a significant threat to the member’s independence that cannot be reduced to an acceptable level by the application of the safeguards in the “General Requirements for Performing Nonattest Services” interpretation [1.295.040].

.03 In situations in which a member determines that threats are not at an acceptable level, safeguards in addition to those in the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] should be applied to eliminate the threats or reduce them to an acceptable level. If no safeguards exist that will eliminate or reduce the threats to an acceptable level, independence would be impaired.

.04 For purposes of this interpretation, the member is not required to consider the possible threats to independence created due to the provision of nonattest services by other network firms within the firm’s network.

According to ET sec. 1.295.040:

.01 When a member performs a nonattest service for an attest client, threats to the member’s compliance with the “Independence Rule” [1.200.001] may exist. Unless an interpretation of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” states otherwise, threats would be at an acceptable level, and independence would not be impaired, when all the following safeguards are met:

- a. The member determines that the attest client and its management agree to
 - i. assume all management responsibilities as described in the “Management Responsibilities” interpretation [1.295.030].
 - ii. oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. The member should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or re-perform the services.
 - iii. evaluate the adequacy and results of the services performed.
 - iv. accept responsibility for the results of the services.
- b. The member does not assume management responsibilities (See the “Management Responsibilities” interpretation [1.295.030] of the “Independence Rule”) when providing nonattest services and the member is satisfied that the attest client and its management will
 - i. be able to meet all of the criteria delineated in item a;
 - ii. make an informed judgment on the results of the member’s nonattest services; and
 - iii. accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.

If the attest client is unable or unwilling to assume these responsibilities (for example, the attest client cannot oversee the nonattest services provided or is unwilling to carry out such responsibilities due to lack of time or desire), the member’s performance of nonattest services would impair independence.

- c. Before performing nonattest services the member establishes and documents in writing his or her understanding with the attest client (board of directors, audit committee, or management, as appropriate in the circumstances) regarding

- i. objectives of the engagement,
- ii. services to be performed,
- iii. attest client's acceptance of its responsibilities,
- iv. member's responsibilities, and
- v. any limitations of the engagement.

CASE #7

Engagement Reviews – Documentation

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

Estimated Time to Complete: 15 Minutes

The reviewed firm, Martha & Modine LLP (M&M) performs a review engagement of Grady Manufacturing (Grady). Martha Henderson is the partner on the engagement. Total assets at Grady were \$970,000 for the year ended December 31, 2020. Additionally, revenues were \$2,100,000. Due to a global pandemic, several of Grady's major customers were unable to pay on their agreed upon terms. At the end of the year, the gross balance of Accounts Receivable was \$424,000. Grady recorded an allowance of \$175,000.

In its working papers, Martha included analytical procedures, in which all expectations for accounts were based on prior year balances. Because the accounts receivable balance and related allowance for doubtful accounts did not significantly fluctuate, there was no documentation in the working papers related to the allowance.

Note: For simplification of this case study, we will focus only on Accounts Receivable and the related allowance, but note all balances were based on prior year amounts and specific expectations were not developed nor discussed.

Jack Washington of Washington & Associates was hired to perform the Engagement Review of M&M. Mr. Washington reviewed the Grady Accounts Receivable section of the engagement and asked the following questions:

1. Why was an explanation not documented for the bad debt expense resulting from or change in recording the allowance for doubtful accounts?
2. What methodology was utilized to assess the allowance for doubtful accounts given the pandemic?
3. How was the \$175,000 calculated?

Question 1

In response, Martha noted Mr. Washington had not previously asked about the bad debt expense or allowance and was unsure of the appropriate response. Would this represent a "no" answer on the review engagement checklist (PRP 20,300)? Specifically consider the following questions:

- R-208: Did the accountant inquire of members of management who have responsibility for financial and accounting matters concerning the financial statements about [AR-C sec. 90.22]
 - unusual or complex situations that may have an effect on the financial statements?
 - whether they believe that significant assumptions used by it in making accounting estimates are reasonable?
- R-212: Did the accountant apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items

- that appear to be unusual and that may indicate a material misstatement? [AR-C sec. 90.19]
- R-220: If the applicable financial reporting framework includes requirements for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time in preparing financial statements, did the accountant perform review procedures related to the following? [AR-C sec. 90.65]

Solution 1

Yes, this represents a situation in which Martha should have been aware of the allowance for bad debt as well as the impact of the significant business changes to her client. As such, Mr. Washington should answer all three of the provided questions as "no".

Question 2

Would this engagement be considered compliant with applicable professional standards in all material respects?

Solution 2

No, Mr. Washington should consider this engagement nonconforming and elevate the matter to a deficiency or significant deficiency, depending on the whether the issue was present in other engagements reviewed.

Section 6200, Appendix E, Areas of Common Noncompliance with Applicable Professional Standards, includes the following point in the "List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency":

- For review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures.

Question 3

In response to Mr. Washington's question about the bad debt expense, Martha noted she had discussed the decline in collections of accounts receivable as well as the ongoing pandemic with Grady's management; however, she failed to document the discussion in the working papers. Further, she failed to document the methodology utilized to calculate the allowance for doubtful accounts.

Martha also indicated that she considered whether the impact of many customers being unable to make payments timely (if at all) represented a situation that would bring into question the client's ability to continue as a going concern. However, because of government stimulus and related small business loans being granted, the firm determined that further analysis was not necessary. Once again, this was not evident in the working papers. Would this represent a "no" answer on the review engagement checklist (PRP 20,300)? Specifically consider the following questions:

- R-212: Did the accountant apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement? [AR-C sec. 90.19]
- R-220: If the applicable financial reporting framework includes requirements for management to evaluate the entity's ability to continue as a going concern for a reasonable period of time in preparing financial statements, did the accountant perform review procedures related to the following? [AR-C sec. 90.65]

- R-227 Is the accountant's engagement documentation sufficient to enable an experienced accountant, having no previous connection to the review, to understand the nature, timing and extent of the review procedures performed to comply with SSARS; the results of the review procedures performed and the review evidence obtained; and significant findings or issues arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions? [AR-C sec. 90.94]

Solution 3

Yes, this represents a situation in which Martha should have documented her discussions with the client. Mr. Washington should answer all three of the provided questions as "no."

Question 4

Would this engagement be considered compliant with applicable professional standards in all material respects?

Solution 4

No, Mr. Washington should consider this engagement nonconforming and elevate the matter to a deficiency or significant deficiency, depending on the whether the issue was present in other engagements reviewed.

Section 6200, Appendix E, Areas of Common Noncompliance with Applicable Professional Standards, includes the following point in the "List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency":

- For review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures.
- For review engagements, failure to document the matters covered in the accountant's inquiry and analytical procedures.
- For review engagements, failure to document significant unusual matters and their disposition.

CASE #8

Engagement Reviews – Nonconforming Engagements

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

Estimated Time to Complete: 15 Minutes

SCENARIO A

James Choi is the review captain for the Engagement Review of Simmons and O'Toole LLP (S&O). Consider the engagements and resulting issues noted below as selected by Mr. Choi during his review.

Engagement Type	Partner	Issues Identified
Review (SSARS)	Simmons	The financial statement titles within the accountant's report did not agree to the actual financial statements presented.
Compilation with disclosures	Simmons	The report for a special purpose government was not appropriately modified for the omission of required supplementary information.
Compilation without disclosures	Simmons	The report disclosed the omission of primarily all disclosures, yet the client included majority of all disclosures within the statements.
Preparation with disclosures*	O'Toole	The financial statements did not include "no assurance provided" on each page, and a disclaimer report was not present.

**Preparation engagement was selected as it was the only engagement performed by Mr. O'Toole.*

Question 1

Which of the engagements reviewed should be identified as nonconforming?

Solution 1

The review captain should identify the compilation engagement without disclosures and the preparation engagement as nonconforming, as these issues are listed as items that would ordinarily be identified as a deficiency or significant deficiency according to PRP Section 6200 Appendix E.

According to PRP Section 6200 Appendix E, the following matters and findings would generally result in a deficiency:

- For preparation engagements, failure to issue a disclaimer report, in accordance with SSARS No. 21, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that "no assurance is provided."
- Disclosure of omission of substantially all disclosures (in a compilation without disclosures) in fact when substantially all disclosures have been included.

Therefore, the preparation engagement and the compilation engagement without disclosures would contain deficiencies (in other words, considered nonconforming).

According to Standards paragraph .110c:

“A deficiency is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant’s reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.”

With respect to the review and the compilation with disclosures engagements, the issues identified do not represent deficiencies if a review captain concludes the departures individually or combined with others did not meet the definition of a deficiency (in other words, *not* nonconforming).

According to PRP Section 6200 Appendix E, Areas of Common Noncompliance with Applicable Professional Standards, the following as matters and findings would generally not result in a deficiency:

- Financial statement titles that were inconsistent with the accountant’s report
- Compilation reports that failed to include the paragraph regarding the omission of supplemental information as applicable in the circumstances.

Question 2

Which of the following item(s) are true when the review captain identifies a nonconforming engagement (requiring one or more deficiencies in the peer review report)?

- a) The deficiencies identified should be discussed during the exit conference with the firm.
- b) The firm is required to provide a letter of response (dated as of the exit conference date) to any deficiencies noted.
- c) The appropriateness of any firm responses to the deficiencies noted should be discussed during the exit conference.
- d) The firm is not required to respond to the MFCs noted if deficiencies are also noted.

Solution 2

The correct answer choices are A, B, and C, as they are required when nonconforming engagements are identified as part of an engagement review.

According to Standards paragraph .124, *The firm should respond to all matters communicated on an MFC form, findings communicated on an FFC form, and deficiencies or significant deficiencies communicated in the peer review report. The firm’s response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity’s peer review committee. The firm’s draft responses should be provided to the review captain as soon as practicable to allow the review captain sufficient time to assess the firm’s response prior to the exit conference*

The nature and extent of the firm's response may take into account that the matters are also included in the report as deficiencies.

SCENARIO B

James Choi is also serving as the review captain for the engagement review of Carrollton & Pickens (C&P). Mr. Choi selected the following engagements for his review:

- A review engagement performed by Carrollton
- A compilation with disclosures engagement performed by Pickens

As a result of his review, the following issues were noted on the engagement performed by Mr. Pickens:

1. The accountant's report for a special purpose government did not include the paragraph regarding the omission of supplemental information when required supplementary information was excluded from the financial statements
2. Failure to disclose the accounting policy related to revenue recognition and advertising costs in the notes to the financial statements
3. Several omitted or inadequate disclosures related to:
 - a) Inventory
 - b) Long term debt
4. Several items on the statement of cash flows were misclassified

Question 1

Should the engagement performed by Mr. Pickens be identified as nonconforming?

Solution 1

While all of the items listed are included as matters and findings that generally would not result in a deficiency in PRP Section 6200 Appendix E, the review captain may determine that the aggregation of the findings meet the definition of a deficiency in an Engagement Review.

For every engagement reviewed, the reviewer should aggregate the matters identified and evaluate whether a finding or deficiency exists. There may be instances where, individually, a matter on an engagement might result only in a finding, but in aggregate with other matters in the engagement, would result in at least a deficiency. If the reviewer does conclude that a collection of findings meets the definition of a deficiency, the review captain should identify the engagement as nonconforming.

The definition of a deficiency, according to Standards paragraph .110(d), is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards.

Note for Discussion Leaders:

While there may not be a "correct" answer in this scenario, review captains should be reminded that if there are findings on an engagement that meet the definition of a deficiency in an engagement review, even if none of the findings are individually listed as findings that generally would result in a deficiency or significant deficiency within PRP Section 6200 Appendix E, a deficiency should be issued and the engagement should be identified as nonconforming.

CASE #9

Engagement Reviews – Appropriateness of Firm Responses

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

Estimated Time to Complete: 10 Minutes

SCENARIO A

Kelly Johnson, the review captain, is performing the peer review of Aloha Isle, LLP (the firm). Two engagements were selected: a review of financial statements and a compilation of financial statements with disclosures. On the review engagement selected, Johnson noted the firm failed to document significant unusual matters occurring within the manufacturing industry affecting the engagement and their disposition. As such, Johnson concluded this engagement was nonconforming and included this as a deficiency in the peer review report. The compilation engagement reviewed had no issues (i.e. – was not considered nonconforming).

Question 1

What is the reviewed firm's responsibility regarding the nonconforming engagement? Additionally, what is the reviewed firm required to include in its letter of response to the peer review report?

Solution 1

According to Standards PRP paragraph .125, if the firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of findings, deficiencies, and significant deficiencies and to appropriately respond. The reviewed firm should address the firm's actions taken or planned to remediate the findings, deficiencies, or significant deficiencies, including timing of the remediation and additional procedures to ensure the finding, deficiency, or significant deficiency is not repeated in the future.

Also, according to Standards, when a nonconforming engagement is identified, the management representation letter will be tailored for significant matters (PRP 1000 Appendix B, .208 8c).

The action(s) should be feasible, genuine, and comprehensive addressing each of the requirements outlined in paragraph .125. The remediation should also be completed in a reasonable and well-defined time period.

Peer reviewers have identified that while remediations are generally appropriately planned, often times reviewed firms fall short of hitting deadlines and therefore the effectiveness of the remediation is in question.

Although it is ultimately the firm's responsibility, the review captain and reviewed firm may collaborate to determine the response.

If the reviewed firm is unable to determine appropriate remediation of its deficiencies prior to the exit conference, the firm's response should indicate interim steps that have been taken and confirm its intent to remediate when an appropriate response is determined.

Additionally, related to the nonconforming engagements, the reviewed firm should investigate the issue questioned by the review team and determine what timely action, if any, should be taken, including actions planned or taken to prevent unwarranted continued reliance on its previously issued reports. The reviewed firm should inform the review captain of the results of its investigation, including parties consulted, and document in the letter of response, the actions planned or taken or its reasons for concluding that no action is required.

Question 2

Once the firm has provided its letter of response to the review captain, what is he or she then required to do with it?

Solution 2

According to Standards paragraph .126, the review captain should review and evaluate the firm's responses in the draft letter of response prior to the exit conference. The appropriateness of the letter of response should be discussed during the exit conference.

The review captain should check to see if the firm's response is feasible, genuine, comprehensive, and addresses each of the requirements mentioned in the solution Question 1.

As a reminder, the purpose of the firm's letter of response is for a firm to stipulate, in writing, the specific action(s) that will be taken to correct deficiencies noted by the reviewer.

Additionally, the review captain, in this scenario, should have reminded the reviewed firm of its responsibilities under professional standards to take appropriate actions related to the nonconforming engagements as addressed in, for example, in AR-C section 60 and AR-C section 90.

Finally, if the firm has acted related to the nonconforming engagements, the review captain should review documentation of those actions (for example, omitted procedures performed, reissued report and financial statements, or notification to users to discontinue use of previously issued reports) and consider whether the action is appropriate and complies with the relevant professional standards. If the firm has not acted, the review captain should consider whether the planned actions are appropriate (genuine, comprehensive, and feasible).

SCENARIO B

Assume the firm's letter of response (LOR) broadly states: "We will document significant unusual matters and their disposition as they arise on future review engagements" without further explanation in the LOR.

Question 1

Is this response appropriate?

Solution 1

No. Peer review guidance states that firms should be discouraged from defaulting to a response of “the Firm will correct it on the next engagement” without thought behind that response. It may be appropriate, but firms should also articulate why it is the appropriate response.

As taken from the engagement review report the Firm’s Responsibility:

“The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.”

Firms should be able to show that in coming to its conclusion and response, it has complied with any relevant professional standards.

Question 2

Should the review captain instruct the reviewed firm to document the results of its assessment of the unusual matters in the selected review engagement?

Solution 2

No. While review captains should request a revised response if the firm’s response is not deemed to be comprehensive, genuine, and feasible (as the technical reviewer or RAB will ultimately request a revised response in these situations), reviewers should not instruct firms to perform omitted procedures, reissue accounting reports or have previously issued financial statements revised and reissued (as these are decisions for the firm and its client to make).

The firm’s response may affect other monitoring actions the administering entity’s peer review committee may impose, including actions to verify the firm adheres to the intentions indicated in its response.

CASE #10

Engagement Reviews – Documenting Conclusions Reached

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

Estimated Time to Complete: 15 Minutes

The review captain from Firm A performed the peer review of Firm Z and recommended a report rating of *pass* with three MFCs. The scope of engagements selected included two reviews and a compilation with disclosures performed under SSARS. The review captain submitted the peer review working papers to the administering entity, which included all required checklists, documentation, and a summary of exit conference discussion items. The MFC descriptions and other exit conference items are noted below.

MFC-1: Interest paid was inappropriately classified as investing activity (instead of operating) in the statement of cash flows for review engagement 1.

MFC-2: The current portion of long-term debt was not disclosed or presented as a current liability for review engagement 2.

MFC-2: The accounting policy related to inventory valuation and costs was inadequately documented in the notes to the financial statements for the compilation engagement.

Other exit conference agenda items:

- Minor formatting issues on both engagements may be avoided by using standardized financial statement templates.
- Documentation has room for improvement on both review engagements.

Question 1

Where should the review captain document the disposition of the MFCs? What should be included?

Solution 1

The trail of disposition for MFCs should be documented on a DMFC form. The documentation must be thorough enough for the peer reviewer, administering entity, and individuals conducting technical review or oversight to follow whether the issues were cleared, discussed with the firm during the exit conference, noted as a finding(s) on an FFC form, or noted as a deficiency/significant deficiency in the peer review report.

If an issue appears to align with those listed in Appendix E of PRP Section 6200, the review captain should document their considerations while exercising professional judgment to conclude that certain issues only need to be discussed at the exit conference. Remember, providing limited or vague information may result in additional follow-up questions from individuals performing technical review or oversight, or RAB or committee members.

Per PRP Section 1000, Paragraph .74:

.74 In order to document the disposition of all the MFCs, the team captain completes a DMFC form. The DMFC form is part of the working papers and provides a trail of the disposition of the MFCs for the peer reviewer, administering entity, and individuals conducting technical reviews or oversight. All of the MFCs are identified on the DMFC form with an indication after each as to whether it was cleared, discussed with the firm during the closing meeting or exit conference (see paragraphs .91 and .92), included on a specific FFC form (individually or combined with other MFCs), or included as a deficiency in a report with a peer review rating of pass with deficiencies or as a significant deficiency in a report with a peer review rating of fail.

Question 2

Considering the facts noted Scenario A, do you agree with the disposition of the MFCs and exit conference items? Discuss any judgment used to reach your conclusion.

Solution 2

Note for discussion leader: Answers will vary due to the limited fact pattern and certain assumptions may be made by participants.

As noted in Question 1, review captains should consult Appendix E of PRP Section 6200 and include supporting documentation to explain where professional judgment has been applied when reaching a conclusion.

When descriptions of matters or exit conference items are vague or provide limited information, it may be difficult to determine whether the review captain reached an appropriate conclusion. Due to the limited information provided in each of the MFC descriptions and exit conference agenda items, further clarification is necessary to fully evaluate the review captain's conclusions.

The severity and relative importance of the issues identified should be described so that a technical reviewer or RAB member can understand how a review captain reached their conclusion regarding disposition.

Participants will likely question the relative importance of the issues noted on the MFCs and those discussed on the exit conference agenda:

- For all MFCs, the review captain did not indicate whether the issues were significant or material to the financial statements.
- Additionally, it is difficult to determine the relative importance of the exit conference agenda items, such as the basis for determining the documentation shortfalls did not need to be further elevated.
- The minor formatting issues noted are most likely appropriate as an exit conference item, however the reviewer could have provided additional explanation to indicate that the formatting issues did not cause the financial statements to be misleading.

Per PRP Section 1000, Paragraph .110:

Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) to document these items, are intended to assist in determining the nature of the peer review report to issue:

a. A matter is noted as a result of evaluating whether an engagement submitted for review was performed or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports, and the adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A matter is documented on a Matter for Further Consideration (MFC) form.

b. A finding is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of pass is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.

c. A deficiency is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of pass with deficiencies.

d. A significant deficiency exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review. When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of fail.

Question 3

While discussing the MFCs and exit conference agenda items with Firm Z, it became apparent firm leadership was unaware of the departures from GAAP even though they stated the departures were immaterial. What should the review captain consider due to multiple immaterial departures from GAAP?

Solution 3

The review captain needs to use professional judgment in determining whether collectively the "in all material respects" threshold has not been met. A finding should be issued in connection with an Engagement Review when the review captain concludes that financial statements or information, the related

accountant's reports submitted for review, or the procedures performed, including related documentation, were not performed or reported on in conformity with the requirements of applicable professional standards.

Per Supplemental Guidance in PRP Section 3100 – Engagement Reviews- Considerations When There Are Several Departures from GAAP That are Immaterial:

In reviewing generally accepted accounting principles (GAAP) basis financials with no report modification, a reviewer performing an engagement review may find several departures from GAAP, such as amortization of goodwill, marketable securities presented at cost, and a small amount of Section 179 depreciation (immediate write off) of fixed assets. It is possible that each of these items is individually or together collectively immaterial on one engagement, and at the same time obvious departures from GAAP. While discussing the “No Answers” and matters documented on the Matter for Further Consideration (MFC) form(s), it may become evident that the firm is not aware of the departures, but it claims it is immaterial anyway. Would the matter(s) rise to the level of a finding, deficiency, or significant deficiency?

If an individual finding is immaterial, if findings are collectively immaterial, or both, based on the current objectives of an engagement review (including whether the engagements submitted for review conform with the requirements of professional standards in all material respects), the threshold of a “deficiency” is not to be included in a peer review report with a rating of pass with deficiency or fail. However, a reviewer needs to use professional judgment in determining whether collectively the “in all material respects” threshold has not been met.

In addition paragraph .110b of the Standards section “Identifying Matters, Findings, Deficiencies and Significant Deficiencies” states that a finding should be issued in connection with an Engagement Review when the review captain concludes that “financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, were not performed or reported on in conformity with the requirements of applicable professional standards.” The definition of a finding does not discuss materiality or relative importance.

Thus, although the objective of an Engagement Review, and the report, discuss “in all material respects,” the definition of a finding leaves room for immaterial departures to be included in a finding. Professional judgment should be used when making this determination, and whereas in this example it might not be inappropriate to elevate the matter(s) to a finding due to the number of matters noted on one engagement, a different conclusion may be reached if three engagements were reviewed and each one had a single immaterial departure that ordinarily would not be included in the finding.

CASE #11

Engagement Reviews – Aggregation and Evaluation of Matters for Further Consideration (MFCs)

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

Estimated Time to Complete: 10 Minutes

Note: At the end of this case, you will find guidance from the Peer Review Standards as it relates to identifying matters, findings, deficiencies, and significant deficiencies in an Engagement Review.

SCENARIO A

Hermione Granger, CPA (Granger) was engaged to perform an engagement review for Lupin, Snape and Black LLP (LSB), for the peer review year-ended December 31, 2020. Granger obtained an engagement listing from LSB and selected the following engagements subject to Statements on Standards for Accounting and Review Services (SSARSs) as part of the review:

Selected	Level of Service	Responsible Party
1	Compilations (with disclosures)	Lupin
1	Reviews	Snape

After reviewing the engagements selected, Granger drafted MFC forms related to the following matters:

- For the compilation engagement, the report failed to explain that the statements were presented using a special purpose framework.
- Also for the compilation engagement, the report did not explain the degree of responsibility the accountant is taking with respect to supplementary information.
- On the review engagement, the management representation letter was signed by the client and included in the engagement file, but the letter failed to address all requirements of SSARS No. 23.

Question 1

Is it appropriate for Granger to aggregate some, or all the matters identified to a single Finding for Further Consideration (FFC) form? Explain your rationale.

Solution 1

No. None of the matters identified in Scenario A are substantially the same, and therefore should not be aggregated into a single FFC form. While there are similar issues on the compilation engagement reviewed, they are not substantially the same.

Question 2

What report rating would be appropriate given Granger's findings regarding all engagements reviewed?

Solution 2

The firm would receive a report with a peer review rating of *pass*.

According to PRP Section 6200, Appendix E, the items noted would be matters and findings that generally would not result in a deficiency.

SCENARIO B

Assume Granger selected the same engagements for review and drafted MFC forms related to the following matters:

- Depreciation and distributions were misclassified on the statement of cash flows of the review engagement performed by Snape.
- Insufficient disclosure related to material lease obligations was included in the financial statements of the compilation engagement performed by Lupin.
- Financial statement titles were inconsistent with the accountant's report of the compilation engagement.

Question 1

Is it appropriate for Granger to aggregate some, or all the matters identified to a single Finding for Further Consideration (FFC) form? Explain your rationale.

Solution 1

No. None of the matters identified in Scenario B are substantially the same, and therefore should not be aggregated into a single FFC form. While there are similar issues on both engagements reviewed, they are not substantially the same.

Question 2

What report rating would be appropriate given Granger's findings regarding all engagements reviewed?

Solution 2

The firm would receive a report with a peer review rating of *pass*.

According to PRP Section 6200, Appendix E, the items noted would be matters and findings that generally would not result in a deficiency.

Question 3

How would the answer to question 2 change if Granger had instead noted the statement of cash flows was not separated into operating, investing and financing activities on the review engagement selected?

Solution 3

The firm would receive a report with a peer review rating of *pass with deficiencies*.

Per PRP Section 6200, Appendix E – List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Failure to segregate the statement of cash flows into the components of operating, investing, and financing.

According to PRP Section 6200, Appendix E, the other items noted would be matters and findings that generally would not result in a deficiency.

SCENARIO C

Now assume Granger selected the same engagements for review and drafted MFC forms related to the following matters:

- On the compilation engagement, the accountant indicated he was not independent with respect to the client but did not disclose the lack of independence in the accountant's report.
- On the review engagement, in the statement of cash flows, certain amounts for financing activities were presented at net, rather than at gross as required by professional standards.
- On both the review and compilation engagements, the firm obtained engagement letters that established an understanding with management regarding the services to be performed; however, the letters had not been updated to include all language required by current professional standards.

Question 1

Is it appropriate for Granger to aggregate some, or all the matters identified to a single Finding for Further Consideration (FFC) form? Explain your rationale.

Solution 1

Yes. Matters may be aggregated to a single finding if the issues identified are substantially the same. In this scenario, both the review and compilation engagements included a signed engagement letter that did not fully comply with the requirements of SSARS No. 23 and may be aggregated to a single finding.

Question 2

What report rating would be appropriate given the Granger's findings regarding all engagements reviewed?

Solution 2

The firm would receive a report with a peer review rating of *pass with deficiencies*.

Per PRP Section 6200, Appendix E – List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

- Failure to disclose the lack of independence in a compilation report.

According to PRP Section 6200, Appendix E, the other items noted would be matters and findings that generally would not result in a deficiency.

PEER REVIEW STANDARDS:

.110 Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions. The descriptions that follow, used in conjunction with practice aids (MFC, DMFC, and FFC forms) to document these items, are intended to assist in determining the nature of the peer review report to issue:

- a. A *matter* is noted as a result of evaluating whether an engagement submitted for review was performed or reported on in conformity with applicable professional standards. The evaluation includes reviewing the financial statements or information, the related accountant's reports, and the adequacy of procedures performed, including related documentation. Matters are typically one or more "No" answers to questions in peer review questionnaire(s). A matter is documented on a Matter for Further Consideration (MFC) form.
- b. A *finding* is one or more matters that the review captain has concluded result in financial statements or information, the related accountant's reports submitted for review, or the procedures performed, including related documentation, not being performed or reported on in conformity with the requirements of applicable professional standards. A review captain will conclude whether one or more findings are a deficiency or significant deficiency. If the review captain concludes that no finding, individually or combined with others, rises to the level of deficiency or significant deficiency, a report rating of *pass* is appropriate. A finding not rising to the level of a deficiency or significant deficiency is documented on a Finding for Further Consideration (FFC) form.
- c. A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.
- d. A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review. When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.

CASE #12

Engagement Reviews – Considerations from 6200E

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

Estimated Time to Complete: 10 Minutes

BACKGROUND INFORMATION

Determining the relative importance of matters noted during the peer review, individually or combined with others, is a matter of professional judgment. Careful consideration is required in forming conclusions; it is important to consider the specific facts and circumstances when determining the relative importance of items noted during the peer review.

Peer Review Program Manual 6200E, *Areas of Common Non-Compliance with Applicable Professional Standards*, may be useful to the peer reviewer in deciding if the non-compliance is a matter, finding, deficiency, or significant deficiency. While this is not an all-inclusive list, it may be helpful for consideration. For your reference, this section of 6200 has been included below.

Appendix E: Areas of Common Noncompliance with Applicable Professional Standards

List of Matters and Findings That Generally Would Not Result in a Deficiency

Reports

- Omission of phrases or use of phrases not in conformity with the appropriate standards for the report issued.
- Compilation reports that failed to include the paragraph regarding the omission of supplemental information as applicable in the circumstances.
- Reports reflected financial statement titles and terminology not in accordance with professional standards.
- Failure to explain the degree of responsibility the accountant is taking with respect to supplementary information.

Financial Statement Measurement

- Particular types of revenues and expenses not presented and disclosed in accordance with professional standards (for example, freight revenue and related shipping and handling expenses).
- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) that are properly reported on but contain inconsistencies between the report and the financial statements, where the actual basis is readily determinable.

Presentation and Disclosure

- Supplementary information not clearly segregated or marked as supplementary and departures from standard report presentation with respect to supplementary information.
- Reviewed financial statement presentation inappropriate for the type of nonprofit organization being reported.

- Compiled financial statements prepared using a special purpose framework reflecting titles normally associated with financial statements prepared under GAAP when the applicable financial reporting framework is not clearly identified.
- Failure to disclose the accounting policy related to advertising costs in the notes to the financial statements.
- Omission of the disclosure of the method of income recognition as required by professional standards.
- Misclassification of items on the statement of cash flows.
- Omitted or inadequate disclosures related to account balances or transactions (for example, disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long term debt, related party transactions, concentrations of credit risk, and so on).
- Bank overdrafts not properly presented on the balance sheet, failure to accrue income taxes where the accrual and provision are not expected to be significant to the financial statements taken as a whole and missing insignificant disclosures in the financial statements.
- Financial statement titles that were inconsistent with the accountant's report.
- Failure to refer to the accountant's report on each page of the financial statements or financial statements inconsistently titled with the applicable reports.

Statement on Standards for Accounting and Review Services (SSARS) Procedures (Including Documentation)

- The engagement letter on a management use only compilation engagement did not refer to supplementary information, which was presented along with the basic financial statements.
- The written communication of the understanding with management regarding the services to be performed (for example, an engagement letter) exists but fails to address the requirements of SSARS No. 19, "Framework for Performing and Reporting on Compilation and Review Engagements" (AICPA, *Professional Standards*, AR sec. 60), or, when applicable, SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification* (AICPA, *Professional Standards*) (with the exception of the signature requirement which is discussed in the following section).

List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency

Reports

- Issuance of a review report when the accountant is not independent.
- Inappropriate references to GAAP in the accountant's report when the financial statements were prepared using a special purpose framework.
- Failure to disclose the lack of independence in a compilation report.
- Failure to appropriately modify a report for a scope limitation or significant departure from the basis of accounting used for the financial statements.
- Failure to adopt current applicable standards or the accountant's report does not contain the critical elements of the current applicable standards.
- Failure to disclose, in the accountant's report, significant departures from professional standards (examples include omission of significant income tax provision on interim financial statements, omission of significant disclosures related to defined employee benefit plans, or omission of required supplemental information for a common interest realty association).

- The accountant's report does not indicate the periods covered by the report and they cannot be determined from reading the financial statements.
- Failure to include a separate paragraph for departures from the financial reporting framework, including dollar amounts or a statement that the impact was not determined.
- A compilation report that fails to include all the reasons why the accountant is not independent when such reasons are presented (for example, only provides one of three reasons).
- A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions.
- For a compilation engagement, failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (if applicable) required by the applicable financial reporting framework.
- For a compilation or review engagement performed in accordance with SSARSs, failure to appropriately modify the report in accordance with professional standards, when the financial statements are prepared in accordance with a special purpose framework.
- For preparation engagements, failure to issue a disclaimer report, in accordance with SSARS No. 21, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that "no assurance is provided."

Financial Statement Measurement

- Investments in marketable securities presented at cost and not fair market value, resulting in a material misstatement to the balance sheet.
- Inclusion of material balances that are not appropriate for the basis of accounting used.
- Failure to include material amounts or balances necessary for the basis of accounting used (examples include omission of accruals, failure to amortize a significant intangible asset, failure to provide for losses or doubtful accounts, or failure to provide for deferred income taxes).
- Improper accounting of a transaction (for example, recording a capital lease as an operating lease).
- Use of inappropriate method of revenue recognition.

Presentation and Disclosure

- Disclosure of omission of substantially all disclosures (in a compilation without disclosures) in fact when substantially all disclosures have been included.
- Misclassification of transactions or balances and omission of significant required disclosures related to financial statement balances on transactions.
- Failure to disclose that compiled financial statements that omit substantially all disclosures were prepared using a special purpose framework and the basis of accounting is not readily determinable from reading the accountant's compilation report.
- For a preparation engagement, failure to include, either on the face of the financial statements or in a note to the financial statements, a description of the financial reporting framework when the financial statements have been prepared in accordance with a special purpose framework.
- For a preparation engagement, failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (if applicable) required by the applicable financial reporting framework.
- For a preparation engagement, failure to disclose a material misstatement(s) in the financial statements when the accountant prepares financial statements that contain a known departure or departure(s) from the applicable financial reporting framework.
- Significant departures from the financial statement formats prescribed by industry accounting and audit guides.

- Omission of the disclosure(s) related to significant accounting policies applied (GAAP or special purpose framework).
- Failure to include a summary of significant assumptions in a financial forecast or projection.
- Failure to segregate the statement of cash flows into the components of operating, investing, and financing.
- Failure to disclose the cumulative effect of a change in accounting principles.
- Failure to disclose significant related party transactions.
- Omission of actual financial statement(s) that is (are) referred to in the report.
- Failure to include one or more statements of cash flows when comparative results of operations are presented in financial statements prepared in accordance with GAAP.

SSARS Procedures (Including Documentation)

- Failure to establish an understanding with management regarding the services to be performed through a written communication (for example, an engagement letter).
- Performance of a management use only compilation engagement with a period end subsequent to December 15, 2015.
- Failure to document significant findings or issues.
- For compilation engagements performed under SSARS No. 19 and all review engagements, failure to document communications to the appropriate level of management regarding fraud or illegal acts that come to the accountant's attention.
- For review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures.
- For review engagements, failure to document the matters covered in the accountant's inquiry and analytical procedures.
- For review engagements, failure to document significant unusual matters and their disposition.
- For review engagements, failure to obtain a client management representation letter.
- Engagement letters on management use only compilation engagements that omit the required descriptions or statements documenting the understanding with the client.
- For engagements performed in accordance with SSARS No. 21, failure to obtain all required signatures on the engagement letter (or other suitable written agreement).

SCENARIO A

For each question below, consider the circumstance and the impact to the peer review. Note these questions are for discussion purposes; there are no proposed solutions included, however points for consideration during discussion are listed.

Question 1

A review report states financial statements have been prepared on a generally accepted accounting principles (GAAP) basis, but the report titles make it clear the statements have not been prepared on a GAAP basis.

Discussion Points

- Participants should consider the following item listed under "List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency – Reports": Inappropriate references to GAAP in the accountant's report when the financial statements were prepared using a special purpose framework.

- Based on this information, the impact to the peer review would likely be, at a minimum, a deficiency.
- The severity of the departure would determine the level of the deficiency.

Question 2

During your review of the financial statements on a review engagement, you notice the current portion of long-term debt is not disclosed in the notes to the financial statements or on the face of the balance sheet. After further investigation, you determine that a reader of the financial statements could be misled by this omission.

Discussion Points

- Participants should consider the following item listed under “List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency – Reports”: A review report on financial statements that omits disclosures required by GAAP and that is not appropriately modified for the omissions.
- Participants should consider the following item listed under “List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency – Presentation and Disclosure”: Misclassification of transactions or balances and omission of significant required disclosures related to financial statement balances on transactions.
- Based on this information, the impact to the peer review would likely be, at a minimum, a deficiency.
- The severity of the departure would determine the level of the deficiency.

Question 3

During your review of the financial statements on a review engagement, you notice the current portion of long-term debt is not disclosed in the notes to the financial statements or on the face of the balance sheet. After further investigation, you determine that a reader of the financial statements would not be misled by this omission.

Discussion Points

- Participants should consider the following item listed under “List of Matters and Findings That Generally Would Not Result in a Deficiency or Significant Deficiency – Presentation and Disclosure”: Omitted or inadequate disclosures related to account balances or transactions (for example, disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long term debt, related party transactions, concentrations of credit risk, and so on).
- Based on this information, the impact to the peer review would likely be an MFC.

Question 4

During your review of the financial statements on a review engagement, you notice the current portion of long-term debt is not disclosed. Additionally, you note the A/R footnote includes a transposed number that would lead a reader to think the balance is material (the face of the financials is correct). Also, you note the depreciation footnote discloses the Company’s policy as 15-20 years when the workpapers say 5-10 years.

Discussion Points

- Refer to discussion points for questions 2 and 3.
- The peer review impact of the current portion of long-term debt not being disclosed would more than likely depend on whether the balance is material to the financial statements.
- The transposed number in the A/R footnote that would lead a reader to think the balance is material may be a deficiency, but you also must factor in that the balance is correct on the face of the financials.
- The financial statement impact of the depreciation footnote discrepancy would also depend on whether the item is, by itself, a deficiency.
- All of these items need to be evaluated in the aggregate to determine the peer review impact.
- Professional judgment is key.

CASE #13

Engagement Reviews – Report Ratings

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

Estimated Time to Complete: 10 Minutes

SCENARIO A

Washington LLP is currently undergoing an Engagement Review for the peer review year-ended December 31, 2020. The review captain reviewed four engagements and deemed one engagement to be nonconforming.

Question 1

What report rating would be appropriate given the review captain's findings regarding one nonconforming engagement?

Solution 1

The firm would receive a report with a peer review rating of *pass with deficiencies*.

Per PRP Section 1000, Paragraph .110c:

A *deficiency* is one or more findings that the review captain concludes are material to the understanding of the financial statements or information or related accountant's reports or that represent omission of a critical procedure, including documentation, required by applicable professional standards. When a deficiency is noted, the review captain concludes that at least one but not all engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects. When the review captain concludes that deficiencies are not evident on all of the engagements submitted for review, such deficiencies are communicated in a report with a peer review rating of *pass with deficiencies*.

SCENARIO B

Washington LLP is currently undergoing an Engagement Review for the peer review year-ended December 31, 2020. The review captain reviewed four engagements and deemed all four engagements to be nonconforming.

Question 1

What report rating would be appropriate given the review captain's findings regarding all engagements reviewed?

Solution 1

The firm would receive a report with a peer review rating of *fail*.

Per PRP Section 1000, Paragraph .110d:

A *significant deficiency* exists when the review captain concludes that deficiencies are evident on all of the engagements submitted for review. When a significant deficiency is noted, the review captain concludes that all engagements submitted for review were not

performed or reported on in conformity with applicable professional standards in all material respects. Such significant deficiencies are communicated in a report with a peer review rating of *fail*.

Question 2

What should Washington LLP include in its response to any deficiencies or significant deficiencies noted in the peer review report?

Solution 2

The firm's response to any deficiencies or significant deficiencies noted in the peer review report should outline the actions taken or planned to remediate nonconforming engagements and should be comprehensive, genuine, and feasible. Further, the firm's reasoning should also be discussed behind any actions taken as well as planned.

Examples include: a firm's plan of remediation of their nonconforming engagement is that the issue(s) will be addressed on future engagements; this plan must also include the rationale on how the firm came to this conclusion as well as how this supports the remediation.

Per PRP Section 1000, Paragraph.124:

The firm should respond to all matters communicated on an MFC form, findings communicated on an FFC form, and deficiencies or significant deficiencies communicated in the peer review report. The firm's response to deficiencies or significant deficiencies should be communicated in a letter of response addressed to the administering entity's peer review committee. The firm's draft responses should be provided to the review captain as soon as practicable to allow the review captain sufficient time to assess the firm's response prior to the exit conference.

Per PRP Section 1000, Paragraph.125:

If the firm receives an FFC form or a report with a peer review rating of *pass with deficiencies* or *fail*, it is the firm's responsibility to identify the appropriate remediation of findings, deficiencies, and significant deficiencies and to appropriately respond (see interpretations). The reviewed firm should address the firm's actions taken or planned to remediate the findings, deficiencies or significant deficiencies, including timing of the remediation and additional procedures to ensure the finding, deficiency, or significant deficiency is not repeated in the future.

Question 3

What are the review captain's responsibilities in regard to the firm's letter of response?

Solution 3

The review captain should review, evaluate, and comment on the reviewed firm's letter of response prior to its submission to the administering entity. Although the letter of response is ultimately the firm's responsibility, the review captain and firm may collaborate to determine the response and ensure that it is comprehensive, genuine, and feasible.

Per PRP Section 1000, Paragraph.126:

The review captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the firm's

response should be discussed during the exit conference. The firm's letter of response should be finalized and dated as of the exit conference date and provided to the review captain. The review captain should include the firm's letter of response with his or her report and working papers submitted to the administering entity (see interpretations).

Question 4

Can the review captain or RAB request the firm to correct or reissue the nonconforming engagements?

Solution 4

No. Peer reviewers and administering entities should not require or instruct reviewed firms to perform omitted procedures, reissue accounting or auditing reports, or to have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make.

Per Supplemental Guidance in PRP Section 3100 – Responding to Engagements Not Performed or Reported on in Conformity With Applicable Professional Standards in all Material Respects (Nonconforming):

Firms are only required to remediate as appropriate in accordance with professional standards and are not expected to recall reports or perform additional procedures in every scenario. In general, if firms can articulate their consideration of the professional standards and why the actions taken or planned are appropriate, it would not result in a tone at the top deficiency. Firms are discouraged from defaulting to a response of “we’ll fix it on the next engagement” without thought behind that response. It may be the appropriate response but firms should be able to articulate why that is the appropriate response.

CASE #14

Engagement Reviews – Representation Letters

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

Estimated Time to Complete: 10 Minutes

Appendix B of PRP Section 1000 provides multiple illustrative examples of representation letters for both System and Engagement Reviews. Below are the illustrative examples for both a representation letter that has no significant matters to report in an Engagement Review and in a System Review. Consider these illustrative examples and respond to each question below.

Illustration of a Representation Letter That Has No Significant Matters to Report to the Team Captain for a System Review

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.)

October 31, 20XX

To [Name of Team Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the team captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable. We understand that failure to properly include engagements subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

[For system reviews; customized where applicable] We have completed and issued the following must select engagements and, to the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Compliance audits under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Examinations of service organizations (SOC 1 and SOC 2 engagements)

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the team captain, if applicable. We have also provided the team captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, to the best of our knowledge and belief, that there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,
[Reviewed Firm Representative(s)]

Illustration of a Representation Letter That Has No Significant Matters to Report to the Review Captain for an Engagement Review

(The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.)

October 31, 20XX

To [Name of Review Captain]:

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that there are no known situations in which [name of firm] or its personnel have not complied with the rules and regulations of state board(s) of accountancy or other regulatory

bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.

We have provided a list of all engagements to the review captain with periods ending (report date for financial forecasts or projections and agreed upon procedures) during the year under review, regardless of whether issued. **This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable.** The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) Standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, and enforcement body.

We have discussed significant issues from reports and communications from regulatory, monitoring and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, that to the best of our knowledge and belief, there are no known restrictions or limitations on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

We understand the intended uses and limitations of the quality control materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality control materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality Control Standards) applicable to our accounting practice in all material respects.

Sincerely,
[Reviewed Firm Representative(s)]

Question 1

What are the main differences between the representation letters used for a System Review and an Engagement Review?

Solution 1

The main differences include references to

1. **“Must-select” engagements, including the statement in an Engagement Review that the firm does not perform such engagements.**
2. **The team or review captain.**
3. **“Accounting” or “accounting and auditing.”**

Question 2

When you are performing a peer review, do you provide your clients with a template representation letter? If so, where do you obtain it? If not, where do you direct your clients to obtain it?

Solution 2

There is no right or wrong answer to this question. It is intended to share information amongst participants about resources available and ideas to help in their practice management. Potential solutions include:

1. Illustrative examples in Appendix B of PRP Section 1000.
2. Word templates available in the Peer Review Practice Management Toolkits available at www.aicpa.org/interestareas/peerreview/resources/practicemanagementtoolkit.html.
*Note: The *Engagement Review Representation Letter Examples* document is located within "2-Planning Folder"*
3. If participants indicate they keep a local template (on their computer or a firm shared drive), participants could discuss how they ensure it reflects current guidance and how often they compare the template against the Peer Review Standards for any changes.

Question 3

Can the illustrative examples provided in Appendix B of PRP Section 1000 be altered or are they required to be used as presented?

Solution 3

The following sentence (in bold text above) is required and cannot be altered, even on an Engagement Review.

This list included, but was not limited to, all engagements performed under Government Auditing Standards, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1 and SOC 2 engagements), as applicable.

The minimum applicable representations in the standard illustration are required and should not be modified; however, additional representations may be added as discussed in Interpretation 208-8-1 of PRP Section 2000.

Interpretation 208-8-1 of PRP Section 2000 states:

Question—Paragraph .208(8) (appendix B) of the standards advises that the firm is required to make specific representations but is not prohibited from making additional representations beyond the required representations, in its representation letter to the team captain or review captain. What parameters should be used in tailoring the representation letter?

Interpretation—The representation letter is not intended to be onerous for the reviewed firm. Allowing reviewers to add or delete whatever they want to the representation letter would make it very difficult to maintain consistency in the program. In addition, this becomes a very important issue because a firm's failure to sign the representation letter may be considered noncooperation.

However, at a minimum the representation letter should comply with the spirit of the guidance, there is value to the reviewer of obtaining certain representations in writing. Thus, if during the review, something comes to the reviewer's attention whereby the

reviewer believes the reviewed firm is providing contradicting or questionable information, the reviewer should investigate the matter further and may consider having the firm include the matter in the representation letter.

Reviewed firms and reviewers are not permitted to tailor the required representations unless otherwise stated in paragraph .208(8) because these are considered the minimum applicable representations for both System and Engagement Reviews.

Question 4

What is the impact of using the wrong template (System vs. Engagement Review, or significant matters vs. no significant matters to report)?

Solution 4

If the wrong template is used or if it is outdated, the technical reviewer or Committee/RAB will likely require revisions and it may result in reviewer feedback.

As discussed in the previous question, the representation letter should comply with the spirit of the guidance, and there is value to the reviewer of obtaining certain representations in writing. The representation letter protects the team or review captain and should be closely scrutinized to ensure that all appropriate representations have been made (in accordance with paragraph .208 of PRP Section 1000, and Interpretation 208-8-1 of PRP Section 2000).

Reviewers are reminded that the representation letter should be appropriately tailored by the firm to remove representations provided in the template that has significant matters to report in an Engagement Review and in a System Review (e.g., not having a practice license in a state where the firm practices, partner having a restriction to perform engagements from the AICPA Professional Ethics Division) if they are not applicable.

CASE #15

Engagement Reviews – Analytical Procedures

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

Estimated Time to Complete: 15 Minutes

You are a review captain performing several engagement reviews that are due on September 30th. Each reviewed firm performed a review engagement in accordance with AR-C section 90, *Review of Financial Statements*. When reviewing the documentation related to the firm's analytical procedures, you noted the following:

1. Firm A: The firm's working papers included a comparison of current year financial statement balances to that of the prior year. The firm documented in the working papers explanations for the fluctuations of several financial statement balances but did not indicate why certain financial statement balances had explanations and others did not. The firm also did not indicate specific expectations for the fluctuations within the analytical procedures.
2. Firm B: The firm's working papers included a memo that indicated analytical procedures had been performed with no issues identified. The working papers had no other references to the analytical procedures performed.
3. Firm C: The firm's working papers included a comparison of current year financial statement balances to that of the prior year. The firm documented that based on the knowledge of the client, documented within the planning memo, they didn't expect major fluctuations in financial statement balances year over year. Based on materiality of the firm, changes greater than \$15,000 OR 10% of the prior year balance would be deemed material and further investigated. For any fluctuation that met these criteria, the firm documented the following: 1. the basis for the change based on the client's responses 2. the firm's conclusion as to the reasonableness of that response.

Question 1

For Firm A, is a deficiency appropriate? If not, is an FFC appropriate?

Solution 1

In this case, the review captain should identify this as a deficiency as the engagement does not appear to conform to the relevant professional standards in all material respects, based on the facts presented.

According to AR-C 90, Paragraph 26:

The accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Such analytical procedures should include the following: (Ref: par. .A48–.A50)

- a. Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity's business and specific transactions
- b. Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. .A51)
- c. Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant's understanding of the entity and the industry in which the entity operates (Ref: par. .A52)
- d. Comparing disaggregated revenue data, as applicable (Ref: par. .A53)

In this case, based on the limited information provided, there is nothing to suggest the firm compared recorded amounts to developed expectations.

An accountant could not have appropriately applied AR-C sec. 90, if they did not develop specific expectations for the financial statement balances based on the changes in the company, significant events and transactions year over year. Developing specific expectations that are plausible and material to the company is an integral part of the performance of any analytical procedure.

Appendix E of PRP Section 6200 states that “for review engagements, failure to perform analytical and inquiry procedures and failure to adequately document the procedures” would generally result in a deficiency or a significant deficiency.

Question 2

For Firm B, is a deficiency appropriate? If not, is an FFC appropriate?

Solution 2

In this case, the review captain should, at a minimum, identify this as a deficiency as the review engagement is nonconforming.

According to AR-C 90, Paragraph 137:

The accountant should prepare review documentation in a timely manner that is sufficient to enable an experienced accountant, having no previous connection to the review, to understand the following:

- a. the nature, timing, and extent of the review procedures performed to comply with SSARSs
- b. the review evidence obtained from the review procedures performed and the accountant's conclusions formed on the basis of that review evidence
- c. significant matters arising during the review, the accountant's conclusions reached thereon, and significant professional judgements made in reaching those conclusions

In this case, the firm did not comply with these requirements as, among other things, it did not provide any documentation regarding the nature, timing or extent of the procedures performed or the review evidence obtained.

As stated previously, Appendix E of PRP Section 6200 states that “for review engagements, failure to perform analytical and inquiry procedures and failure to

adequately document the procedures” would generally result in a deficiency or a significant deficiency.

Question 3

For Firm C, is a deficiency appropriate? If not, is an FFC appropriate?

Solution 3

In this case, the review captain should not identify this as a deficiency or an FFC as the review engagement appears to conform to the relevant professional standards in all material respects, based on the facts presented.

According to AR-C 90, Paragraph 26:

The accountant should apply analytical procedures to the financial statements to identify and provide a basis for inquiry about the relationships and individual items that appear to be unusual and that may indicate a material misstatement. Such analytical procedures should include the following: (Ref: par. .A48–.A50)

- a. Comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity's business and specific transactions
- b. Considering plausible relationships among both financial and, when relevant, nonfinancial information (Ref: par. .A51)
- c. Comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist, based on the accountant's understanding of the entity and the industry in which the entity operates (Ref: par. .A52)
- d. Comparing disaggregated revenue data, as applicable (Ref: par. .A53)

According to the limited information provided, the firm developed specific expectations based upon changes in the business year over year and amounts deemed material to the financial statements of the client.

In this case, there is nothing to suggest the firm did not comply with the relevant professional standards.

CASE #16

Engagement Reviews – Nonconforming Preparation Engagements

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

Estimated Time to Complete: 10 Minutes

SCENARIO A

When performing an Engagement Review, the review captain selected a preparation engagement. The financial statements did not contain a disclaimer report or a statement indicating “no assurance is provided”. Through discussion with the engagement partner, this resulted from an issue with the template used by the firm.

Question 1

Does this result in a nonconforming engagement? Why or why not?

Solution 1

Yes. Paragraph .14 of AR-C section 70 states that the accountant should ensure that a statement is included on each page of the financial statements indicating, at a minimum, that "no assurance is provided" on the financial statements. If the accountant is unable to include a statement on each page of the financial statements, the accountant should

- a. issue either a disclaimer that makes clear that no assurance is provided on the financial statements,**
- b. perform a compilation engagement in accordance with section 80, Compilation Engagements, or**
- c. withdraw from the engagement.**

Per PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency:

Reports

- For preparation engagements, failure to issue a disclaimer report, in accordance with SSARS No. 21, when the accountant is unable to include a statement on each page of the financial statements indicating, at a minimum, that “no assurance is provided.”

Note: Although this case is specifically discussing Engagement Reviews, this would also result in a nonconforming engagement on a System Review as well.

SCENARIO B

When performing an Engagement Review, the review captain selected a preparation engagement. The financial statements were prepared using the cash-basis, including financial statement titles that referenced cash-basis, however there was a reference to GAAP in the notes to the financial statements.

Question 1

Does this result in a nonconforming engagement? Why or why not?

Solution 1

No. When the basis of reporting is clear, this would not typically result in a nonconforming engagement. However, if the actual reporting basis is unclear, the reviewer may conclude the engagement was nonconforming.

Per PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Not Result in a Deficiency:

Financial Statement Measurement

- Financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) that are properly reported on but contain inconsistencies between the report and the financial statements, where the actual basis is readily determinable

Note: Although this case is specifically discussing Engagement Reviews, this would also result in a nonconforming engagement on a System Review as well.

SCENARIO C

PRP Section 6200, Appendix E, contains examples of issues that generally would and would not result in a deficiency or significant deficiency. Take a few moments to review the following list of examples from Appendix E of PRP Section 6200 (note that this listing is not a comprehensive listing of all items included in Appendix E).

1. Use of inappropriate method of revenue recognition.
2. Inclusion of material balances that are not appropriate for the basis of accounting used.
3. Particular types of revenues and expenses not presented and disclosed in accordance with professional standards (for example, freight revenue and related shipping and handling expenses).
4. For a preparation engagement, failure to include, either on the face of the financial statements or in a note to the financial statements, a description of the financial reporting framework when the financial statements have been prepared in accordance with a special purpose framework.
5. Omitted or inadequate disclosures related to account balances or transactions (for example, disclosure deficiencies relating to accounting policies, inventory, valuation allowances, long term debt, related party transactions, concentrations of credit risk, and so on).
6. For a preparation engagement, failure to disclose the omission of substantially all disclosures and/or the statement of cash flows (if applicable) required by the applicable financial reporting framework.
7. Misclassification of items on the statement of cash flows.
8. Reviewed financial statement presentation inappropriate for the type of nonprofit organization being reported.
9. For a preparation engagement, failure to disclose a material misstatement(s) in the financial statements when the accountant prepares financial statements that contain a known departure or departure(s) from the applicable financial reporting framework.

10. Significant departures from the financial statement formats prescribed by industry accounting and audit guides.

Question 1

For each example, discuss whether it would result in a preparation engagement that does not conform to professional standards in all material respects. Additionally, discuss examples from your own experience related to each item.

Solution 1

Items 1, 2, 4, 6, 9 and 10 are listed within PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Result in a Deficiency or Significant Deficiency.

Items 3, 5, 7, and 8 are listed within PRP Section 6200, Appendix E, in the List of Matters and Findings That Generally Would Not Result in a Deficiency or Significant Deficiency. Note that issues identified should be evaluated individually and in the aggregate. While items 3, 5, 7, and 8 are in PRP Section 6200, Appendix E, as examples that individually would generally not result in a deficiency or significant deficiency, it is possible that aggregation of these issues with other issues identified could result in a deficiency or significant deficiency. Similarly, the relative importance of the issue to the related industry should be considered when making a determination.

Question 2

When you find issues on preparation engagements that require judgement to determine if the engagement conforms to professional standards in all material respects, what resources do you use to help make those determinations?

Solution 2

There is no right or wrong answer, as the purpose of this question is to allow for discussion among participants regarding resources they use when determining if an engagement materially conforms with applicable professional standards.

Some available resources include:

- A&A Hotline available at 877-242-7212
- Peer Review Hotline available at 919-402-4502 or prptechnical@aicpa.org
- Appendix E to PRP Section 6200
- PRP Section 20,250, *General Preparation Engagement Checklist for Engagements Performed in Accordance With SSARS*
- Professional Standards available through Online Professional Library and on aicpa.org
- AICPA Guide *Preparation, Compilation, and Review Engagements*