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?

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	-

Question 3
Using the <u>*corrected*</u> 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?

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?

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?

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

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?

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?

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?

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?

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?

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?

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?

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?

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?

Question 2

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

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?

Question 2
Based on the information provided, would Partner B's engagement be considered nonconforming?

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?

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?

Question 3
Is the firm's letter of response appropriate in this scenario?

Question 4
Should the review captain instruct the firm to recall and reissue the non-conforming engagement?

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?

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?

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?

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?

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 (SSARSs)	-	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?

SCENARIO F

The following Engagement Summary Form was received from the firm:

	Responsible party 1	**Responsible party 2**	**Responsible party 3**
Reviews (SSARSs)	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?

.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 SSARSs 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 SSARSs)

2. Compilation of financial statements, with disclosures (performed under SSARSs)

3. Compilation of financial statements that omits substantially all disclosures (performed under SSARSs)

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 SSARSs) 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 SSARSs) 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 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 .104*a* 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?

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?"

Question 2
What would be the impact of this answer on the peer review?

SCENARIO C
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. 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?

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]

Question 2

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

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]

Question 4

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

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 did not include the paragraph regarding the omission of supplemental information in order to agree to the financial statement presentation.
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?

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.

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 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 did not include the paragraph regarding the omission of supplemental information
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?

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?

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?

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?

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?

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?

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.

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?

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.

Question 2

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

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.

Question 2
What report rating would be appropriate given Granger's findings regarding all engagements reviewed?

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?

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.

Question 2
What report rating would be appropriate given the Granger's findings regarding all engagements reviewed?

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.

<u>Appendix E: Areas of Common Noncompliance with Applicable Professional Standards</u>

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.

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.

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.

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.

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?

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?

Question 2

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

Question 3

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

Question 4

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

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?

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?

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?

Question 4

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

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?

Question 2
For Firm B, is a deficiency appropriate? If not, is an FFC appropriate?

Question 3
For Firm C, is a deficiency appropriate? If not, is an FFC appropriate?

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?

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?

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.

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?